MASTER'S PROGRAMME IN URBAN MANAGEMENT AND DEVELOPMENT

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Beacon of hope

The impact of housing microfinance on housing improvment and construction for low income households in Accra.

The case of Boafo Microfinance Services Ltd

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Dedication

This report is dedicated to my uncle, Daniel D. Biitir who has been very instrumental in my education and to my dear wife and son for their patience and encouragement.

Executive Summary

Key words: Housing microfinance; incremental building; home improvement; risks; low income households

Lack of appropriate housing finance mechanisms in Ghana has led to a situation where majority of the housing stock is produced informally through incremental building practices. This type of building practice takes several years to complete housing units and this has contributed to the current housing deficit in the country.

The government has now recognized the role played by households in beefing up housing supply in the country and is seeking to develop viable institutional systems that will provide appropriate housing finance to households who build incrementally. It seeks to encourage microfinance institutions, savings and loans companies and banks to develop housing financing schemes for the low income households to help them improve or build their homes incrementally.

The main objective of the research is therefore to examine the market for housing microfinance and its impact on housing improvement for the low income households in Accra. The research methods include a case study, and background literature research.

The main findings are that; the concept of housing microfinance is relatively new in Ghana and the market for it can best be described as new and emerging market with associated high risks factors. The product has had abysmal impact on housing improvement and construction in terms of quantity of houses improved/constructed. This abysmal impact is largely due to the risk aversion nature of the suppliers who are not willing to take additional risks by expanding the operations of the product. However, in terms of speeding up the incremental building process and therefore shortening the time taken to produce housing by the incremental methods, it has had significant impact.

There is huge potential demand for HMF services in Ghana. Demand for housing is far in excess of supply and hence a huge housing deficit. Housing production is largely driven by individual households who produce housing through the incremental building process. However the current demand is limited to low income households who have started the process of owning homes by purchasing land and have started or intending to start building their structures at the peri-urban areas in Ghana

The HMF products have been targeted at a particular segment of the market. This market segment include private and public sector salaried workers who have either purchased land and had started some building structures or who desire to purchase land and start the building process. Few self-employed business entrepreneurs also form part of the target market. However, these are people who have well established business and have considerable daily cash flows.

There is the need for housing consumer education and professional marketing of the product by the stakeholders involved. Closely linked to intensifying housing consumer education is the need for institutional orientation for the suppliers and potential suppliers of HMF. Once HMF has been recognised as a major product of the institution everything should be done to make it succeed, after all a good performing HMF product helps the institution to diversify its

risks and increase its portfolio. There is the need for the supplier of HMF to enter into private – private partnerships with building contractors and building materials suppliers. The HMF institutions should identify recognised building material suppliers and contractors and bargain for the best price of building materials so that they could issue coupons to their clients instead of cash and direct them to these suppliers.

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Abbreviations

Exchange rate	US$1.00=GH¢1.00
GH¢	Ghana Currency (cedi)
US$	US Dollar
BOG	Bank of Ghana
CHF	Cooperative Housing Foundation
CLS	Customary Lands Secretariat
GLSS	Ghana Living Standard Survey
GSS	Ghana Statistical Service
HMF	Housing Microfinance
LAP	Land Administration Project
MFI	Microfinance Institution
NBFI	Non-Bank Financial Institutions
S&L	Savings and Loans Companies
TA	Technical Assistance
UNCHS	United Nations Centre for Human Settlements

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CHAPTER ONE: INTRODUCTION

1.1. Background

Unprecedented population growth in developing countries and cities around the world in the last three to four decades has had serious challenges and consequences on urban housing. UN-Habitat in 2003, described this problem as particularly worrying as it constitutes a crucial element that affects the long-term outlook of humanity (UNCHS, 2003). Housing is increasingly becoming a scarce commodity in many cities in the developing world as this rapid population growth concentrates in cities. In 1996, it was estimated that, about 100 million people are homeless in the sense that they live in insecure or temporary structures or in squatter settlements (UNCHS, 1996b). What is apparent about this situation is that there is severe shortage of housing in urban centres in the developing countries.

In efforts to address this problem, the United Nations Conference on Human Settlement at its Istanbul Declaration, changed its policy focus on governments' direct interventions in housing provision to that of being enablers (UNCHS, 1996a). In this conference, key components of the housing development process were identified as land, housing finance and building materials. Governments as enablers were to ensure that there are competitive but regulated markets for these components. The important role of housing finance was emphasised as one which greatly increases the capacity of those with modest or low income to gain housing finance to build, extend or buy housing Perhaps the most remarkable commitment by member states pertaining to housing finance, was the commitment to strengthen existing financial mechanisms, developing innovative financing and the recognition that local institutions involved in microfinance has a potential for housing for the poor.

Access to housing finance by all income groups is therefore important in ensuring adequate shelter for all. Besides, finance is one of the important factors that can ensure that there is sustainable housing production that can fill the gap between the current situation of affordable housing that is inadequate and adequate shelter that is unaffordable (UNCHS, 2005). Housing production is capital-intensive and access to continued flow of finance is necessary to ensure both quantity and quality of housing. Formal finance systems (commercial mortgage finance) can provide this continued flow of finance for prospective home owners. This form of finance has been expanding in many countries over the last twenty years and new providers range from commercial banks to mortgage companies. However, access to this form of finance is limited to the middle and high income groups. The low-income groups are ineligible for this commercial mortgage finance because of their inability to meet the demands of formal finance of minimum deposits and regular income streams for long term repayments.

In the absence of any housing finance alternative, the low-income households have consistently relied on informal sources like individual savings, informal loans from friends and relatives, remittances from relatives abroad and disposal of any asset they have (Stein and Castillo, 2003). This has resulted in the low–income groups to build and improve their dwellings incrementally as and when funds become available in what is referred to as incremental building and financing process. This is the only way the low-income can get access to housing as they are being excluded by the formal financial institutions (Smets, 1999).

In Ghana, formal housing finance was very limited in scope and even at point in time it was almost absent. For instance, political instability and Structural Adjustments Policies in the 1970s and 1980s respectively caused economic decline in the country and the banking sector was severely affected. High default rates, widespread fraudulent practices, general lack of expertise to appraise projects and the inability of the banks to engage in venture capital eroded public confidence in banks (Moss, 2003) which greatly affected the supply of formal housing finance in Ghana. In the early 1990s, the government in partnership with a private investor set up the Home Finance Company (HFC) to boost up mortgage finance in the country. HFC was to operate as a secondary mortgage institution providing housing finance to two-tie housing system. It was seen as a catalyst to jump start primary mortgage by banks after their restructuring (Moss, 2003). While this was a good move by government to revitalise the formal housing finance system, housing finance for low-income groups was not given any attention. Even though it is estimated that, only 5% of Ghanaians who want to own a house can do so from their own resources, about 60% of Ghanaians who want to own a house will need finance assistance and about 35% are not capable of owning or building a house in their lifetime (GRED ,1998) in (Quayson, 2007). Little was done to assist low-income groups who constitute majority of the 60% to access funds from formal housing finance institutions.

1.2. Problem Statement

Several years after independence, Ghana has not yet developed efficient housing finance systems that can provide alternatives for all income groups' housing needs. Adequate and affordable housing continue to be an illusion for many Ghanaians. Inadequate regulatory policies, lack of explicit and coherent housing policy, poor macro-economic stability and resultant high inflation, high interest rates and rapid depreciation of the country's currency have constrained institutional development of housing finance in the country. This has led to fragmented financial sector where funds do not flow well among the financial institutions and tiers (CHF, 2004).

Furthermore, formal finance systems have been the preserve of mainstream banks. There has been little support to NBFIs and this has led to weak competition between housing finance providers. These formal finance institutions provide credit to upper and middle incomes groups at market interest rates and require a certification of income and the provision of collateral for the credit. These restrictive lending conditions of the formal finance systems have excluded the low-income groups from access to housing finance and has led to the present unsatisfactory performance of the housing sector in Ghana (Owusu, 2005).

It is estimated that about 90% of the housing stock in the country is produced informally by the incremental building process (Ministry of Works and Housing, 2000). This takes several years to complete further constraining housing supply situation. This incremental building process is a household-driven building process for acquiring, extending, improving or servicing a dwelling or group of dwellings over time as and when funds become available to the household (CHF, 2004).

In recent years however, there has been increasing involvement of private financial institutions and MFIs in the housing finance industry in Ghana. The focus of these institutions is to provide credit to low-income groups to improve their housing condition. The basic principle for this credit is capitalised on the incremental building practices carried out by the vast majority of Ghanaians by providing incremental financing often referred as

Housing Microfinance. This type of housing finance has great potentials of providing housing finance to low/moderate income households to meet their housing needs. The reasons being that it well fits the incremental building process used by the low/moderate-income majority, provides a solution on how to reduce subsidies on government social housing programs and achieve scope and help resolves some of the difficulties encountered by mortgage finance in developing countries (Ferguson and Haider, 2000).

The government has acknowledged the potentials of this type of housing finance in its National Shelter Strategy Part Two policy document as the type of finance that is better suited for majority of the low-income households (Ministry of Works and Housing, 2000). It seeks to develop viable and accessible institutional systems that will provide this form of housing finance and to encourage MFIs to expand their home improvement financing to low-income groups in the country. It is against this background that, the study seeks to examine the impact of housing microfinance on housing improvements for low-income groups in Accra and to evaluate whether this is a viable housing finance alternative for low-income groups in Ghana.

1.3. Study Objectives

The main objective of the study is to examine the market for housing microfinance and its impact on housing improvement for low-income households in Accra. The main objective comprises two specific objectives. These are to:

A. Examine the supply and demand of housing microfinance services in Accra

B. Find out the impact of housing microfinance on housing improvement and construction for low income households

1.4. Research questions

The above objectives translate into the following research questions

A. What is the current supply of housing microfinance and how are housing micro-loans administered?
B. What is the current and potential demand for housing micro-loans?
C. What is the impact of the housing microfinance programmes on housing improvement for low-income households?
D. What are the risks and constraints associated with housing micro lending?

1.5. Research methods

The study is an exploratory research because it seeks to explore what is happening in field of housing microfinance in Ghana and to asked questions about the current supply and potential demand so as to see whether it is worth researching the issue further. HMF is a relatively new area in Ghana and not enough is known about the phenomenon. The research uses three strategies to answer the research questions. These are the, survey, case studies and the quasi-experimental (comparison group) strategies.

Primary data was collected through a fieldwork which lasted for a one month in the researcher's home country, Ghana. The research instruments are a combination survey with questionnaires, in-depth interviews and observations. Secondary data such as type of housing microfinance, methodologies and international model cases was collected through review of literature from reports of MFIs in Ghana, Books, Journals, Articles and working papers from Housing Finance International, ACCION, and CGAP etc.

1.6. Description of the research area

Accra is the capital of Ghana and the biggest city in the country. It is the second largest industrial centre in Ghana. It is a cosmopolitan city with diverse population. In terms of political administration, it is the metropolitan capital of the Accra Metropolitan Assembly (AMA). AMA is made up of six sub metros namely Okaikoi, Ashiedu Keteke, Ayawaso, Kpeshie, Osu Klotey and Ablekuma.

It is one of the most populated and fast growing cities in Africa with an annual growth rate of about 3.36% and a total population of about 1,695,136 million people (GSS, 2005). However, it is estimated that the city accommodates between 2.5 million to 3 million people in terms of socio-economic activities aside the residential dimension captured by the 2000 National Population Census[1]. The overall average density is about 69.3 people/ha with densities exceeding 250 persons/ha in low-income areas dominated by immigrants and depressed communities and the indigenous areas like Accra New Town, James Town and Ussher Town. About 44% of residents of the city are immigrants.

In terms of housing characteristics, housing has been grouped in to three broad categories: low-income, middle income and high income areas. The low-income areas consist of both indigenous and non-indigenous (dominantly migrant) areas. The low-income indigenous housing areas include Osu, Jamestown, Adedenkpo, Chorkor, La, Teshie and Nungua while the low-income non-indigenous areas comprises Sukura, Kwashieman, Odorkor, Bubiashie, Abeka, Nima and Maamobi. The non-indigenous housing areas consist of mainly migrants and most of the informal businesses are located in these areas. There are also informal settlements that have grown usually along railways and places where the informal sector is active. Among the most noticeable informal settlements are Agbogbloshie and Ashieman areas (CHF, 2004).

The inner-city area has a mixture of low-density development with under-utilised service infrastructure and the indigenous, low class, and high density development with depressed conditions and over stretched infrastructure. The peripheral areas of the city consist of haphazard residential development with barely sufficient infrastructure. The housing conditions are generally depressed in low-income areas with poor quality housing built with poor quality materials such as mud, untreated timber, zinc roofing sheets for walls. In general, housing in these areas is characterised by haphazard developments, inadequate housing infrastructure, poor drainage, erosion and high population concentrations. Middle and high income areas however have better quality housing[2]

1.7. Justification of Study

Housing microfinance is gradually gaining popularity internationally as a recognised product which offers hope of meeting the low-income housing needs. Many international

[1] www.ama.ghanadistricts.gov.gh
[2] www.ama.ghanadistricts.gov.gh

organisations and donors like the UNCHS have demonstrated its support for this type of housing finance. It has become the subject of discussion amongst many intellectuals in the land and housing sectors. I am therefore, motivated by the currency of the topic and how it is transforming housing finance systems especially in developing countries. It is believed that, a study on the impact of housing microfinance and its potentials in Ghana will contribute to the development of knowledge of housing finance alternatives for the low-income groups.

1.8. Scope

The study is limited in scope to Boafo Microfinance Centre. It will be limited to the housing microfinance product in the company. In addition, six microfinance institutions and Savings and Loans Companies which provide microfinance services, will be examined. These institutions have the potential of introducing housing microfinance product to the low income groups. In these institutions, the study will focus on why they are not providing housing microfinance services.

1.9. Thesis structure

Chapter One introduces the background to the problem. It defines the problem and based on the problem definition, research objectives and research questions are formulated. The scope, description of the research area and justification of the study are then discussed to provide more understanding on how the research was done.

Chapter Two defines the concepts of housing need and demand, incremental building practices and details of housing microfinance in practice internationally are discussed. Theoretical perspectives of loan administrations procedures, risks and constraints and risk management strategies of housing microfinance have been highlighted. Based on the theories of housing microfinance finance, a conceptual framework has been developed.

Chapter Three provides a description of the housing context in Ghana. The demographic and macroeconomics of housing in Ghana, the finance systems in Ghana and the housing policy issues have been discussed. It concludes by looking at the involvement of private finance institutions in housing finance with particular emphasis on housing microfinance.

Chapter Four describes the research methods employed and why they were employed. Operations definitions and unit of analysis and variables and indicators have been discussed.

Chapter Five provides research results and analysis. Objective discussions of the results with regard to the suitability, validity and importance underlying the study as well as how it fits into the existing body of literature and how it compares with theoretical framework have analysed.

Chapter Six summarised the findings of the study and conclusions are drawn. Recommendations for possible solutions to the problem are presented. A reflection of the reliability and validity of the research results, research methods and preview of further research are provided.

CHAPTER TWO: LITERATURE REVIEW AND THEORETICAL FRAMEWORK

"Shelter has become a ***commodity for increasing numbers of low-income households****, especially those living in urban areas of developing countries. Those who* ***build incrementally (or progressively) are a very significant group*** *in many countries in the South. However, loan finance for shelter-related investments in incremental dwellings made by low-income households whose income comes from the informal economy is rarely available through the formal commercial financial sector. In the vast majority of cases, these* ***households are ineligible for commercial mortgage finance****. Households seeking to invest in their shelter (land, infrastructure and housing) have been forced to use their own limited income, seek additional resources from family and friends, and borrow on informal credit markets or, in some cases, from groups such as credit unions" (UNCHS, 2005).*

2.1 Introduction

This chapter discusses the concepts of housing needs and demand for low-income households and the incremental/progressive development model. The linkages between the incremental/progressive development and housing microfinance are described. Furthermore, housing microfinance initiatives in practice internationally and its methodologies and criteria for loans, and the various products will be discussed. The risks and constraints affecting the demand and supply of housing microfinance services internationally will be elaborated as well as the risks management strategies. I will also discuss the concept of microfinance triangle that describes impacts, outreach and financial sustainability of MFIs. Finally, three international case studies on the implementation of housing microfinance programmes from Asia, Latin America and Africa will be discussed and attached as annex.

2.2 Housing needs and demand for low-income households

Housing need is defined by the UN to include demographic, replacement and vacancy elements (Rakodi, 1992). In other words, housing needs result from population growth and new household formation, overcrowding, and when households are paying more than they can afford for housing. Housing need is considered to be an instrumental need because one cannot fulfil instrumental housing need without meeting our basic need (King, 1999). King distinguished instrumental needs and basic needs. The formal "occurs because of particular ends we choose and the later is what we have by being human". However, King argues that, need is a relative term and is best defined individually within a particular cultural context and that, if one chooses housing with high level of amenity he must also fulfil his basic need as those high level ones. For example, according to UNCHS (1996), low-income households spent more proportion of their income on housing than upper-income households and that the low-income groups have diversity of demand for housing. This diversity arises from the fact that the low-income groups may have nothing to spend on housing because all their income is spend on daily necessities (basic needs) and therefore how much income is available for housing affects their demand for housing. Again, the decision on how much to spend on housing is influenced by location, size and quality of housing, infrastructure and services and the level of security (UNCHS, 1996). Therefore, to be able to identify housing need for a particular income group, King suggests the separation of effective and non-effective demand.

Effective demand for housing is the willingness and the ability of household to pay for housing. It is a function of income and therefore, a potential home-owners decision on whether to buy, rent or improve housing is directly related to the following additional factors;

- “income level and income uncertainty
- the cost of home-ownership (e.g., production cost, financing cost and availability, maintenance cost, taxes, absence of rent risk, etcetera)
- household wealth or lack thereof (indebtedness)
- life-cycle factors (migrant status, household composition and phase of household development)
- housing risk (the variation of house-prices over time)” (Hoek-Smit, 2002).

The measure of the proportion of household income that a household is willing to spend on housing is what is termed as housing affordability. However, other factors like the life cycle, price of housing and financing availability greatly impact on housing affordability of all income groups (Ballesteros, 2002).Therefore, the realisation of housing need is dependent on the availability of housing finance which propels this effective demand and affordability.

Housing finance enables the production and consumption of housing and also provides funds for building and maintaining of the nation’s housing stock (King, 2001). Market-based housing finance systems have demonstrated to be the most effective way of providing financial resources for housing development (UNCHS, 1996). However, Smets (1999) argues that, housing finance will only be provided when the lenders are assured that the money will be repaid. In determining the ability to pay, lenders consider the capital costs, financing terms, the size and regularity of housing income and physical possession and hence if a household fulfils these criteria, it is assumed that the willingness to consume housing will follow automatically (Smets, 1999). Smets, by referring to Hancock (1993), argues that housing is only affordable for households if after meeting the housing cost, that is, the repayment for a housing loan, the households still has some income left to meet basic necessities of life without falling below the poverty line.

The housing need for the low-income groups may include any of the following alternatives;

- to build a new home or procure a new house
- to repair a deteriorating house
- to extend an existing building or connect it to public infrastructure and,
- to maintain and improve an existing building to retain its value (Sarfoh, 2002).

These needs call for different financing strategies as the quantum of need differ from one household to the other as well as income levels of the respective households. For instance, those with high income levels might want mortgage finance to purchase a new building because they will be able to afford it while the low-income groups might opt for finance type that will enable them extend or improve their existing building (Sarfoh, 2002). However, few financial alternatives exist in many developing countries. Housing finance systems have often followed the formal finance systems where formal sector financial institutions provide credit for upper-income groups at market interest rates depending on certain qualification criteria. These formal sector financial institutions usually avoid involving in housing finance for the low-income groups for reasons that, the low-income groups are unable to provide the necessary collateral for housing loans and lack stable incomes (Stein and Castillo, 2003).

Certainly, complete houses that are available through mortgage finance which the formal housing finance institutions target are well beyond the capacity and affordability levels of the low-income groups. In this situation, the low-income groups can only realise their housing needs by building incrementally, as and when finance become available (UNCHS, 2005).

2.3. Incremental (Progressive) Building Process

According to Smets (1999), incremental building is the process by which shelter is constructed step by step and improved over a period of time in terms of quality and size. Smets argues that, this type of building process depends much on the individual household priorities and available income, and changes in accordance to the family cycle. CHF (2004) defines incremental building as a household-driven building process for acquiring, extending, improving or servicing a dwelling or group of dwellings over time, and thereby improving the quality of the household members' and maximising their choices of housing design and housing needs. The incremental/progressive building or development is also seen as the process by which low-income households make incremental investments in housing as their income permit (Hansen and Williams, 1998). What is apparent in these three definitions of incremental building is the issue of limited capacity or incomes and hence the only possibility of home ownership for the low-income household is to invest in shelter in several stages (UNCHS, 2005).

The conceptual underpinnings of incremental building stem from John Turner's writings on self-help housing and its influence on the World Bank policies on housing in the 1960s and 70s. Turner indicated that self-help housing was a solution to low-income groups housing needs. Turner argues that, self-help housing is adapted to the changing needs and circumstance of its occupants, it is improved over time when family finances allow, it enables community solidarity and mutual help and above all, the owners have the autonomy to design and manage their dwellings. Turner further added that individual needs, priorities and possibilities are continually changing and that helps to even spread the costs of construction over time. The component materials needed for construction should therefore be left with individuals and households or decentralised local and small scale institutions. According to Turner's view, large organisations provide standard products which cannot deal with the enormous changing housing needs of the low-income households (Turner, 1972). The role of government according to Turner was to ensure access to land, building materials and finance. These ideas were later incorporated in the World Bank lending programmes (Smets, 1999).

Incremental building is the only strategy by which the low-income groups can have access to housing or shelter (Ferguson, 1999). It is characterised as a path for low-income households in urban areas as they move through the four different stages of housing development (Hansen and Williams, 1998). These stages include;

- Pre-ownership: this entails renting, sharing of living space with family or friends or squatting on vacant land in the city. They rent or squat in order to accumulate money to start a temporary structure because the motivation to own a home is high
- Initial settlement: this is the second stage where low-income household has acquired land and put up a temporary structure. The land acquisition could be legal or illegal purchase or squatting depending on the availability of land and the land tenure system. At this stage, family income influences the level and

pace of housing investment and because the household will have to meet other basic needs with the limited income, they upgrade incrementally

- Self-motivated upgrading: this is the third stage where they upgrade their temporary structure to more permanent structures because they now have the ability to raise additional incomes either through renting part of their dwellings or from the informal economy. They build more permanent structures especially if there are some indication that their tenure security will be regularised and,
- External – shock – motivated upgrading: this is the final stage where they are now assured of tenure security if they were squatting. It also the stage where households can supplement their incomes from other sources (Hansen and Williams, 1998).

Hansen and Williams (1998) concludes that, these stages are not necessarily sequential. One could start from stage two or three depending on his level of income and that the importance of increasing household income is the critical factor that influences how low-income household build. However, it is important to note that, incremental building is not only prevalent in illegal settlements, but very much the order of the day for many low-income groups who may even have legal title to land. The key determinant of the phenomena is the availability and levels of household incomes.

Ferguson (1999) argues that, the low-income households construct their own dwelling by this building process over five to fifteen years. Home ownership starts with land acquisition through various means ranging from squatting to purchasing or leasing of a plot in informal sub-divisions. Ferguson adds that, if there is no threat of expulsion, household builds temporary structures to protect the land and then upgrade gradually by adding space and increasing quality.

2.4. Incremental building practices as a foundation for housing microfinance

Limited household income is the critical factor that influences incremental building practices in developing countries. Low-income households finance their building incrementally from so many sources. These range from "individual and group savings, windfalls, fabrication of their own building materials, sweat equity, small loans from neighbourhood money lenders, barter arrangements and communal self-help, and remittances from family living abroad" (Ferguson, 1999, p.189). Ferguson argues that, these sources are unreliable and fluctuate with the general economic trends and also because they are not often connected to the formal financial institutions. This, according to Ferguson, further propels the incremental building practices in many cities in the developing world and leads to cities in this part of the world improving unevenly and developing slowly.

What is apparent in the arguments advanced above is that, incremental building practices are inextricably linked with the survival strategies of the low-income households. Low-income households, "dependent on survival strategies try to avoid debts as much as possible and when they incur debts they opt for keeping their period of indebtedness as short as possible to be able to cope with other pressing needs such as food, education of the children, travel to the place of work and medicines" (Smets, 1999, p.825). In effect, incremental building will require incremental financing especially when some degree of security of tenure exists, so that the low-income households can invest these funds in improving their dwellings (Smets, 2006). Therefore, Smelts argues that incremental building practices require small loans with shorter short repayment terms. UNCHS (2005) supports this argument by stating that, the low-incomes households cannot afford the payment of a complete loan with the high interest rate charged on such loans, but are more likely to afford the small repayment of small repeat loans with relatively small interest rates.

It is estimated that, about 70% of sectoral investment in developing countries occurs incrementally, through this incrementally building process (Ferguson, 2003). However, formal financial sectors rarely support this incremental building practices undertaken by the vast majority of low-income households (Ferguson and Haider, 2000). Ferguson and Haider therefore argue that, housing microfinance fit the incremental building process, in that, it provides small loans at market interest rates and over short terms compared to mortgage finance provided by the formal financial sectors. Also, housing microfinance loans are for home improvement and expansion and fits in the major phases of incremental process and above all, the small loans makes the debt service affordable to low-income households.

Ferguson (1999) argues that, strategic support for this type of home ownership process will provide hope for the settlement efforts of the low-income households and that both private and public support in the form of finance is very crucial. Incidentally, in the last two to three decades, incremental building process has received support from international organisations and governments as well as private developers. For instance, a World Bank Policy Paper provides that "small-scale mutual credit institutions and alternative lending instruments attuned to the needs of households undertaking incremental house-building process, should be encouraged" (World Bank, 1993). UN-Habitat also lends its support by encouraging innovative mechanism that can improve access to credit for people who build incrementally (UNCHS, 2006a). One of such innovative mechanism is housing microfinance. According to the UNCHS (2006), this has been quite successful in reaching the low-income groups. Considerable innovation has taken place in this area and there is indicative evidence that further value will enhance its effectiveness in providing the low-income groups who build incrementally with credit UNCHS, 2005).

Following this recognition of the great potentials of housing microfinance, the next section will review the concepts of housing microfinance and what has been done in this field.

2.5. Existing Housing Microfinance (HMF) Approaches

HMF refers to loan products for financing shelter that are not backed by mortgages and which the loan delivery process follows the basic principles of microfinance, like small loan amounts at relatively short loan terms and the use of alternative form of collateral (Mesarina and Sticky, 2007). In other words, "it only encompasses those initiatives that adapt the lessons that have evolved from the larger microfinance revolution to housing"(Daphnis and Faulhaber, 2004). Invariably, it intersects housing finance and microfinance and helps to fill in the gap created by the limitation of conventional/traditional mortgage finance (Daphnis and Ferguson, 2004).

In much broader terms, HMF is defined as the provision of small loans purposely for housing activities which may include repairing, improving or upgrading, investment and improvement in infrastructural related services, purchase of land for housing and the construction of new dwellings (Young, 2007). This broader definition brings to the fore, the difference approaches that have emerged from lessons from microfinance lending to the low-income groups. Basically these approaches fall under three broad categories.

2.5.1. Microcredit to Housing Finance (MCHF) Approach

This approach arose from microcredit lending for small and micro-enterprises which was aimed at increasing the economic opportunities for socio-economic and politically marginalised groups. The basic principle behind the development of this approach is the realisation of the strong connection between home and income-generation activities of low-income groups. MFIs observed that loans that were meant for income-generation purposes were sometimes used for housing improvement. This improvement came in the form of adding a room or converting part of a living space into commercial use so as to expand the space needed for income generation, or improvement in water supply and sewerage or kitchens for those engaged in food processing, replacing or rebuilding a dwelling with more permanent materials to provide better working space and storage space for their business wares. The MFIs therefore broadened their portfolios to include specialised housing finance products like home improvement, connection to basic infrastructure or home completions projects. This in effect is to ensure that clients have more flexible credit that will fit their livelihoods survival strategies (Center for Urban Development Studies, 2000).

2.5.2. Shelter Advocacy to Housing Finance (SAHF) Approach

This approach to HMF, started by advocacy movements defending the right of the poor to equitable access to resources including land and shelter, housing rights to those living in sub-standard and poor living conditions especially in slums and the provision of adequate infrastructure and services to the poor and marginalised. These movements believed that shelter is a basic human right and all people should have access to shelter especially the homeless and disenfranchised community members who had no one to fight for them. While they advocated strongly on behalf of the poor for this equal access they soon realised that they needed to empower the poor economically for them to be able to access land and shelter. They therefore, developed microcredit programs to support the poor to access serviced land and acquire shelter (Center for Urban Development Studies, 2000).

However, the target group of the SAHF is not the economically active poor, like the MCHF, but the poorest of the poor, many of which are female and those with irregular employment in the informal economy. Hence, this approach is directed to low-income groups in slums who are threatened with evictions and the homeless. Center for Urban Development Studies (2000) therefore concludes that, the SAHF approach is process-oriented and the aim is to empower community members to take up the leadership roles at the expense of sound financial performance.

2.5.3. Stand-alone HMF Approach

This approach originated from the need to scale down formal financial sector lending to informal sector economy by creating credit linkages between the two so as to create opportunities for a wide range of financial services to the informal sector. The approach is based on the principles that: there are vast unmet needs for housing and other economic needs in the informal sectors, the informal sector can service credit facilities and that there is a social responsibility with a possible commercial gain (Osegge, 2007).

The approach therefore provides HMF to clients without any prior relationship with them with longer loan terms than what MFIs provide. Its target group include the self–employed and salaried workers. This approach is based on the experienced of CHF International and other organisations which have demonstrated that the poor people can take loans and repay over extended period without having prior links with the provider (Daphnis and Faulhaber, 2004). Besides, the eligibility criteria, loan terms and uses are specifically designed in such a way as to qualify potential clients on the basis of their current financial status and shelter needs (Daphnis and Ferguson, 2004).

2.6. Loan Products and Methodologies of HMF

Housing loan products and methodologies differ depending on the above approaches and continue to be differentiated and separated from the other products of the MFIs.

2.6.1. Loan Products

A wide range of HMF loan products exist internationally and depending on the MFIs approach as stated above, they try to separate a product package for housing loans from the core loans products. This wide range of HMF loan products include but not limited to;

- Minor Home Improvement Loans
- Major Home Improvement Loans
- Home Completion Loans
- Connection to Basic Services Loans
- Employer-Based Loans
- Land Acquisition Loans
- House Purchase/New Construction Loans (CHF, 2005).

However, most MFIs engage in home improvement, upgrading and incremental loans rather than the home purchase or new construction. This is especially so for the MCHF and SAHF who do not have explicit housing products but are lending alongside their traditional core business (Escobar and Merrill, 2004). The home improvement or incremental is often preferred because they are small in size and are better suited for the low-income households capabilities as well as fitting into their livelihoods survival strategies. Again, depending on whether the MFI is operating in urban or rural settings, it might opt for either home improvement or new construction loan products. MFIs operating in urban settings often tend to offer home improvement incremental loans because of the high price of land and building materials as well as the issue of security of tenure which are precarious in many urban centres in developing countries. Those operating in rural areas like the Grameen Bank offer home improvement, land purchase and new construction loans because the risk of tenure insecurity and cost of construction are minimal (Center for Urban Development Studies, 2000).

Besides, many MFIs are expanding and diversifying their HMF loan product to another group of low-income households such as salary workers through the employer-based loans. This is similar to the minor home improvement loans except that repayment is done through deduction from the employee's salary from the source (CHF, 2005).

2.6.1.1. Loan Term and Sizes

According to Escobar and Merrill (2004), HMF loans have relatively short term ranging from two to five years which are often longer than the traditional micro-enterprise loans. The loan term however differs from product to product. For example, the home improvement loans have terms of three months to two years while home completion or new construction have terms up to five years or even more. Escobar and Merrill further argue that, the loan term and size differ from continent to continent, and country to country. For instance, CARD HMF loans in the Philippines range from twelve months to twenty months while in South Africa, African Bank's loan term is up to thirty months and the loan size is about $2,500. Indeed, this should be so because of the socio-economic and cultural differences that exist between continents, countries and even within organisations settings.

What is clear from this argument is that, there is no prescribed loan term and size for HMF except that from international experience, HMF loans range from one to ten years with most MFIs opting for terms ranging from one to five years and loan sizes from $3000 to $5000. According to Daphnis and Faulhaber (2004), what is important is that, the following conditions should be fulfilled. (1) the client's current capacity to pay; (2) the MFI's need to minimise the probability that the client will not default by carefully analysing the affordability criteria of the clients; (3) the loan should be priced in a way that is not different from the microfinance product. Further, the loan term should be directly related to the default risk that MFI associates with clients and that poorer client can have a loan term of one year.

2.6.1.2. Interest Rates

Interest rates charged for HMF loans in principle should not differ from that charged by traditional micro-enterprise loans which are normally market based rates. However, in practice interest rates for HMF loans may be low, high or at par with the micro-enterprise loans depending on the type of MFI, where it sources its funding, administrative expenses and the general risks associated with such loans. According to Escobar and Merrill (2004), risk-based pricing is critical if the MFI is to offer higher-risk products in much riskiest markets and still be sustainable. Since HMF loans are not backed by collateral and the high transaction cost associated with it, it stands to reason that, setting sustainable interest rates based on the risks is ideal. But Escobar and Merrill argue that, HMF loans based on this principle has faced a lot of problems because most government housing programmes uses subsidized interests which makes the HMF providers difficult to compete initially.

Nonetheless for sustainability and viability of any HMF products, interest rates should reflect the risks and administrative costs. Franck and Faulhaber (2004) provide that, risk-based interest rates should reflect the "competitive costs of providing the service to the clients, the financial costs of procuring funds for the housing loans, and the capitalisation (including, as appropriate, profit) rate". They further argue that, the rate should be offset by the net investment income generated outside of the lending operations. In practice however, this may vary as some HMF providers may include commission, service and other miscellaneous charges while others who solely depend on donor funds and government assistance or partnerships may charge lower interest rates (Escobar and Merrill, 2004). But, it is best practice to set interest rates for home improvement high enough so as to cover cost as in traditional microfinance while at the same time bearing in mind the repayment capacity of clients in the particular country and the fact that clients become more sensitive to interest rate charges with bigger loan sizes (Klinkhamer, 2000).

2.6.2. Methodology

HMF has yet to come out with best practice as to the methods and techniques which will be common in a particular country or region. Currently there are no standardised methods or guidelines regarding loan to value or equity to debt ratios, loan documentation and property appraisal processes as these differ within institutions, countries and regions (Escobar and Merrill, 2004). There are basically two lending methodologies that exist in the HMF industry.

2.6.2.1. Group vs. Individual lending

Traditional microfinance has often adopted the group lending methodology because of the relative cheap transaction cost associated with group lending and the fact that, members within the group can co-guarantee each other and together provide collateral for their loans. However, because of the significant difference in term of loan size between micro-enterprise loans and housing loans, the group lending has been considered not suitable for HMF loans. HMF loans are bigger in size and have longer repayment periods and therefore if loans are offered in groups; it will mean holding the group collectively liable for large sums of members' repayment over a long time. This will create higher risks for both lenders and borrowers (Center for Urban Development Studies, 2004).

But, as stated above, there is no fast rule as to what methodology is best, as each case depends on the circumstance of the MFI and the HMF product they are implementing. For example, the Group Land Acquisition and Development programme in the Philippines, offers collective loans for land purchase, site development and housing construction and the loans remain a collective responsibility of the group until such a time that the site development is completed (Center for Urban Development Studies, 2004). Other institutions that are into group lending for HMF include, CARD in the Philippines, Grameen and SEWA Banks. What is clear among the institutions offering group lending for HMF is that, they operate in the rural areas and target more of the poorer households with much different socio-cultural environment than the urban settings. Therefore, group lending might be suitable in rural settings because of the relatively monolithic socio-economic and cultural conditions as against the cosmopolitan environment in urban areas. For HMF especially in urban areas, group lending is becoming unpopular because of its inherent difficulties.

Therefore, in deciding which methodology to use, important consideration should be given to the level of poverty regarding the target group and the environment they live in. If the MFI intends to reach out to much poorer groups then, it is better to opt for group lending. But, in practice, the individual lending predominate with very few exceptions like the Grameen Bank. Group-based lending is less suited to housing loans than to microenterprise lending, because it is harder to hold a group liable for large sums of money over longer time spans (Klinkhamer, 2000)

2.6.2.2. Eligibility Criteria/Underwriting Linkages

Due to the risks and constraints associated with HMF, for example, giving housing loans that are not backed by collateral, many MFIs implementing HMF products have devised ways to safeguard their money. These include compulsory savings, personal guarantees, and co-signers. In addition, MFIs have developed an array of requirements which the prospective clients must meet before they can access HMF loans. According to Escobar and Merrill (2004), these arrays of requirements include but not limited to;

- **Client history and track record with the same organisation:** in order to establish clients source of income and knowledge of previous loan behaviour, most MFIs require client to be members of the institution for a number of years, demonstrate previous microfinance history, show a positive savings history and show acceptable records of as a past customer. MFIs therefore demand a good credit history on a micro-enterprise loan before the disbursement of the housing loan. This requirement is particularly so for the MCHF and SAHF programmes.

- **Family income estimates:** to qualify for HMF loans, a client is required to have some form of micro-enterprise that brings income to the family. The approach used in microfinance loans is the same for housing loans. This requirement is necessary because housing loans are consumption loans which does not generate income at least in the short-run, hence a client should have a source of income to be able to pay the loan.
- **Client ownership of the home or land:** the client is also required to demonstrate some sort of ownership of the property by showing proof of legal documentation like, title of the property, registered sales contract, sales contract for those living in legal settlements. Those who do not live in legal settlement are required to show proof of stability in their residence or de facto ownership. Some MFIs requires the client to deposit land title with them, not as collateral but as a pressure for repayment. Other MFIs forbid lending to squatter settlements.
- **Savings accounts:** most MFIs demand that the client have a savings account before they can qualify for housing loans. Proven savings demonstrate the client ability to pay and sometimes used as collateral. Therefore, MFIs require mandatory deposits from the clients for a number of months before they qualify for housing loans. For example, some MFIs require potential borrowers to save at a rate equivalent to their future repayments for a period – e.g. 6 to 12 months before obtaining a loan (Klinkhamer, 2000)
- **Technical assistance:** some MFIs do their own appraisals on clients' properties before loans especially larger-size loans are disbursed. Others have additional services like support and assistance for legal documentation and constructions standards so as to ensure that clients meet basic requirements. These organisations include FUNHAVI in Mexico, FUSAI in El Salvador amongst others. However, in most cases, these technical services are outsourced to specialised agencies.
- **Payroll deduction for salaried workers:** for products that are targeted to salary workers like the employer-based loans, require the client to repay the loans through monthly deductions at source. This reduces the transaction cost for the MFIs.

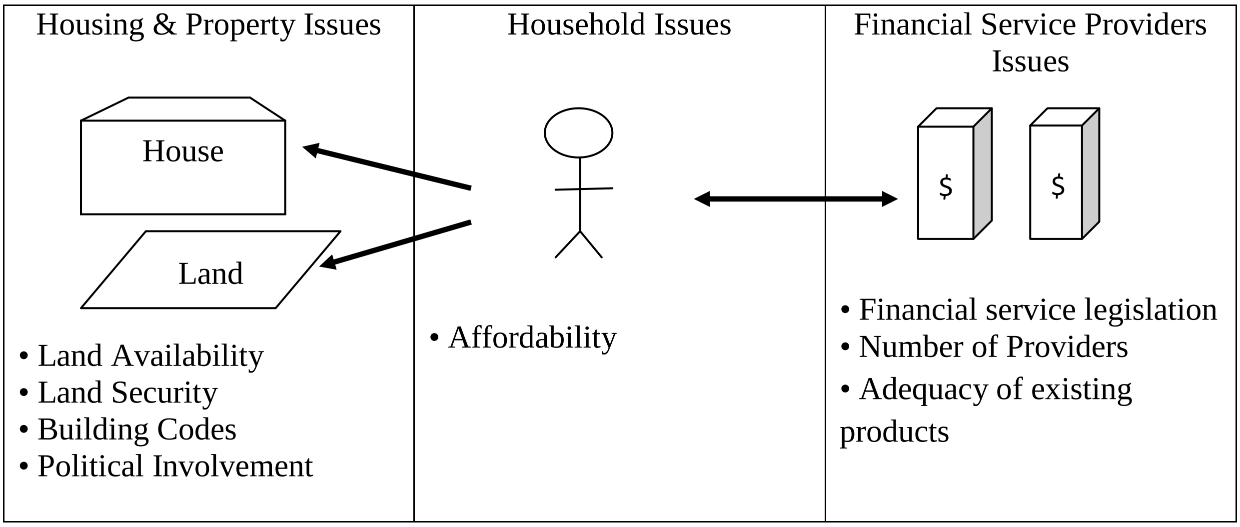
2.7. Risks and constraints affecting the demand and supply of HMF

The success of any HMF programme depends on how it effectively manages its risks and constraints. These risks and constraints range from policy issues affecting access to land and the development of financial services to affordability levels of the low-income households. These risks and constraints can be grouped into three broad categories;

- **"Housing and Property Issues**: The set of laws, regulations, processes and institutions that define whether and how poor households can acquire land and build a home upon it.
- **Household Issues:** The income levels of poor households relative to the cost of housing and households' ability to finance the necessary steps in acquiring land and building a home.
- **Financial Service Provider Issues**: The laws and regulations that define the activities of financial service providers, the number of providers that serve the poor and the appropriateness of the housing finance products relative to the needs and means of the poor" (Brown et al., 2002).

These risks and constraints have largely been the results of the unstable and fragmented macroeconomic and sectoral policies and socioeconomic environment confronted by many governments in developing countries. This is illustrated in figure 2.1below.

Figure 2.1: Critical issues affecting the supply and demand for HMF



Source: Brown et al., 2002

2.7.1. Risks and constraints affecting the supply of HMF

2.7.1.1. Land Security

Property rights are conditioned by land tenure which determines how people own land. In essence, land tenure determines who has the right to use, control and transfer land. It therefore plays an important role in determining accessibility and availability of land for housing and credit. In general terms, "land tenure forms the basis of development policy, performing both an indirect, facilitating role, and a direct and active one. It interacts strongly with other elements of the urban economy, being closely linked to the mortgage market, which takes a substantial proportion of borrowed funds in most countries; it is a major determinant of the local tax base and significantly affects the quality and return of investment undertaken in land and structures"(Farvacque and McAuslan, 1992). This implies that land tenure is related to location, the nature and distribution of employment centres, transportation systems, public services networks and access to credit facilities (Payne, 2002).

Access to secure shelter at locations close to source of employment and public services is often given priority by the low-income groups, because obtaining access to land in these locations afford them with livelihood opportunities. Therefore secure tenure at these locations are important for the low-income because it provides access to income generating activities (Payne, 2002). Unfortunately, in these locations there is great competition for land and therefore land prices are exorbitantly high. Faced with this competition, and the fact that, there are limited options for access to land, the low-income groups are forced to settle illegally on public lands or even sometimes on marginal or environmentally high risk areas.

Access to land and security of tenure continue to be major problems affecting the low-income groups in many developing countries. These problems are as a result of governments' inability to regulate land markets, confront land speculation and as well as adopt and implement comprehensive and integrated urban development plans (Vance, 2004). In many developing countries, urban development plans are discriminatory in nature, and the poor or low-income households are often seen as nuisance and therefore do not have the right to live in the city centres.

In addition, cumbersome administrative procedures due to complex set of laws, customs and practices, high land prices due to speculation and rapid urbanisation, high planning and building standard due to outdated planning and building codes inhibit legal access to land and housing for the low-income groups in many developing countries (Farvacque and McAuslan, 1992). Hence, these income groups continue to have access to land and housing through non-formal means by settling illegally on public lands or customary lands without due regard to planning and building codes and therefore lacks the tenure security.

According to Daphnis (2004), land tenure security has been a source of frustration and a major impediment to expanding existing services for housing finance institutions that serve the low-income groups and the poor in general. He further note that, land tenure affects HMF from a legal and from a risk standpoint. From the legal standpoint, MFIs must determine whether regulations allow them to lend to clients without legal right or ownership of land. If there are no legal restrictions to lending to people without title, then, from the risk standpoint, MFIs should establish that, the client has some level of land security that they will not be evicted while the loan is still being repaid. Though many HMF programmes do not require formal land title as collateral for HMF loans, they demand that, the client should enjoy land security. HMF programmes define land security to include: (1) the occupation and use of the property at the time the loan application is made; (2) certainty that the client will not be evicted or there is no threat of forced eviction from the property during the time of repayment of the loan; and (3) that the occupation and use of the property is supported by usual and local customary practices (Daphnis, 2004).

2.7.1.2. Loan Security

HMF has been defined as housing finance loans that are not backed by asset collateral. It uses several strategies to secure its housing loans because low-income groups lack the paper title to use as collateral and also the fact that the procedure for foreclosures are onerous and time consuming even when there is clear title. In addition, Daphnis (2004) notes using asset collateral on a home for small a loan amount will over collateralized the loan and underutilize the client asset. These problems have led to the development of alternative collateral for HMF loans. These include co-signers, collective security or joint liability and savings. But the major risk is that the loans are unsecured as the lender relies much on the borrower’s integrity and trust that the debt will be paid (Vance, 2004). This even become more serious as the loan amount gets larger.

2.7.1.3. Loan Fungibility

Loan fungibility arises when clients use part or all their loans for purposes other than the intended purpose for which the loan was made. However, it has been acknowledged by both lenders and borrowers in the traditional microfinance that loan funds are fungible and that in the real world, cash is fungible generally. How a client uses his or her loan will affect the outcomes or impact that it can have. Therefore, the MFI ability to determine how a client uses his or her loan will help determine whether a programme's loan product is meeting clients' actual needs. Understanding clients' needs is key to tailoring services, managing risk, and maximizing impact (Nelson, 2000). While loan fungibility might not pose a serious risk in microfinance per se, because of the desire to ensure flexibility and diversification of microenterprise business, in HMF it will distort the incremental building process hence lead to default of loans because housing does not produce income in the short term.

2.7.1.4. Term mismatch and interest rate risk

According to Ferguson and Haider (2000), HMF has some term risk and this risk is in twofold. Firstly, long-term loans contribute to credit risk, because the longer the term the higher the probability of borrowers to default. Secondly, financing long-term assets like housing, can lead to term mismatch especially when MFIs rely on deposits as their source of funding. This is especially true in developing countries which experience macro-economic instability, so that within a long loan term, inflation can rise and therefore may call for increase in interest rates to offset effect.

Unfortunately, many MFIs are not well equipped to be able to offset this interest rate risk. This risk is further compounded by the fact that, most MFIs do not have enough funds to finance long-term liabilities and the capacity to vary interest rates within loan repayment. Even when they have the capacity to vary the rates, they run into further risk of increase in default rate because the low-income groups may not have sufficient income to service inflation-adjusted housing loan repayments (Ferguson and Haider, 2000).

2.7.1.5. Technical assistance risks

Incremental builders require technical assistance to be able to meet minimum safety standards as may be required by law. HMF lenders may therefore need to offer these assistances as part of their loan package. This technical assistance may include evaluation of home improvement plans and cost, land title registration and verification, construction monitoring, and construction inspections for incremental financing (Ferguson and Haider, 2000).

The technical assistance risk has to do with who bears the cost of providing this assistance. If the MFIs bear the cost, it will impose substantial cost to the institution such that it might not be sustainable. On the other hand, if it passes the cost to borrowers it will increase the default risk as they may not be able to pay for this service. However, if the MFIs include technical assistance in its HMF programme it stands to benefit since, it will help minimise the project risks associated with self-help housing.

2.7.2. Risks and constraints affecting the demand of HMF

2.7.2.1. Clients' capacity to pay

One of the greatest challenges for HMF is how to estimate clients' capacity to pay for housing loans. According to Daphnis (2004), capacity to pay is a function of client's income and this should always be estimated before a HMF loan is issued to clients. Daphnis notes that, capacity to pay is an important component of overall affordability analysis and that while capacity to pay is a function of income, affordability is a function of capacity to pay. MFIs are faced with the problem of determining the percentage of income that a client can spend on periodic loan repayments and at the same time be able to meet their basic needs. Striking the balance between these two is often the critical issue and if proper balance is not made, it can lead to the risk of loan defaults. Estimating clients' capacity to pay is often a complex issue. The disposal income of clients are determined by family size, consumption patterns, inflation levels and general spending habits of the client and this also differ from client to client (Daphnis, 2004). Further, it is also affected by collateral requirement of the MFI. Therefore understanding these issues will help the MFIs to estimate the affordability level of clients.

Daphnis indicates that, to determine affordability when there is a perceived demand for HMF, the MFI should estimate (1) the clients' capacity to pay; (2) the loan repayment terms including the period and interest rates; and (3) the cost of the housing solutions clients are likely to demand. Hence affordability of a loan will then be a function of these three variables. However, the challenge is how to determine affordability levels for different categories of low-income households. This is even more difficult where the MFI is running a stand-alone HMF which has not previous knowledge of the credit background of its clients.

2.8. Risk management strategies for HMF

2.8.1. Innovative collateral

Due to the shortfalls of asset collateral, many MFIs have introduced collateral substitutes to manage their financial risks. These collateral substitutes include personal guarantees or co-signers and peer pressure arrangements. These are extra-legal or social means that may not be enforceable in court. For example, loan to value shortfall on a property could be covered by personal guarantee (Vance, 2004). While peer pressure based on the group lending methodology is often considered not suitable for housing loans, some MFIs like the Grameen Bank have achieved considerable success in its applications.

In addition, mandatory savings, pension and provident funds have also been used extensively to safeguard HMF lenders. Savings demonstrates an ability to pay and affects collateral in the sense that households who otherwise would be ineligible for housing loans, savings represent the only collateral that can be guarantee (Vance, 2004).

2.8.2. Construction Assistance

Low-income households manage their own home construction with limited experience and expertise alongside limited financial resources. This makes them focus on the cheapest materials rather that doing quality improvement which can ensure the long-term housing development plan (Tilock, 2004). This according to Tilock can increase the risk of loan default because; the use of low quality material can affect the structural soundness of the building and lead to increased life cycle cost of the building. Therefore to be able to manage these risks, HMF programmes often include construction assistance as part of their loan package. This assistance is offered in two stages. The first stage is the pre-loan assistance. This includes helping the client in construction designs, budget development, and client education. The second stage is the post-loan assistance, which entails construction follow-ups, and construction materials procurement (Tilock, 2004). All these are intended to ensure that, clients meet the basic safety and structural requirements of the housing improvement and above all ensure that HMF loans are used for the purposes which they were intended for. So in a way, it is monitoring mechanism to curb loan fungibility.

Furthermore, to minimise the cost of these assistance and to prevent it from passing the whole cost to clients, many MFIs employ their own technical personnel. For example CHF HMF programmes require at least one technical person for every two loan officers (Tilock, 2004). Other MFIs have trained their loan officers in basic knowledge and skills in construction evaluations.

2.8.3. Short-term and small loan sizes

Many MFIs have found it expedient to design small loans sizes at shorter loan terms that fit into the incremental building practices as way of managing their risks. Though there has been a gradual increase in HMF products, most MFIs prefer lending for home improvement since this reflects much of the incremental building practices. According to Vance (2004), small and sequential loans over shorter loan periods have worked well for lenders and borrowers by reducing the risks of default. He notes that,

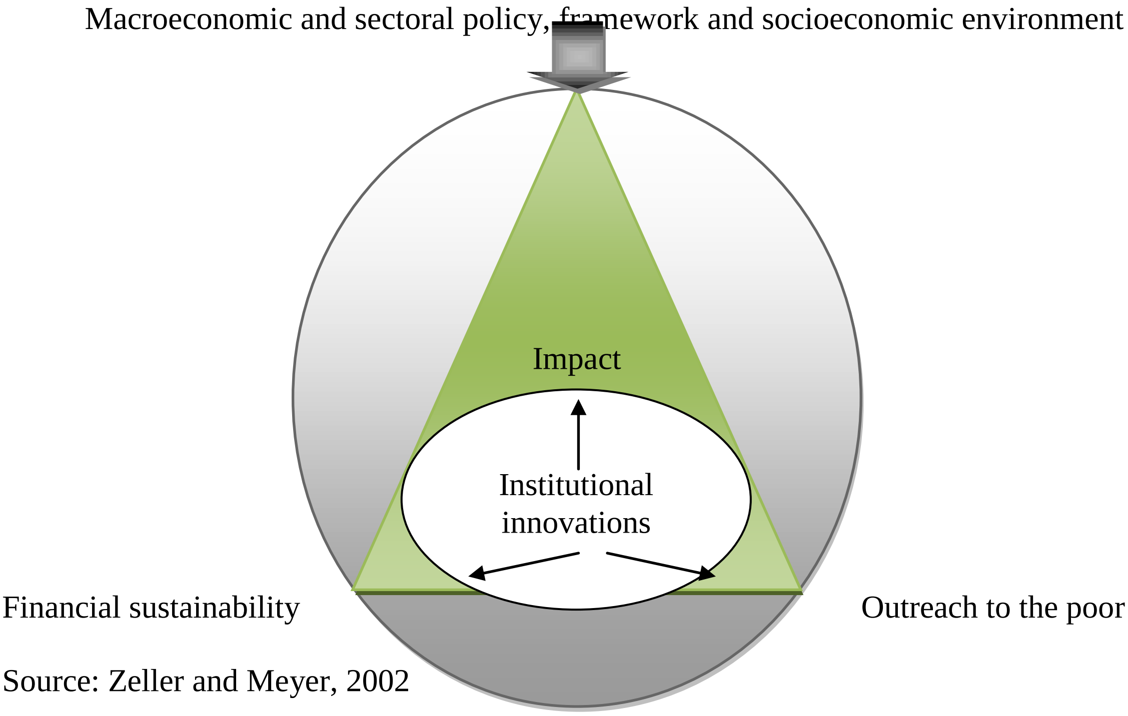
> *"Short-term, small loans match how most low-income households traditionally build their homes and better fit with the financial services they require".*

However, some MFIs, also give larger loans and relatively longer terms depending on the HMF products they are implementing but, they have found expedient to design risk-management strategies that uses land title to secure the loans. This implies that, the larger the loan, the more the requirement of the collateral. The use of land title as collateral in many instances however, is to put pressure on the borrower to pay rather than collateral in the actual sense of the word. According to Escobar and Merrill (2004), "many of the organisations that accept land title as collateral do not necessarily use it due to high implementation costs, complex registry systems, and the myriad of procedures involved in foreclosure".

2.9. The Microfinance triangle

The core of objectives of any MFI is to attain financial sustainability first, as a business entity, increase outreach and achieve socio-economic impact of target clients. The concepts of microfinance triangle therefore explore the synergies between these three core objectives so as to improve understanding on how MFIs strike a balance between these objectives (Zeller and Meyer, 2002). This concept was developed by Zeller and Meyer to show the relationships that exist between the three overall objectives of microfinance. The synergies are illustrated in the triangle below.

Figure 2.2: The triangle of microfinance



Source: Zeller and Meyer, 2002

According to Zeller and Meyer (2002), the inner circle represents the different institutional innovations that contribute to financial sustainability, outreach and impact. These innovations could include efficient management information systems, designing demand-driven services client education, effective lending methodologies and client targeting mechanisms that enhance outreach to the large number of low-income groups. This inner circle is conditioned by external macroeconomic and sectoral policies, and socioeconomic environmental factors that determine and shape the performance of financial institutions in a particular country.

Outreach
It is defined as the social value of the output of MFIs programmes. It includes; depth, worth to users, cost to users, breath, length and scope (Paxton and Cuevas, 2002). Depth of outreach is how far the programme is reaching the target population. Breath is the number of people who are benefiting from the programme. Worth of outreach is how much borrowers are willing and able to pay for the services of the MFI, while cost of outreach includes the price and transaction costs. The length of outreach includes the time period which the MFI provide loans. Finally scope includes the number of loan products the MFI is offering.

Financial sustainability
This means meeting the operating and financial costs over the long term. It is a way of improving outreach and not an end in itself. It is however, affected by the availability of long term funds as well as profitability of the MFI.

Impact
Impact is defined to include the desired outcome of an intervention. In microfinance, impact analysis is used to determine whether MFIs programmes have had the desired outcome considering the objective of the programme. Therefore to determine impact of any programme intervention in microfinance, the analyses should correlate with impact intended. Impact broadly falls into three categories: (1) economic; (2) socio-political or cultural; and (3) personal or psychological (Ledgerwood, 2000). Depending on the MFIs objectives, economic impact could be the general economic growth within a region or a particular sector. It could also be at the enterprise level or a sub sector in the informal economy or at community or households levels in terms of aggregate accumulation of wealth. Socio-political or cultural impact could be changes in status of particular social groups in participation in political decision making or changes in power relationships especially in the case of minority ethnic groups. Personal or psychological impacts could empower particular groups in the society, for example women empowerment.

The concept of microfinance triangle is relevant to HMF in the sense, HMF programme seek to achieve impact, improve outreach and above all be financial sustainable to be able to serve as many low-income households as possible. Many HMF lenders want to ensure that their clients build good houses. The objective of HMF programmes is to ensure that housing is accessible and affordable to the low-income groups.

2.9.1. Measuring of impact of housing microfinance
According to CHF (2004), in evaluating the impact of HMF, two indicators which relate directly to the incremental building process need to be taken into account. These are:

- The amount of private resources mobilised per $1,000 loan taken and,
- X m^2 of living area built by end-users @ y $\$/m^2$.

These two indicators represent the most noticeable impact of HMF programmes and must form part of any impact assessments studies. CHF further suggest a model that could be adapted to measure impact. Table 2.1 shows a simple model for measuring HMF

Table 2.1: Model for measuring HMF impact

1. Input	**Monetary**			**Non-monetary**
2. Finance	Own money (savings, other) and micro-loan			
3. Process	Stockpiled materials	Materials bought just before construction	Builder	Work of owner family + friends
4. Output	Quantity (m^2)		Quality (owner satisfaction)	

This will model will help the evaluator to either confirm or reject the following impact hypotheses:

- Households who drive the incremental building process use their money on housing efficiently and that the process itself values monetary and non-monetary inputs such as time of family members and friends to work on the building site,
- The proportion of monetary and non-monetary inputs to the building process reflects the poverty levels of the households
- HMF loans finance only part of the building process and that the building is always completed by households' own resources
- HMF only speed up the incremental building process by helping to finance the most important elements in process such us building material that cannot be stored or the cost of a builder
- The building process starts with stockpiling of building materials that can be stored easily and those that become available at special opportunities like second hand windows or roofing sheets
- When finance is secured by the household like housing micro-loan, the households buy the more sensitive building material like cement, steel rods, roofing sheets and hires labour to start building
- HMF loans are crucial to get households organised to realise their own potential, develop their own capacity for managing the building process and to live without depending on others
- The physical output of the building process always have quantitative dimension which can be measured in meters (m^2) as well a qualitative component which cannot be measured quantitatively. Also, sometimes quality can be improved at a construction stage without adding new living space
- Households who build their own houses tend to build sufficient living space cheaper than contractors. This helps build up their self-confidence and they do not blame government or contractors poor quality of work (CHF, 2004).

HMF programme intervention generates impacts across a number of domains and levels including but not limited to the client's well-being, the client's family and the community (Karlan and Goldberg, 2007). In other words, impacts can be traced to the individual, household, institutional and the community levels and therefore, unit of analysis for HMF impact assessment embodies these levels.

Individual level
At this level, impact or change is measured by the client's capacity to make decisions, participate in community development, and make investments to improve his/her business and personal income. This leads to personal empowerment (Nelson, 2000).

Household level
Incomes from entrepreneurial households can flow between the business and household members and investments in assets like savings and housing can contribute to increases in the net income household incomes. This could lead to further asset accumulation, labour and productivity and thereby strengthening the household economic security. Indicators at this level will be net household incomes, assets (including the value of houses and improvements) (Karlan and Goldberg, 2007, Nelson, 2000).

Community level
According to Karlan and Goldberg (2007), non-monetary impacts of microfinance participation like women empowerment and social capital accrue at the community level. Microenterprises can also provide the community with employment opportunities and create forward and backward linkages. These are the indicators of impact within the community level (Nelson, 2000).

Institutional level
At this level, impact is normally carried out to determine the effect of a new product or policy change on the MFI and the outcome on its clients. In effect, impact seeks to establish the performance of programmes of MFIs. The indicators of impacts at this level include; repayment rate, client retention rate, new client enrolment, average loan size, savings balances, profitability, composition of clients (demographics). These outcomes could be measured in different ways provided the MFI defines the indicators the same way as it is been defined before a programme intervention. For example, profitability could be measured using the operational self-sufficiency, financial self-sufficiency, return on asset etc. However, impacts on the MFI are considered as intermediate indicators because it does not by themselves indicate positive impact on clients (Karlan and Goldberg, 2007).

Impact indicators for HMF are therefore limited to the household level and the institutional level indicators. At the household level, the indicator is the asset of the client. This could include value of the house and housing improvement as a household level welfare indicator.

2.9.2. Market research for new product development of MFIs

Experiences and best practices in the microfinance industry indicate that clients' needs evolve over time. Meeting these evolving needs demand the introduction of new products. According to Dunn and Arbuckle Jr. (1999) meeting these changing financial needs of both current clients and potential clients through the introduction of new products can help expand outreach, increase retention rates and contribute to long-term sustainability of MFIs. Market research is therefore the instrument that used to study the existing market, the existing and potential demand, the adaptability of products and the exploration of new markets (Baydas, 2004). Market research is basically focused on understanding the behaviour and needs of both current and potential clients of products and services. It consists of several steps with the aim of providing insights into the clients taste and preferences, needs and behaviours so as to aid the design of a new product.

The market research process consists of two components. These are the market segmentation and the analysis of secondary data. Markets are segmented on the basis of demographic and geographic characteristics so that demand niches for new products can be identified. Secondary data from census data, company documents, product information, clients' files etc can be very useful in projecting the demand for new product especially when it is used together with market segmentation analysis (Dunn and Arbuckle Jr., 1999).

2.9.3. Linkages between impact assessment and market research

Impact assessment can contribute in many ways to a better understanding of the market served by MFIs. It provides vital information that is relevant in answering questions like;

- "Who are your clients? What are their characteristics and their needs?
- How do your clients use your products and services?
- What is the significance and value of your products and services to your clients? In other words, why do they want your products and services and how do they benefit from them?
- Why do some clients stop using your products and services? Alternatively, why don't more potential clients demand your products and services?
- What alternative kinds of products and services do your clients and potential clients want?"(Dunn and Arbuckle Jr, 1999) pp.3.

Impact assessment can also provide valuable secondary data for market research as well for market segmentation information. It often contains information on demographic, geographic behavioural characteristics of households. However, to use impact assessment data for market research purposes, then that set of data should be one that focuses on the household level as a unit of analysis. This is because financial management takes places at the household level and trade-offs are made between current and potential economic activities at this level (Dunn and Arbuckle Jr., 1999).

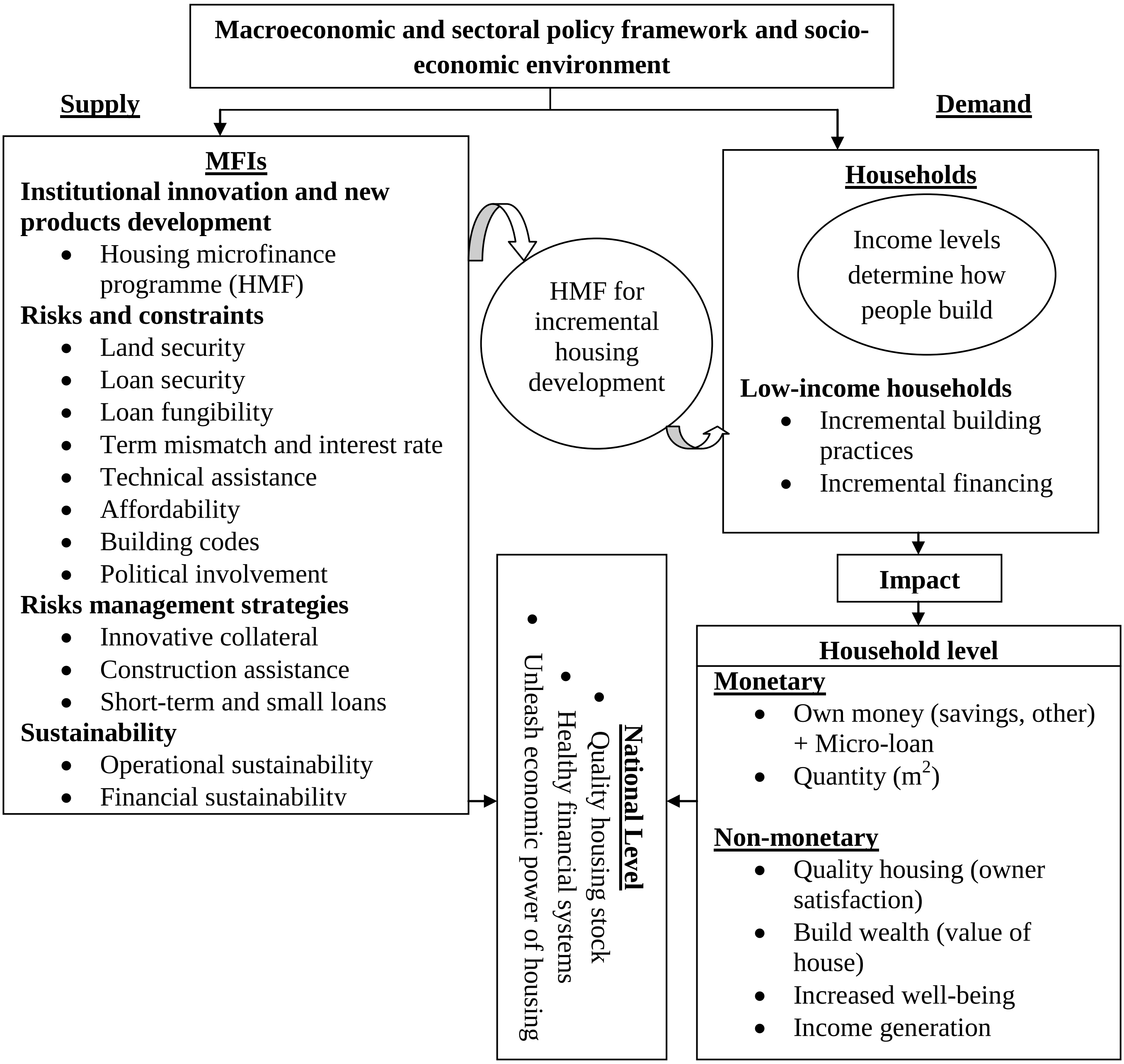
2.10. Summary of theoretical framework for HMF

Macroeconomic and sectoral policy framework and socioeconomic environment are the major determinants of the housing finance pyramid. It influences the performance of financial institutions and determines the earning capacities of the various income groups. As stated earlier, income is the main determinant of how people build their dwelling. The macroeconomic and sectoral policy framework and the socioeconomic environment constitute the external forces that have positive or negative influence on the performance of HMF institutions.

The synergy between macroeconomic and sectoral policy, and socioeconomic environment and HMF is illustrated in figure 2. The extreme poor are not capable of owning and building a house. The low-income groups build their dwelling incrementally as when they have funds. This is the target group for HMF. In fact, it is as a result of their incrementally building that HMF was developed. But the institutional development of HMF MFIs is largely determined by macroeconomic and regulatory policies. As to whether HMF MFIs will have major impact on improving housing quality and accessibility will depend on how they manage the risks and constraints that might be created by these macroeconomic and regulatory policies.

As shown in the figure 2, if MFIs are able to manage these risks through their institutions innovations, they can become financially sustainable. Once sustainability is achieved, they can explore alternative sources of sustainable wholesale financing from banks and other financial markets. Sustained growth means new clients, new areas of operations, and new products which enhances impact and as well as depth, breath and scope outreach. This furthers increases the operational scale and efficiency and profitability as well as creating opportunities for MFIs to expand and scale up HMF programmes (Merril and Mesarina, 2006).

Figure 2.3: Conceptual framework for HMF



Source: Author based on literature

2.11. Conclusion

The discussion so far provides the understanding of the linkages between incremental building practices carried by majority of the low-income groups and housing microfinance programmes. As it has been shown in the framework for HMF, achieving greater impact of housing improvement for low-income households requires skilful risk management techniques and collaboration between the various stakeholders in the land and housing delivery systems. The need to contextualise the international experiences of HMF programmes into the local circumstances has also been emphasised. The next chapter therefore looks at the housing context in Ghana and how this alternative housing finance system has been contextualised.

CHAPTER THREE: THE HOUSING CONTEXT IN GHANA

3.1. Introduction

This chapter looks at the demographic and economic environment of housing in Ghana. Housing conditions, requirements, supply and housing policy will be briefly discussed. Furthermore, I will also give an overview of housing finance sector as well as the finance systems in Ghana. Particular emphasis will be given to the involvement of private sector in housing finance and how it affects the supply of housing finance for the low-income groups. I will conclude by looking at the development of affordable housing finance sector in Ghana.

3.2. Demographic and Economic context of housing in Ghana

In 2000, Ghana's population was 18,912, 079. This represented a significant increase of the 1960 figure of 6,726,000. Annual growth rate has been increasing from 2.4% in 1960-1970, 2.6% in 1970-1984 and 2.7% in 1984-2000. Though there has been a gradual increase in the annual growth rates, the population has more than double from 1960 to 2000 and it is estimated that, by 2025, the population will increase by 12,399,352, representing 53.1% over the period (Ghana Statistical Service, 2005).

According to the Ghana Statistical Service (2005), majority of the people between the age group of 15-24 years live in urban areas. The factors that are attributed to this are; young adults and adults migrate to urban areas in search for educational purposes and also employment opportunities both in the formal and informal economy, the aged, mostly retired civil/public servants move back to the villages after retirement. These affect urban population growth and have significant implications on housing needs and demand. These population trends affect household formation, which is a major determinant of housing needs. In 2000, the number of households was 3,701,241. This represents 2.5% of the total number of households between 1984 and 2000. The average household sizes has been increasing from 4.3 in 1960, 4.7 in 1970, 5.0 in 1984 and 5.1 in 2000 (Ghana Statistical Service, 2005).

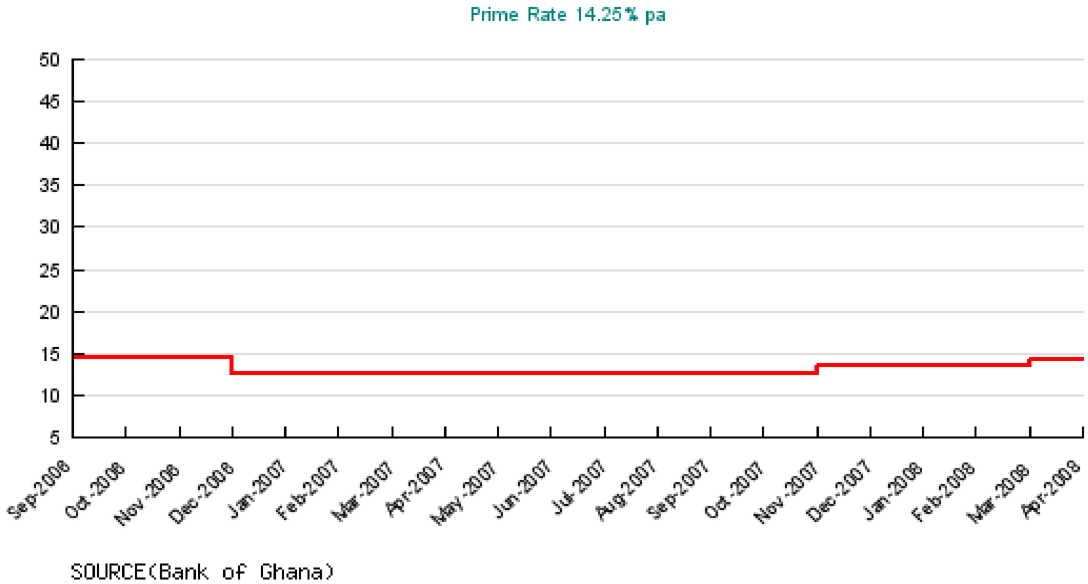
In addition, Ghana's population is not only growing but also urbanising. In 2000, 43.8% of the total population lived in urban centres. This rapid urbanisation is predominant in the regional capitals with Accra and Kumasi receiving the larger number of migrants. The percentage of populations living in urban centres as at 2000 in terms of regional composition was led by Greater Accra (87.7%), and Ashanti Region. Migration is the major cause of this rapid urbanisation in these two regions. Social and economic reasons are often cited for migration. For example, the GLSS4 (2000) indicates that, 38% of migrant move to Accra for employment reasons while 43% move because of family reasons. The impact of this rapid urbanisation in Accra is the increasing land encroachment, overcrowding and homelessness in the city. This has led the growth and expansion of informal settlements adjacent railway lines and places near employment and market centres where the informal sector is active (CHF, 2004).

However, political instability and unstable macroeconomic environment in the last three decades led to a weak Ghanaian economy. Large balance of payment deficits, high inflation and high interest rates led to an economy downturn in the 1980s and early 1990s. To revive the economy and make it more competitive for investment, the government with the help of its development partners started reform programmes in the early 1980s. These reforms included the Economic Recovery Programme (ERP), Structural Adjustment Programme (SAP), Vision 2020, the Highly Indebted Poor Countries (HIPC) in 2003-2004, and the Growth and Poverty Reduction Strategies I and II. All these were aimed at creating the enabling environment for private sector investment.

In 2001, when the current government took over the administration of the country they committed themselves to creating an environment for dynamic private sector to fuel the economic growth and improve the livings standards of the population. To do this, the government embarked on comprehensive macroeconomic stability strategy. This strategy was aimed at reducing and restructuring the domestic debt, improving public expenditure management, improving fiscal resources mobilisation and to pursue price and exchange rate stability (CHF, 2004).

This macroeconomic stability led to considerable improvement in the GDP which has been growing from 4.2% in 2002 to 6.2% in 2006. Annual inflation rates reduced from 26.7% in 2003 to 10.9% in 2006 while prime rate reduced from 24.5% in 2002 to 12.5% in 2006 (Bank of Ghana, 2006). However, these remarkable improvements have been daunted by the soaring oil prices. Monthly inflation rose to 13.2% in February 2008 and now stands at 18.4% as at June 2008 (Bank of Ghana, 2008). The prime rate which determine interest rates is also rising as in the chart below

Chart 3.1: Bank of Ghana Prime rate



The economic downturn and restructuring in the 1980s and 1990s propelled the growth of the informal economy and made poverty more widespread. GLSS4 (2000) indicated that 55% of the urban population were engaged in the private informal sector and 51.7% of the population lived in poverty. However, with the macroeconomic stability, poverty reduced to 28.5% in 2005/06 (Ghana Statistical Service, 2007).

3.3. Housing demand

It is estimated that, household formation will increase by 51.1% from 2000 to 2025. This implies that about 2,320,188 new houses will be required to house these new households.

Though the increase will be small relative to the increase in population, there is the possibility of increases in large numbers of single person household due to the aged living longer because of improved medical conditions, separation and divorce and young people forming single family households. Based on this household formation rate, it is projected that, the number of households will increase from 3.7 million households in 2000 to 6.0 million in 2025. These increases in the number of households have serious implications on housing needs both in terms of number and housing type. For example, it is estimated that, there would be increased in one-person and two-person household who may demand two bedrooms apartments. Therefore, it is projected that the country will need 4,019,476 units over the period of 25 years with 324 additional dwelling per 1,000 populations per year. However, about 3% of the existing housing stock is already in poor conditions and will need to be replaced (Ghana Statistical Service, 2005). The table below shows the physical characteristics of housing in Ghana.

Table 3.1: Physical characteristics of housing

Type of Dwelling	***Percentage of Population***
Rooms in Compound	44.5%
Separate House	25.3%
Semi-Detached House	15.3%
Flat/Apartment	4.4%
Huts/Building in Compound	4.4%
All others	4.2%
Tent/Kiosk (Container/Attachment)	1.9%
Main Construction Materials for Roof	
Corrugated Metal Sheet	60.3%
Thatch/Palm/Raffia	18.6%
Slate/Asbestos	12.8%
All Others	5.9%
Cement/Concrete	2.4%
Main Construction Materials of Outer Wall	
Mud Earth/Mud Brick	50.0%
Cement Blocks/Concrete	39.1%
All Others	4.1%
Wood	4.0%
Landcrete	2.8%
Main Construction Material for Floor	
Earth or mud brick	23.8%
Cement or concrete	72.0%
Terrazo	1.4%
Wood	1.0%
Other	1.8%

Source: (Ghana Statistical Service, 2002)

The table above indicates that, in terms of material of construction, corrugated metal sheets is the most preferred (60.3%) for roofs, mud earth/mud bricks (50.0%) for walls and cement blocks/concrete constitute 39.1%. This implies that, half of the materials for external walls is constructed with mud earth/mud bricks which are not strong enough to stand the weather and hence the demand for periodic maintenance and improvement. This exemplifies why most buildings are in deplorable state of repair. These types of materials are most preferred by the low-income groups because they cannot afford the more permanent materials of constructions like cement.

Besides, the table indicates that, there are three main types of dwelling in country. These include compound houses (44.5%), separate houses (25.3%) and semi-detached houses (15.3%). Therefore, majority of Ghanaian households live in accommodation associated with the compound houses. According to CHF (2004), traditional housing in Ghana takes this form of housing where family relations or marriage households live in cohesive units in compound rooms. These compound houses are designed in as such a way that one end will contain bedrooms while the other end will contain kitchens, and latrines which are often inadequate in comparison to the number of tenants. In some compound houses, they do not have toilet facilities, water and hence the poor housing conditions associated with this type of tenements. This high proportion of compound houses is attributed to the communal living arrangements and the differentiated costs of the different housing types (Ghana Statistical Service, 2005).

Furthermore, high proportion people live in makeshift dwellings- kiosk/container or rooms attached to shop in Greater Accra, a reflection of housing needs in the city. For example, the Ghana Statistical Service (2005) observed that 3.9% of household in Accra live in this type of accommodations. This is an indication of the serious housing problem in the capital. Therefore, substantial resources and clear policy guidelines are required to provide the projected 4,019,476 dwelling units.

3.4. Overview of Government's affordable housing programmes since 1950

Affordable housing programmes started with the first and second Five –year Development plans of Kwame Nkrumah in 1951. The objective of the plan was to provide low-income housing first to the industrial low-income works in Tema. This led to the establishment of the Tema Development Cooperation just before independence (1951-1956). The government also set up the State Housing Cooperation (SHC), the First Ghana Building Society (FGBS), and the Roof Loan Scheme during this period to provide low income housing and support individuals to build their owning housing. In the second Five-year development Plan (1959-1964), the object of the plan was to provide low-income housing to workers who could not afford mortgage finance. The government's policy was to directly provide housing for its citizens.

In the 1970s, the Acheampong's regime continued with the programme of directly providing affordable housing units to public sector workers. The then government introduced the Low-cost housing programme which had the object of providing affordable housing to low-income households. These houses were meant for households with incomes less than GH¢0.18 per annum. Unfortunately, it did not serve its target group because it did not keep within the cost yardstick and houses became unaffordable to this group. These programmes failed due to the following problems;

- Lack of finance as a result of the 1970s economic downturn that the country faced. It therefore became expansive for government to continue to provide housing for the low income workers since it had to mobilise resources in order to be able to support other sectors of the economy

- the status of housing was not clearly defined because housing was not seen as part of social policy but as an investment that had to be financed from the productive sectors of the economy
- potential of housing as employment generating and savings mechanism was not recognised
- unclear estimates and definition of housing need
- extensive use of imported materials for house building
- virtual absence of social housing and
- the absence of policy on housing maintenance (Owusu, 2005).

From the late 1970s to present, there has been a drastic change in housing policy. The five-year development plan (1975/6-1979/80) was to provide decent housing at affordable prices through the encouragement of the private enterprise in the house building activities since government could not do this within it means. Also the National Housing Policy Action-Plan (1987-1990), further emphasised the role of private sector in providing housing while government provide the enabling environment by provide rules and regulation and providing infrastructure.

Current affordable housing initiatives

Upon realising that there is a severe housing deficit in the country, the government in 2005 decided to get involved in direct provision of housing again through its Affordable Housing Programme. This programme is currently underway in Accra, Tema, Kumasi, Tamale and Koforidua. The government contracted US$35.5 million loan facility to provide about 8,000 housing units at affordable prices for the low income earners. The Accra – Tema project is ready and housing units will go for about GH¢8,000. However, the programme is faced with similar challenges as mentioned above. There is lack of funding to continue and complete the other projects in the remaining cities.

3.5. Housing policy

Several attempts have been made towards formulating a national housing policy since the time of independence. Housing policies have often been contained as subset of development plans or reflected in ministries like the Economic planning and Works and housing as policy statements. In general, housing policy in Ghana was aimed at direct government involvement in housing provision. However, following policy shift in the international community, Ghana adopted the National Shelter Strategy document. This is now the official national housing policy document. It has been revised a number of times since its inception in the early 1990s. The strategy has the following objectives;

- To accelerate home improvement and the upgrading and transformation of the housing stock in order that shelter of adequate quality may be available to the population as a whole;
- To improve the environment of human settlements with a view to raising the quality of life through the provision of good drinking water, sanitation and other basic services;
- To make shelter programmes more accessible to the poor;
- To promote greater private sector participation in housing delivery by creating an enabling environment through the elimination of constraints and improving access to resources inputs; and

- To create an environment conducive to investment in housing for rental purpose (Ministry of Works and Housing, 2000).

3.6. Overview of housing finance industry

The development of the housing finance industry in Ghana is directly related to housing policy initiatives and performance of the macroeconomic indicators. Therefore, the performance of the housing finance industry before 1990 was largely led by the state. With the establishment of the State Housing Corporation (SHC) in 1955, government provided it with long-term funding for the construction and provision of housing finance to Ghanaian workers. Housing loans were subsidised through a fixed rate long-term loans. With time, government could not sustain the funding due to pressure to provide other services. It therefore could not make significant impact in the housing industry. Besides, the FGBS which mobilised savings and lent to members for financing housing also ran into difficulties with the economic decline of the 1970's. High inflation rates and currency devaluation reduced the savings capacity of members and this led to shortfall in funding for the organisation. This too could not make major impact in providing sustainable housing finance for housing development (UNCHS, 2006b).

In attempts to salvage the situation, government established the Bank for Housing and Construction in 1972. This bank was solely responsible for financing housing and the construction industry. However, it diverted its attention from this core issues to commercial banking after the government was overthrown in 1979. It is now liquidated due to fraud (UNCHS, 2000b). During the same period the Social Security and National Insurance Trust (SSNIT) was given additional responsibility of providing housing to workers. However, it mandates was to provide rental accommodation to public sector workers at affordable rates with funds from their social security contributions.

There was limited involvement of private financial institutions in the housing finance industry. The Ghana Commercial Bank got involved after the 1970's economic decline and provided limited mortgage finance to people who could afford. The Standard Charted Bank and Barclays also joined later but target only workers in multi-national corporations. But all these were short lived because of economic crisis and structural adjustment policies which caused economic downturn in the country.

By 1990, there was almost complete absence of long-term mortgage finance in the country. Housing became unaffordable due to high lending rates and many banks did not want to venture into mortgage financing (UNCHS, 2006b).

These problems led to the establishment of the Home Finance Company Limited (HFC) in 1990 with a core object of providing sustainable housing finance systems in the country. It was to provide housing finance as a secondary finance institution through long-term funds from its initial capital and later through the issuance of bonds. HFC therefore, became the first mortgage finance institution in the country with the sole responsibility of providing housing finance. It target groups were the moderate-income earners.

In a nutshell, the approaches to housing finance in Ghana over the last five decades have been by government directly or indirectly funding state and quasi-state institutions to carry out the task of housing finance. The SHC and TDC was established and funded by government.

Quasi-state institutions like SSNIT and FGBS were also under the ambit of government. There was little or no support or incentives for private institutions to take up the role of providing housing finance. Unstable macroeconomic environment also did not permit private sector institutions to get involved as the sector became unattractive and risky. UNCHS (2006b) summarised this by stating that *"government fiscal policy has provided incentives to housing construction and the rental market rather than to encourage housing finance as a means of homeownership"*. Hence there was the need to reform the banking sector to be able to attract more private banks to venture into housing finance, because the banking sector was a controlled regime where the BOG determined the levels of sector-based allocation of credit to banks (UNCHS, 2006b).

3.7. The legal framework of the financial sector in Ghana

The financial system in Ghana comprises the Bank industry, the Non-Bank Financial Institution and the Capital market. The financial sector therefore comprises the following:

- Bank of Ghana which licenses, regulates and supervises all commercial banks as well as non-bank financial institutions
- Three Development Banks, sixteen Universal Banks, four Commercial Banks, and a network of 122 rural banks operating under apex body called ARB Apex Bank. (Bank of Ghana, 2006)
- he Non-Bank Financial Institutions made up of seventeen Financial companies, thirteen Savings and Loans companies, four Leasing companies, one Discount House and one Mortgage Finance company (Bank of Ghana, 2006)
- Credit Unions supervised by the Credit Union Association (CUA) through delegated powers from BoG
- A network of about 150 Microfinance Institutions under the umbrella body called the Ghana Microfinance Institutions Network (GHAMFIN) which supervises these with delegated powers from BoG.
- The capital market organised by the Ghana Stock Exchange which currently has about twenty-seven (27) listed Equities on the exchange, and Corporate and Government Bonds and;
- Informal lenders, such as "susu" collectors, informal traders and rotating savings clubs (ROSCA).

The Banking Act, 2004 (Act 673) which superseded the Banking Law of 1989 and the Financial Institutions (Non-Banking) law, 1993, PNDC Law 328, are the legal instruments under which the Bank of Ghana regulates the banking sector. Rural and Community banks are currently regulated under Act 673, while Savings and Loan Companies are regulated under the PNDCL 328. However, regulatory framework for Credit Union is still being developed to reflect its dual nature of cooperatives and financial institutions. MFIs and ROSCA on the hand are largely unregulated. The current policy programmes that affect microfinance sub-sector includes the following on-going projects; the Financial Sector Improvement Project, Financial Sector Strategic Plan (FINSSP), the Rural Financial Services Project (RFSP), the United Nations Development Programme (UNDP) Microfinance Project, the Social Investment Fund (SIF), the Community Based Rural Development Programme (CBRDP), Rural Enterprise Project (REP), and Agricultural Services Investment Project (ASSIP) (Bank of Ghana, 2007b). Nonetheless, to promote the delivery of efficient and sustainable microfinance services, the government has formulated the microfinance policy known as the Ghana Microfinance Policy (GHAMP) in 2007.

To make the banking sector more competitive and attractive, the sector went through reforms. These reforms started in the early 1983 through the Financial Sector Adjustment Programme (FINSAP).

However, with the liberalisation of the banking sector, macroeconomic stability and improvement in macroeconomic indicators in recent years, and the introduction of the Home Ownership Plan under the Long-term Savings Act (2004) provided impetus for private sector institutions to participate in the provision of housing finance in Ghana.

3.8. Private sector institutions and housing finance in Ghana

Private sector institutions in Ghana got involved in the provision of housing finance after liberalising of the bank sector and improvement in macroeconomic indicators. They provide two main housing finance products. These are mortgage and construction finance.

3.8.1. Mortgage financing

Ghana Commercial Bank, Barclays Bank and Standard Chartered Bank have one time engaged in mortgage operations. While Ghana Commercial Bank has discontinued with their mortgage operations, Barclays and Standard Chartered Banks are beginning to revitalise their mortgage operations and to cover a wider spectrum of the consumer market. They have supported high net worth customers like senior executives of local multinationals companies with mortgage loans for housing purchase (CHF, 2004). HFC bank has really made successfully strives in mortgage financing in Ghana. Also, Ghana Home Loans Company, a private mortgage finance company has recently joined the mortgage finance market. Therefore, these institutions are solely responsible for providing mortgage finance in Ghana.

HFC Bank (Ghana) Limited

Formerly it was known as Home Finance Company Limited and was incorporated in 1990 as a limited liability company. It was conceived as a private sector initiative with Government playing the facilitating role. It started operations in 1991 with initial funding of US$ 23.6 million from the World Bank's International Development Agency (IDA) and US$7.2 million from SSNIT. It was to provide housing finance as a secondary finance institution by giving long terms funds however this turned out differently. It is now a primary institution that is active in formal housing finance market.

Its target beneficiaries include mid-high net worth customers, formally employed, employers and Ghanaian ex-pats. The main products offered are; Home Purchase Mortgage (HPM), Home Equity Mortgage (HEM), Home Improvement Mortgage (HIM) Home Completion Mortgage (HCM), Buy, Build & Own a Home (BHOME), and HFC Real Estate Investment Trust (REIT). These products have an average loan term of 15 years and payment method is mainly by payroll reductions and debit current accounts. It offers construction finance through it REIT product to real estate developers as well[3].

[3] http://www.hfcbankgh.com/newsite/mortgage-banking/index.php

Ghana Home Loans (GHL)
This is a private mortgage finance company. It was licensed in 2006 with an object of addressing the shortage of housing finance and to make people's dreams of owning a home a reality in the domestic market. To do this, it entered into commitment with the Overseas Private Investment Cooperation (OPIC) to provide US$30 million long term facility to originate residential mortgage loans in the country. It is promoted and financed by local entrepreneurs and international financial institutions, including Standard Bank of South Africa (the parent company of Stanbic Ghana), FMO (a development finance institution of the Netherlands) and GHL-USA Investment Partners LLC of the USA[4].

Its target market/group are the middle income groups. To qualify for a loan, the following criteria are use; income qualification, income security, capacity to service loan, 25% deposit, credit worthiness, secured land tenure security, life insurance and comprehensive property insurance cover. It products include; First Time Home Buyers product, Buy to Let product, Equity Release, Refinance (Switch), and Home Completion Loan.

3.8.2. Construction finance
Since the change in housing policy from direct state intervention to the state providing the enabling environment for housing provision, the government has facilitated and allowed private sector to direct housing development and finance. This led to the establishment of GREDA in 1988. This is an association of the various private estate developers in the country. GREDA have the following objectives:

- To provide a central organisation for real estate developers.
- To provide a united front in making recommendations to government on ways of promoting real estate development and in seeking solutions to the practical problems in the property market.
- To promote the development of residential estates and to increase the stock of housing units thereby ensuring adequate provision of affordable housing for all classes of the population.
- To pool resources together towards greater economies of scale in real estate development and also ensure that products of members conform to national building standards and planning laws.
- In the spirit of the search for appropriate technology, the Association shall promote the use of local inputs and finance research into suitability of local building materials in the country.
- To liaise with financial institutions in developing an effective mortgage house ownership scheme for prospective owners and also impress on the institutions the need for long-term financing in real estate development.
- To establish links with real estate institutions and allied bodies at home and abroad with the aim of promoting the development of the industry[5].

They finance residential estate through the Estate Developers' Equity capital, Down payment from home buyers deposit and loans from financial institutions like the HFC REIT. The down payment taken from customers deposits are used partly to finance the construction of the house. There are many payments methods for pre-sold housing units, but the two most commonly used one include:

[4] http://www.ghanahomeloans.com/about-us/
[5] http://www.ghana.co.uk/properties/content/buying_guide/greda.htm

1. **When buyers are paying in cash:** 40% down payments, when contract is signed, 40% when the roof is put in place, and 20% when house is complete and ready for use
2. **When buyers use a mortgage to finance the acquisition:** 20% down payments when contract is signed and 80% at key delivery (UNCHS, 2006b).

What is apparent from the above discussion is that, these institutions are only interested in providing housing finance to those who can afford it. While this is good for sustainable housing finance development in the country, the vast majority who are in the low-income groups are left out the market for housing finance. Therefore, there is a market niche for low-income housing finance in the country. Lack of appropriate housing finance mechanisms have led to households in the low income group to build their dwelling incrementally through incremental financing from their own resources. The table below shows a summary of the housing finance providers in the country.

Table 3.2: Housing finance providers

Name of Institution	Type of finance provided	Target group
HFC Bank	Mortgage & Construction	Moderate to high income & Real Estate Developers
Ghana Home Loans	Mortgage	Moderate to high income
Standard Chartered Bank	Mortgage	High income*
Barclay Bank	Mortgage	Middle to high income*
Boafo Microfinance	HMF	Low to moderate income
ProCredit	HMF	Low to moderate income

Source: Field Survey, 2008
*source UN-Habitat (UNCHS, 2006b)
In addition, there are other banks like Econbank Ghana Ltd, Fidelity Bank, The Trust Bank and Prudential Bank which have started or are intending to venture in mortgage financing (UNCHS, 2006b).

3.9. Household-led incremental Housing

State institutions which have been in the lead in housing provision like the SHC, TDC and SSNIT have since their inception concentrated in the provision housing and finance to very limited number low-income salaried workers in the formal sector. There has been limited or no attempt to provide housing and housing finance to the low-income groups employed in the informal sector. As a result, a vast majority of low-income groups operating in the informal sector and most of those even in the formal sectors have had to provide and finance the construction of their dwelling incrementally. Where state or private housing finance institutions have attempted in supporting low/moderate income groups, it has often favoured owner-occupier and new dwellings with virtually no assistance to the rental and home improvement housing development (Derban et al., 2002).

The inability of government to provide housing for the low-income and the complete absence of social housing has led to individuals to finance and construct their housing on incremental basis. Homeowners first acquire the land through their savings and then start building their housing in stages. The main reason for this is obviously lack of funds.

Clearly, the mortgage finance provided by the above institutions is way above the affordability levels of the low-income households. Most low-income groups cannot provide the asset collateral required by mortgage. Those on customary lands or communal lands cannot use their lands as collateral for loans because they do not have registered titles to those lands. Besides, the low-income groups cannot afford the debt service of mortgage finance. These private institutions simply do not offer housing finance products the low-income can afford. According to CHF (2004), to date, there is no 5-10 years loan product that satisfies the security requirements of the banking sector and as well takes into consideration customary land ownerships. There are no housing finance alternatives for this income group since all private financial institutions target the middle to high income groups.

3.10. Affordable housing finance sector in Ghana

The Government housing policy changes in the late 1990s and early 2000 has brought significant changes in housing finance in the country. The National Shelter Strategy policy document has undergone a series of amendments to reflect pro-poor housing policies. This acted as impetus for the development of affording housing finance in Ghana and has brought renewed commitment both from the government and the private finance institutions to expand and introduce non-conventional housing finance strategies that are targeted mainly to the low-income groups. In the government's National Shelter Strategy part two, government showed this commitment by stating as of one its object is *"to accelerate home improvement and the upgrading and transformation of the housing stock in order that shelter of adequate quality may be available to the population as a whole"* (Ministry of Works and Housing, 2000). The main strategies supporting this policy include:

- Developing a viable and accessible institutional system for the provision of housing finance;
- Promoting savings and investment in housing by developing suitable saving instruments and providing appropriate fiscal incentives.
- Targeting more funds to low and medium income households.
- Supporting programmes and initiatives that expand the availability of home improvement financing for target group households (Ministry of Works and Housing, 2000).

This marked an important milestone in the development of affordable housing finance in Ghana. The HFC Bank which has been in the forefront in housing finance provision introduced a product that is purposely meant for low-income groups. It thus, currently operates a low-income housing scheme where the eligibility criteria are different from its mortgage products. The maximum loan amount is US$12,000 and the recipients are under written in a different manner than its larger mortgage loans (UNCHS, 2006b).

Besides, non-conventional housing finance strategies have started evolving in the country. HMF for home improvement is among these strategies. Prominent among the private microfinance institutions set up to provide HMF is Boafo Microfinance Centre. It is therefore, the focus of this study. This institution was set up by the collaborative effort of CHF International and HFC Bank and started operation in April 2007. It currently operates in Accra, the capital city with plans to expand its operations to other part of the country. It is funded by the CHF, HFC Bank, the Global Development Alliance (GDA) of the U.S. Agency for International Development (USAID) and the United Nations Slum Upgrading Facility (SUF). It lends for the improvement or expansion of homes in informal settlements and other low-income areas, for business expansions and manages home improvement projects.

Other institutions which have started with these non-conventional housing finance strategies are ProCredit and the People's Dialogue of Ghana (PDG). ProCredit is a savings and loans company which provide HMF to low-income salaried workers only. PDG works with slum dwellers and is also in collaboration with CHF to provide improved access to credit and improve housing conditions of residents of nine targeted slums communities in Accra and Sekondi-Takoradi.

3.11. Conclusion

The housing sector in Ghana has been characterised by many problems. These ranged from political instability to macroeconomic instability. This affected the development of housing finance and contributed to the current housing deficit in the country. Though, over time governments have put in place several institutional arrangement and policy options to address these problems, not much has been achieved. It is therefore, hoped that with the involvement of the private sector and the adoption of the non-conventional housing strategies will address the housing deficit and make affording housing finance available to the vast majority of the low-income groups.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1. Introduction

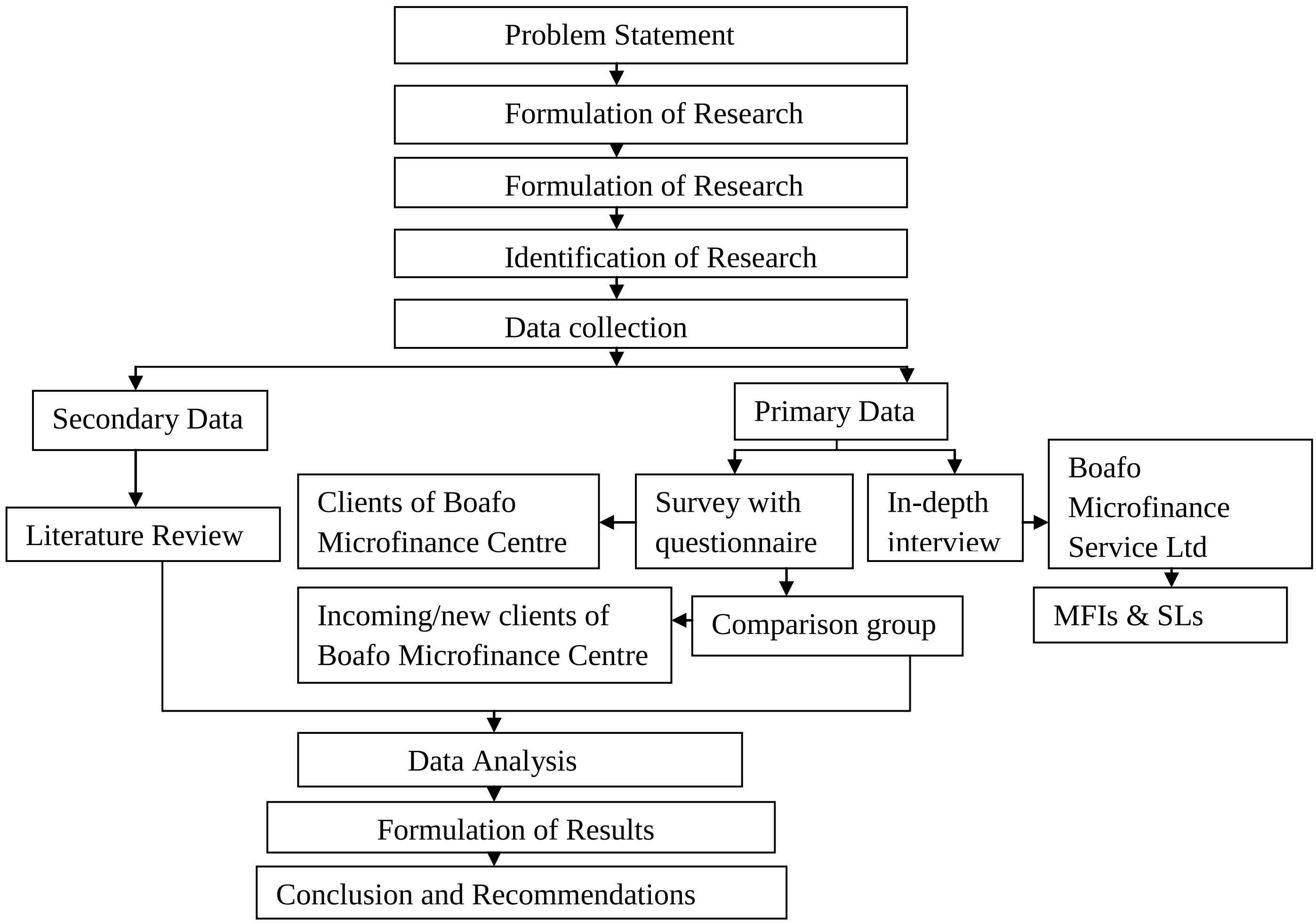
The chapter looks at the processes the researcher used in conducting the study. It include the description of the research design, the type of research, the criteria for selecting respondents and how the data collected will be analysed. In addition, operational definition of key concepts, unit of analysis and the variables to be measured will be discussed.

4.2. The Research Design

The first phase of the research focused mainly on identifying the research question. This involved reviewing extensive literature on housing microfinance so as to be able to set testable research questions which will be consistent with previous researches on the same field. Part B of the first phase involved review of literature.

The second phase involved data collection from the field. This was undertaken in the researcher's home country, Ghana specifically Accra the capital. The final phase entailed analysis and interpretation of data collected. The figure below illustrated the various stages in the design.

Figure 4.1: Research Design



4.3. Research type and strategy

The study is exploratory because it seeks to explore what is happening in field of housing microfinance in Ghana and to asked questions about the current supply and potential demand so as to see whether it is worth researching the issue further. HMF is a relatively new area in Ghana and not enough is known about the phenomenon.

The research uses three strategies to answer the research questions. These are the, survey, case study and the quasi-experimental (control group) strategies. The survey and case study strategies are used because (1) the research seek to answer the 'what' and 'how' research questions, (2) the researcher has no control over actual behavioural events, (3) it also focuses on contemporary issue of HMF which is gradually gaining a lot attention in the developing world. The use of multiple strategies is adapted because of different research questions which require different strategies and also to enable triangulation to be used.

The survey strategy which collects quantifiable data through questionnaires based on predetermined indicators is able to deal with a phenomenon and its context as well. It tries to limit the number of variables so as to keep number of questions to a manageable size for the respondents (Yin, 1991). It is used to collect data quantitative data from respondents. However, its ability to investigate the context of a programme intervention is extremely limited. This limitation made the researcher to choose a second strategy, the case study strategy so as to manage this limitation.

The case study deals with detailed studies of a specific unit, in this case, Boafo Microfinance Centre HMF programme through the use of in-depth interviews. It seeks to provide an interpretation of the process involved in a programme intervention and of its impact rather than to prove impact. Besides, it also recognises that there are different and sometimes conflicting accounts of what has happened and what has been achieved by the programme (Hulme, 2000). It has the advantage that, it is able to explain the presumed causal relationship between the HMF intervention and housing improvement. It does this by trying to explain how the HMF programme implementation will affect the outcomes of the programme which may be complex for the survey strategy. It also helps to describe the HMF programme intervention and the context in which is occurred. However, this strategy is not able to deal with the attribution of cause and effects of a programme intervention.

In order to deal with the problem of the attribution of cause and effects, the researcher chose a third strategy, the quasi-experimental (control group) approach. This approach requires a before and after comparison of a population that have benefitted from the HMF programme (treatment group) and an identical population (control group) that did benefit from the programme. However, due to the difficulties of establishing controlled conditions in real world and the complexities and subtleties in human interaction (Nelson, 2000), the researcher decided to choose within the basic framework of this approach a more practical option. This option is the cross- sectional design. This option collects information at only one point in time and considers clients and incoming/new clients of a programme intervention. The incoming clients of the programme constituted the comparison (control) group. According to Nelson (2000), the incoming/new clients represent the best comparison (control) group since they have not being in the programme long enough to exhibit impact and have similar characteristics as the clients since they chose to join the programme. This option addresses the problems of selection bias, misspecification of underlying causal relationships and respondents' motivation to answer questions often associated with control group approach.

Based on the above pros and cons of these three strategies, the researcher decided to use a combination of the three strategies since they best help to measure the research questions. The survey strategy is used to collect quantifiable data from a random sample of clients and comparison (control) group so as to measure predetermined indicators before and after the HMF programme intervention. The case study is used to find out how the programme is being implemented and the context of implementation.

4.4. Data Collection

4.4.1 Literature/desk study

Secondary data such as type of housing microfinance, methodologies and international model cases were collected through review of literature from Journals, Articles and working papers from Housing Finance International, ACCION, and CGAP. Demographic data on housing issues were also collected from the census data, government documents/reports and other secondary sources.

4.4.2. Fieldwork and selection of respondents

Primary data was collected through a fieldwork lasting for one month in the researcher's home country, Ghana. The research instruments are a combination survey with questionnaires, in-depth interviews and observations. A complete list of all clients and incoming clients who have started savings for the HMF product was obtained from the institution. In addition, four MFIs, Savings and Loans Companies that are not offering the HMF product were purposively selected to find out the perceptions on the product.

Furthermore, the research population at which the questionnaires are conducted are clients and incoming clients of Boafo Microfinance Services Ltd. In-depth interviews were used to collected data from the MFIs and the case study institution (Boafo Microfinance Centre). Observations were carried alongside with the questionnaires administration. The researcher facilitated the interview and observed any apparent contradictions of the respondent and took note of the housing conditions and nonverbal cues of clients' response.

The population which the survey questionnaires administered was the whole population. The list of clients and incoming /new clients presented to the researcher were 45 clients and 10 incoming/new clients and therefore the research sample was the entire population of clients and incoming clients. However, 42 clients out of the 45 were surveyed because the other three clients were residing outside the study area. Though originally the researcher had planned to interview a sample of 100 of which seventy (70) will be clients group, while the remaining thirty (30) are the incoming/new clients, the researcher had to use the whole population because it fell short of the number anticipated.

The administration of questionnaire was done through field visits to clients' homes/work places and visiting the offices of the respective MFIs with the help of a research assistant. The list of respondents is presented in the table below.

Considering that time and finance are the main limitations of the research, impact data was used to analyse the market for housing microfinance. This included use impact data to identify the type of clients, their characteristics and needs, and how the clients use the HMF products.

Table 4.1: List of respondents

No.	Respondents
1	Clients and in-coming clients of Boafo Microfinance Centre
2	Boafo Microfinance Services Ltd
3	Opportunity International Savings and Loans Ltd
4	Sinapi Aba Trust (FNGO)
5	People's Dialogue, Ghana
6	La Community Bank (Microfinance section)

4.5. Data Analysis

Quantitative data obtained by the survey questionnaires for clients and incoming/new clients are analysed by the use of frequency tables and performing statistical tests. Frequency tables are use to find out how many homes have been improved by the clients group and type of improvements. Bar and pie charts are used to analyse the various types of home improvements. T-test are performed to find out whether apparent difference between clients and incoming/new clients are statistically significant - whether the differences observed in the sample population will likely hold true for the entire population.

Qualitative data collected through the in-depth interviews with Boafo Microfinance Services Ltd and the other MFIs are analysed using theoretical or descriptive framework so as to compare their loan administration procedures, risk management strategies with relevant theoretical framework. This is used to examine the HMF programme delivery with the data gathered using questionnaires. Comparative analysis of international experiences and best practices in HMF programmes are used to examine the implementation of HMF by Boafo Microfinance Services Ltd.

4.6 Operational definitions

Housing microfinance is defined as the provision of loan products to finance shelter that are not backed by mortgages

Housing improvement refers to the extension of a room in an existing building, completion of an existing structure, addition of toilet or bath to an existing building and building a housing progressively (incremental building)

Impact refers to coverage of the target population, access by the target population, outreach in terms of numbers, and physical improvement made to homes or number of plots of land that the target population have been able to purchase as a result of the intervention.

Low income households: There are virtually no standardised national definitions or limits set for the various income categories. However, the baseline on which income levels are referenced to in Ghana is the poverty lines (based on nutrition level) set by GSS. According to the GSS (2007), the lower poverty line is GH¢288.47 per adult per year and upper poverty is GH¢370.89 per adult per year. GSS indicates that individuals consuming levels above the upper poverty line are classified as non-poor. Therefore by implication, the definition of low income households in this report refers households who earn above the upper poverty line up to the income category which the mortgage institutions finance

According to the GSS (2007), these poverty lines are equivalent of the GH¢70 and GH¢90 used in GLSS 4, 2000 before being inflated with the 1999 to 2006 Consumer Price Index (GSS, 2007).

4.7. Reliability and Validity

The Validity of the research is enhanced by using different measuring instruments (questionnaires, personal interviews and observation). The measurements are based on the operational definitions provided and pilot testing of the measurement instruments on the first day on the field. To ensure reliability, adequate questions are asked on each indicator and operational definition.

4.8. Variables and indicators

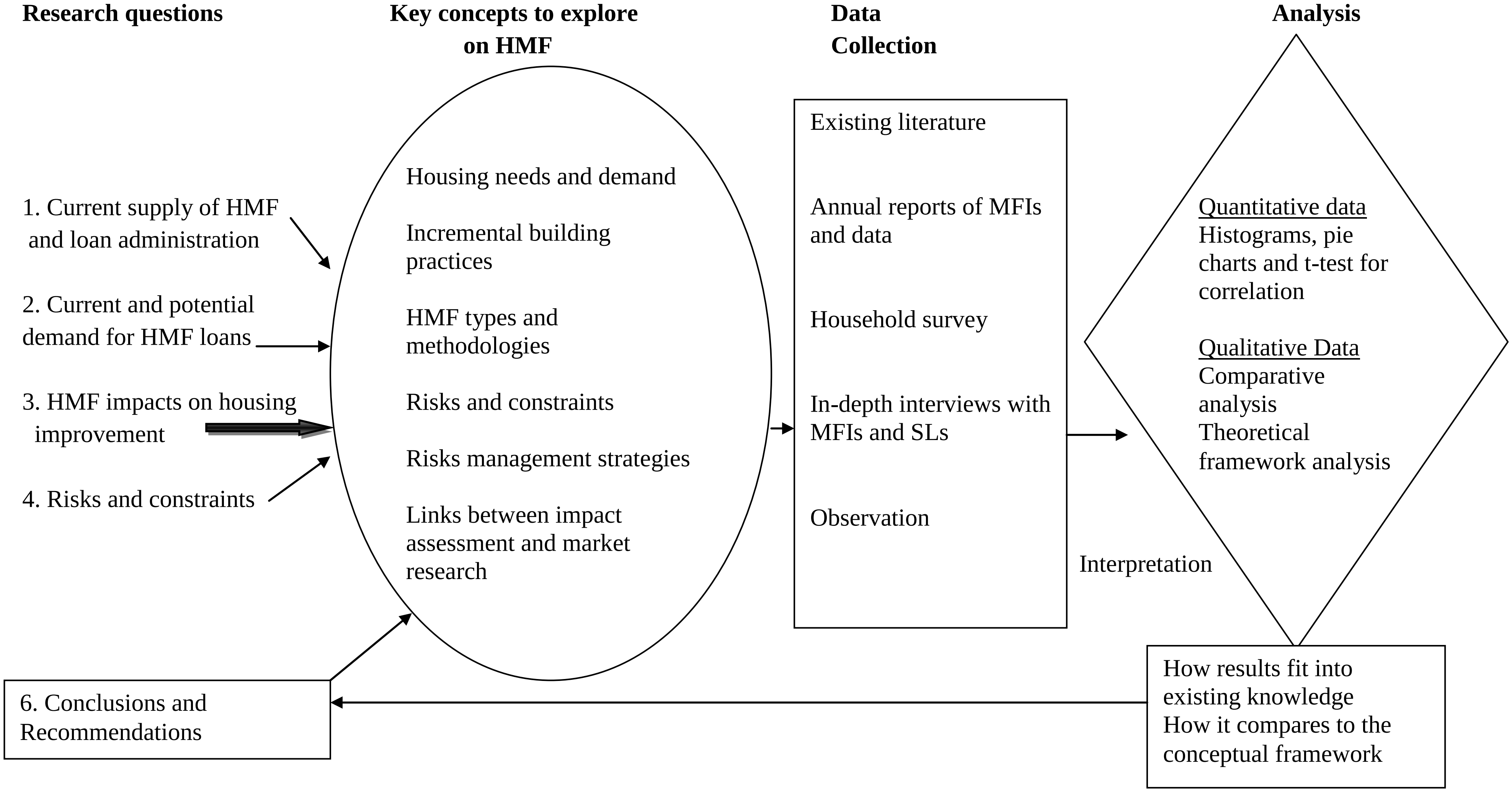
The table below shows the definition of variables and indicators of the research.

Table 4.2: Definition of Variables and Indicators

Research question	Unit of Analysis	Variables	Indicators	Source of data
A. What is the current supply and how are HMF loans administered?	• MFIs	• Number of MFIs providing HMF product • Types of HMF products supplied • Access strategy • Pricing of HMF product		Boafo Microfinance Centre, clients and incoming clients Literature review
B. What is current and potential demand for HMF	• Clients • Incoming/new clients • Literature	• Target group • Distribution of economically active population	• Number people in target group • Number of people who have benefitted • Employment levels	• Clients and income/new clients • Census data • Literature review
C. What is impact of the HMF programme on housing improvement?	• Boafo Microfinance HMF programme • Clients • Incoming/new clients	• Coverage rate • Quality of low-income houses • Quantity of low-income houses	• Outreach in number of clients • Building materials used • Number of bedrooms, toilets & kitchens added	• Boafo Microfinance Centre • Clients • Incoming/new clients
D. What are the risks and constraints of housing micro-loans?	Boafo Microfinance HMF programme	• Risks • Constraints	• Collateral • Security of tenure • Delinquency rates • Use of loan funds	• Boafo microfinance Centre • Clients

4.9. Analytical framework

Figure 4.2: Analytical framework



4.10. Limitations of the Study

Lack of time and resources are inevitable constraints to this research. The four weeks allocated to fieldwork is not enough so as to be able to conduct survey with a representative sample.

Some institutions were not willing to give out information. Management of ProCredit one of the suppliers of the HMF was not prepared to talk to the researcher despite previous contacts and after submitting a letter of introduction to them. This made the researcher to rely on secondary information gleaned from their flyers and website.

Besides, the case study institution started implementing the HMF product in April 2007. It is barely over a year old. Therefore, conducting an impact studies over such a short time period might not give accurate results.

CHAPTER FIVE: HOUSING MICROFINANCE IN GHANA

5.1. Introduction

This chapter discusses the results obtained from the fieldwork and addresses four main research questions. The first part of this analysis will focus on the current supply situation of HMF in Ghana and current and potential demand of the product. The second part will discuss the impact of HMF on home improvement or construction and the context in which the HMF programme is being implemented. The third section will look at the risks and constraints associated with the implementation of HMF, risks management strategies and the perceived risks and constraints of HMF by other institutions which have the capacity to introduce this in their institutions.

5.2. Current supply

5.2.1. Institutions providing HMF

Boafo Microfinance Services Ltd and ProCredit

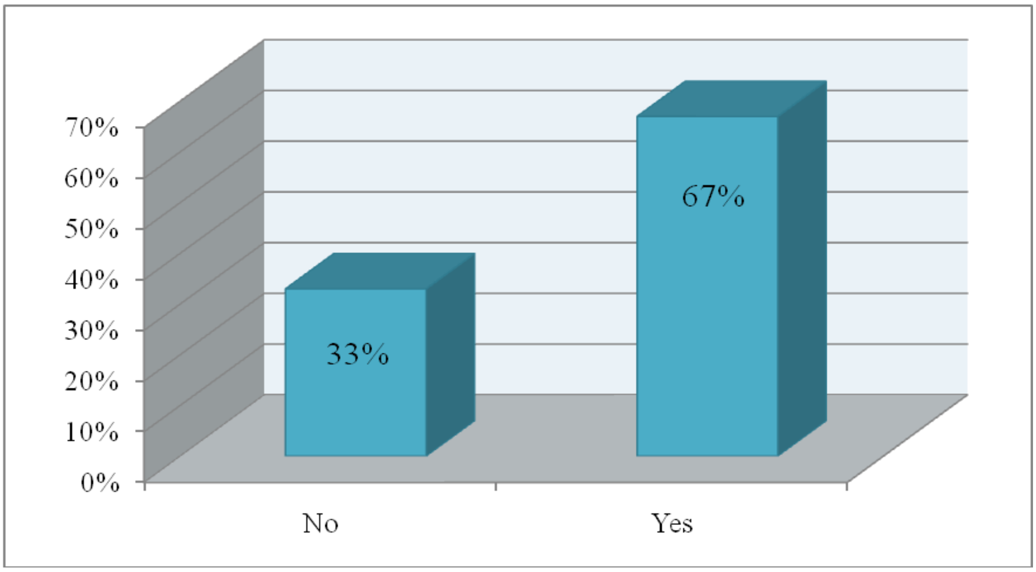
There are currently two institutions that have institutionalised HMF and recognised it as main product of their lending operations. In other words, these two institutions are officially implementing HMF as a main product. They started implementing HMF in 2007 though ProCredit had started earlier but had to redesign and launched it as a main product in 2007. These two institutions are considered as pioneers in HMF business as there has not been any financial institution that have ventured into this area before. Credit Unions have one time or the other assisted their members with loans for home improvements as indicated it Table 5.2 but this has not been on a continuous basis and has not be officially recognised as major area of concern to the union leaders.

The concept of HMF is relatively new in Ghana and very little is known about it. Interviews with operations managers of MFIs, S&Ls and some banks revealed that many of them have heard about HMF but simply did not know how it works and often misconstrued it to be another form of mortgage downscaling. Also when respondents of Boafo Microfinance Services Ltd were asked whether they had knowledge of HMF and whether they know of others institutions providing the product, 67% of respondents indicated that they heard of other institutions providing the home improvement/construction loans while 33% did not know of other institutions providing such products. Figure 5:1 shows the response on the knowledge of other MFIs, S&Ls and banks which respondents have heard provide HMF.

Furthermore, on the knowledge of other institutions providing these kind of loans respondents listed the following institutions in figure 5:2 (see annex). Out of the 67% who said they have heard of other institutions providing this product, 60% said they have heard that ProCredit provides home improvement/construction loans while 40% said they did not know that ProCredit offer such loans. 37% said they have heard of Barclays Bank while 63% did not know that Barclays provide such loans. 20% said they have heard of Cal Bank and 80% did not know this bank provide such loans and 11% said they have heard of Unique Trust Financial Services provide home improvement/construction loans while 89% said they did not know of Unique Trust providing such loans.

However, cross checks with operations managers and loan managers of the banks indicated that, only ProCredit offer home improvement/construction loans. Barclays Bank, Cal Bank and Unique Trust indicated that, they provide personal and business loans and as to what the customers use the loan for was entirely their decision.

Figure 5:1. Knowledge of other institutions providing HMF



Apparently some of these respondents have one time or the other taken personal loans from banks and used it for home improvement and construction. This clearly shows that peoples' knowledge about the operations of HMF in Ghana is limited and the introduction of the product in the country is still at its rudimentary stage.

5.2.2. Other institutions with intentions of introducing HMF

Data collected from other MFIs, S &Ls indicates that, Opportunity International Savings and Loans Limited, one of the savings and loans companies have plans of introducing HMF in their institution by the end of this year. Their target groups according to the Corporate Planning Manager are the low – income groups who have benefited from the organisation microfinance products and have the desires for improving their homes. In other words, they are intending to introduce a linked HMF purposely targeted at existing clients. The People's Dialogue, an NGO, and UN-Habitat SUF are also piloting HMF in a programme dabbed "Community Based Savings and Loans Plus – A tool for affordable housing finance for low income groups". This programme is mainly targeted at low-income groups in slums and informal settlements. It is in its pilot phase in a programme called the "AMUI DJOR ADP project in Ashaiman, one of the informal settlement communities in Accra. There is therefore, an increasing awareness of the potentials of HMF in Ghana and its ability to the low-income groups to improvement their dwellings in stages over a period of time.

An interview with the officer in charge of the Home Loans Centre of HFC Bank, a premier mortgage finance bank in Ghana also indicates that the Government has recognised the desire for home ownership by public sectors workers. It has in collaboration with the bank introduced a Home Ownership Scheme. In this scheme, two products are offered – the HFC Home Purchase Mortgage (HPM) and the Buy, Build & Own a Home Mortgage (BHOME). The target beneficiaries include public sector workers who earn at least GH¢280 a month. The BHOME product follows the incremental building practice where low income groups can only acquire homes by buying land now and developing it overtime. This implies that, low income salaried workers have a high desire for home ownership but have been left out of the formal housing finance system over years. Though this is a mortgage facility but it explains why the MFIs and S&Ls target more of the salaried workers than other low income groups. Again, salaried workers have been targeted by institutions providing HMF because, the risks associated with providing loans to them is minimal as compared to the self-employed.

5.3. HMF products supplied

The delivery approaches adopted by these two HMF providers are liberal and does not require customers formal membership with their traditional microfinance products before they can benefit from the home improvement loans. In other words, there are no prior linkages between the providers and beneficiaries as a proxy for capacity to pay. They have adopted the Stand-Alone HMF approach of delivering their home improvement loans. The explanations are that, the providers want to qualify as many potential borrowers as possible on the merits of their current financial profile and housing needs. Besides, this helps the providers to diversify their client based beyond the regular microenterprise owners and as well diversify the default risks. Also, it is another way of responding to the perceived demand for home improvement loans that is independent of the other services they provide. This affirms the argument of CHF (2004) and Daphnis and Ferguson (2004).

The HMF products supplied by these two institutions are "one-in-all" products in the sense that, they are home improvement loans which can be used for various kinds of home improvement ranging from land purchases to connection of utilities. For instance, the operations manager of Boafo Microfinance Services indicated that the institution offers the HI-5 Loan (Home Improvement/Construction Loan). This embodies five ways the loan can be used for. It includes loans to:

- Buy a plot of land,
- Build a structure,
- Buy Fittings & Fixtures,
- Make Finishing Touches and
- Connect Utilities.

According to the operations manager "this product is for home completion or construction in stages. We believe in the old saying that *"Rome was not built in a day" and whether you are a worker, artisan or petty trader you can own a home or improve your existing house in any of the above ways"*. ProCredit on the other hand, have Home Improvement Loan which could be used for any of the following purposes:

- Payment of rent advance
- Completion of a private building project
- Renovation works on a private building
- Purchase of mortgage or land

The products offered by these two institutions support the concept of incremental building practices that is carried out by vast majority of low/moderate income Ghanaians and that the income groups these institutions target, actually engage in building their homes in stages according to their income levels. Therefore, these products are tailor-made to satisfy the demands of this income groups and to fill the market niche created by the formal mortgage finance in Ghana.

5.4. Pricing of HMF product

Interest rate for home improvement loans in the case of Boafo Microfinance is lower than the business loans. Operations manager of Boafo Microfinance indicated that, they charge 2.75% per month for home improvement loans of which 0.075% constitute the insurance component. This is lower than the 3.15% charged on their business loans per month. ProCredit on the other hand charge 2.90% - 6.0% per month on all their loan products including the home improvement loans however, the rate varies depending on loan size and maturity. In addition, administrative charges at disbursement range 1.5% - 2.5% depending on the loan amount. They have a special offer for good repeat clients. This goes to support the theory that interest rates for home improvement loans should be set high enough to reflect the risks and administrative cost associated with making such loans and as such should not differ from the other microfinance products. The low interest rate charged by Boafo is meant to encourage customers to borrow for home improvement and construction and therefore a form of incentive to boost effective demand for home improvement and construction,

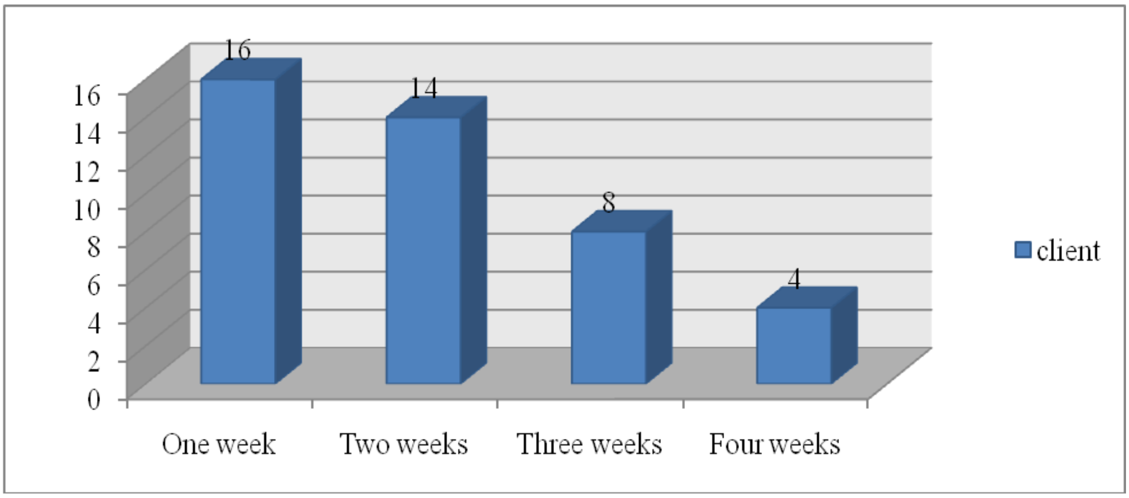
5.5. Loan administration procedures

The organisational arrangement under which home improvement loans are processed and disbursed was found to be simple and efficient. Loan processing and disbursement is handled by the operations department with the credit officers acting as front liners. They select clients based on the eligibility criteria outlined in figure 5.6.2 below. If a client is qualified, he is advised to open a savings account with HFC Bank and start operating the account for at least 6 weeks. When the client fulfils all the eligibility criteria, he/she then fills an application form where he/she attaches documents to the land or house he intends to improve. Completed loan applications forms are then submitted to a Loan Committee which reviews the application based on the amount requested vis-a-vis repayment capacity of the client. This is done by software, where the net monthly income of the applicant is inputted in the software and the monthly repayment is automatically generated. In instances where the client’s monthly income cannot support his/her monthly repayment, the loan amount is reduced to an affordable amount. The monthly repayment must not be more than 40% of the net income of the clients.

The Loans Committee meets three times a week to review and approve loans. When approval has been made, the amount is lounged in the applicant account and he/her is accordingly informed. If all the documentations are submitted by the applicant, Boafo’s standard time for disbursing a loan is three days. Figure 5.2 shows the average time taken by clients to access their loans from the institution.

When respondents were asked how long it took them to get the home improvement loan from Boafo, 16 said it took them one week from the time of filling the application form to the time the money was put in their accounts. 14 of the respondents said it took them an average of two weeks to access the loan. The main reason that can be deduced as to why it took some respondents’ relatively longer time to access the loans is that, your ability to produce the documentations required in the application stage on time determines how quickly one can access the loan. For example, letter of undertaking from an employer in the case of salaried workers, site plans of land or lease and building plans. Those respondents who were able to produce this on time had their loans within one week after application.

Figure 5.2: Average time taken for a client to access a loan



Source: Field Survey, 2008

Therefore, in terms of how fast one will be to access the home improvement loans very much depends on how he/she is able to produce the required documentations.

5.5.1. Repayment scheduling

Interview with the operation manager revealed that the institution has a flexible repayment scheduling for their clients. There are three repayment options open to clients – daily, weekly and monthly repayment. In each option, the number of months and the repayment amounts which includes principal and interest components are clearly stated. The choice as to the option to take and the number of months to use to repay the loan is entirely the decision of the clients. However, for salaried workers, repayments are scheduled in a way that conforms to the time of payment of workers' salaries.

The explanations for the timely delivery of home improvement loans and repayment flexibility are twofold. The first reason is attributed to the unstable macroeconomic environment pertaining in Ghana where inflation has been rising from 12.81% in January to 18.41% in June 2008 (Bank of Ghana, 2008) and the prices of building materials changes accordingly. It stands to reason therefore that any delays in processing home improvement loans will lead to the clients incurring more cost in acquiring building materials which could intend affect his/her ability to carry out improvements or additions he/she intended to use the loan for. This of course could have an overall effect on the impact the home improvement loan on housing improvement. Secondly, the repayment flexibility is intended to make the loans affordable to the clients and help relief them of having to pay relatively large sums of money at specified time.

5.5.2. Incentives system for credit officers

There is an incentive package for credit officers for every home improvement loan made. This is a fixed rate and it is meant to encourage officers to market the product and expand outreach.

5.6. Current practice of HMF in Ghana

Data collected from the providers of HMF products indicate that the fundamental principle which serves as the basis for the implementation of the home improvement loans is the incremental building practices carries out by most low-income groups in Ghana. Therefore, their products target those people who acquire lands and develop it in stages as well of those who already have existing houses but would want to add additional rooms, connect to basic utilities or buy fittings and fixtures. Indirectly they are promoting the incremental building practices by giving loans to customers who want to acquire lands and start building in stages. One interesting revelation that came up was that ProCredit actually provide loans for renting purposes to those customers who probably cannot afford to put up their own homes by this process or are in dying need of accommodation. Besides, surveys carried on Boafo customers also indicate that some of the customers actually used the money for renting accommodation from private landlords. This is perhaps another market niche the HMF providers seek to fill because many of their customers might not be eligible for the home improvements loans but will need to rent to be able to save towards acquiring their own homes.

5.6.1. Lending methodologies

The delivery methodologies adopted by the providers is the individual lending methodology where loans are extended to individuals rather than a group. According to the manager of Boafo, the home improvement loans are extended to customers who are eligible to individual traditional microenterprise loans. The reason is that, if a customer is eligible for an individual microenterprise loans and has the capacity to repay then it stand to reason that the same customer will be able to pay for the home improvement loans. These providers operate within the urban environment with a mixture of different socio-cultural and economic conditions and as such it is difficult to get people together to form groups. Besides HMF loans are bigger in sizes compared to the microenterprise loans and have longer repayment periods. Therefore to use group lending methodology will mean using peer pressure and group guarantee systems which also implies holding the group collectively liable for such large sums of members repayment over a long time. This in financial terms creates higher risks of default as repayment fatigue will set in with time. Furthermore, the beneficiaries of the home improvement loans are not located within the same communities but are scattered all over the city and it is much difficult to organise them into groups.

There is a correlation between the type of HMF offered and the lending methodology adopted. The Stand-Alone HMF works well with the individual lending methodology because it is flexible for both eligible clients including first time clients who might not reside in the same location and yet have varying housing needs and demand. It is also good practice to use individual lending methodology for HMF than the group lending because of the risks associated with the group guarantee system especially as loan sizes become bigger (Klinkhamer, 2000).

5.6.2. Eligibility criteria for HMF loans

Eligibility criteria for both HMF providers are similar. The following criteria have been used by both institutions to select their clients:

- A target beneficiaries must have a minimum net pay or income of GH¢100
- Workers must have continuous and permanent employment of not less than 12 months
- Produce a letter of undertaking from employer
- Must not be above 60 years by the end of the loan period

- Self-employed beneficiaries must have been in active business for at least 6 months
- Have adequate repayment capacity
- Operate and maintain a savings account for at least six to eight weeks
- In the case of land purchase, produce a written agreement between the clients and the land owner stating the price of the land
- In the case of rent advance, produce tenancy agreement between the clients and the landlord clearly stating the amount to be paid
- To start a building project or continue to another stage in the building process, the clients should submit site/building plans of the project.
- Produce construction cost estimates from a qualified quantity surveyor/contractor
- Land title/lease/site plans or demonstrate proof of any form of ownership of the land

This list of eligibility criteria, according to the managers depend on the customer's current financial profile and therefore are not rigid. They are meant to ensure that customers will have reasonable chance of meeting the periodic loan repayment. Another reason is that, it helps the providers to be able to minimise the risk of default by paying due diligence to these selection criteria.

5.6.3. Loan term and sizes

In general the loan terms for the two providers are similar. It range between four (4) months to thirty-six months (36) months for Boafo Microfinance compared to their microenterprise loans which is between 4 to 12 months. ProCredit has a loan term of between 3 to 24 months for their home improvement loans as compared to 3 to 12 months given to their microenterprise loans. The minimum loan size for home improvement/construction for Boafo Microfinance is GH¢500 and the maximum loan amount is GH¢20,000. ProCredit on the other hand, has a minimum loan size of GH¢100 and a maximum amount of GH¢50,000 for its home improvement loans. However, the data collected indicate that, the repayment terms can vary according to what the clients want but might not exceed the maximum duration. Clients can opt for any type repayment. For the case of Boafo, three types of repayment are available - daily, weekly and monthly repayments. Table 5.1 shows a summary of the current practice of HMF in Ghana.

5.6.4. Loan Security/underwriting

The strategies used to secure loans for home improvement/construction by these institutions are basically two – savings and co-signers. The two institutions provide home improvement/construction loans to two categories of clients. The self-employed and salaried workers who may either work in the public or private sector. The guarantee required for self-employed clients are their savings. As part of the eligibility criteria, savings is mandatory for this category of clients and as such a pre-condition for the disbursement of the loan. Potential clients must save at least 25% of the loan amount they intend to take and have to continue saving even when they have taken the loan. This serves two purposes. (1) as a guarantee against default and (2) for monthly repayment in periods where the client is having financial difficulty and cannot afford the monthly repayment for that particular month. On the other hand, the monthly repayment for the salaried worker should not exceed 35% of his net monthly income. They are required to bring co-signers/personal guarantors. The loan amount determines the number of guarantors required. For instance, Boafo Microfinance requires that, the clients bring two guarantors if the loan amount is GH¢5,000 and above. Any

amounts below this require one guarantor. Again, the guarantor cannot be a relative or close family member to the client and must have the same eligibility criteria as the clients.
According to the managers, the guarantors serve two purposes. (1) to look for the client, in case he has relocated and is in arrears/default and, (2) to repay the loan he has guaranteed in case, the client has absconded.

Besides, Boafo microfinance has an insurance component in the interest charged on the loan so that if all attempts to get the guarantor to repay the loan, while they are processing the guarantor for court, they use the insurance to repay the loan.

5.6.5. Construction/Technical assistance

The providers do not offer any form of technical assistance to beneficiaries of the home improvement/construction loans. However, they advice the clients to contact qualified Quantity Surveyors and constructors on advice on construction cost estimates and the right building materials to use for their projects. In addition, they provide induction training on housing issues to every newly recruited officer so that the credit officers can advice the clients on issues relating to where to get the best price for building materials. An interview with some credit officers of Boafo Microfinance revealed that very few (2 out of 20 officers) representing 10% of them have some background on building issues. Observations from the field indicate that, many of the beneficiaries have relied on the advices and services of masons and other constructions technicians to get their work done. As will be discussed in the ensuing sections, the absence of technical assistance has led to the diversification of loan funds to other microenterprise activities rather that home improvement as was intended.

Table 5.1: Summary of current practice of HMF in Ghana

Name of institution	Type of institution	Product type	Target group	Lending methodology	Loan amount	Repayment periods	Interest rate per month	HMF products	Collateral	TA to clients
Boafo Microfinance Services Ltd	MFI	Stand-Alone	Self-employed & salaried workers with minimum income of GH¢100	Individual	GH¢500 to GH¢20,000	4 to 36 months	2.75% including 0.075% insurance	HI-5 loan (Home improvement / Construction)	Savings + co-signers	No technical assistance offered
ProCredit	S & L	Stand-Alone	Self-employed & salaried workers with minimum income of GH¢100	Individual	GH¢100 to GH¢50,000	3 to 24 months	2.90% to 6.0% depending on loan size and maturity	Home improvement loan	Savings + co-signers	No technical assistance offered

Source: author based on field survey

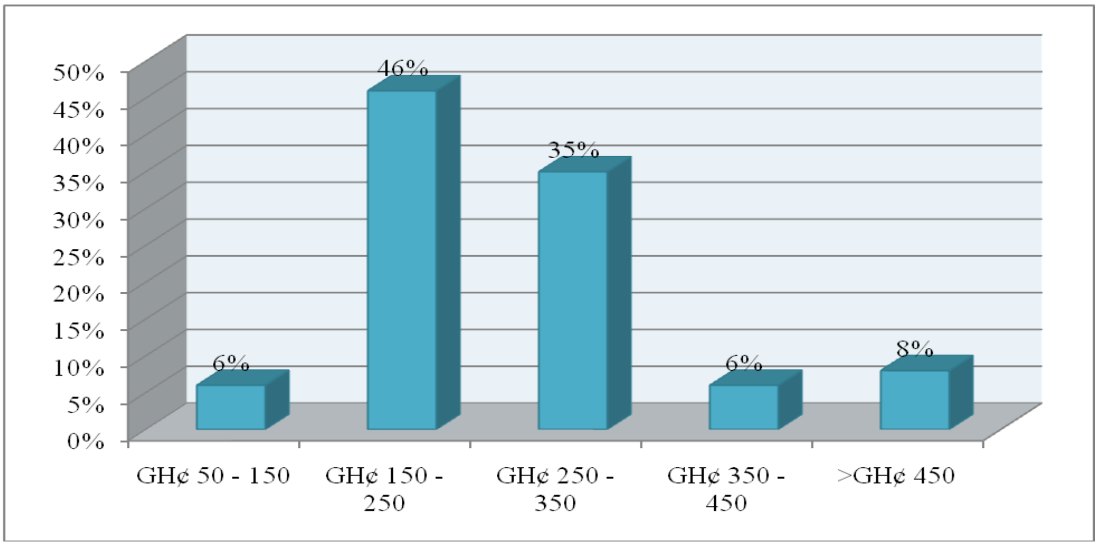
5.7. Current demand

5.7.1. Target beneficiaries

Data collected from the providers of HMF indicates that their target group are the urban poor. This target group is estimated to be more than 1.9 million people[6] of which majority work in the private informal sector. Low income public and private sector salaried workers also form part of this target group. At the time of this research, about 200 people were served by the two providers which represent 0.01% of the target market. These beneficiaries composed of 75% of males and 15% female.

This target beneficiaries are salary workers and business owners who earn a minimum GH¢100 per month or GH¢1,200 per annum. A survey on customers of Boafo Microfinance Services revealed that majority of the beneficiaries (46%) fall within an income category of GH¢150 – 250 per month. 35% of beneficiaries had incomes between GH¢250 – 350 which is the next highest income group to have benefitted from the home improvement/construction loan. 8% of the beneficiaries had incomes greater than GH¢450 while 6% earned between GH¢50 – 150 and GH¢350 – 450 respectively. Figure 5:3 shows the income categories of target beneficiaries.

Figure 5:3. Income categories of beneficiaries



This implies that the beneficiaries are people who earn between GH¢200 and GH¢300 per month on the average which translate to GH¢2,400 and GH¢3,600 per annum when the two peak in the above are considered. When this is compared with the GSS and the lower income groups which the mortgage institutions finance, this income category falls in the low/moderate group.

According to the Chief Executive Officer of Ghana Home Loans and the officials of the mortgage department of HFC Bank their low income category is pegged at an average of US$300 per month which translates to US$3,600 p.a. By implication therefore, the target group for the HMF are the low/moderate income who cannot afford the mortgage finance

[6] http://www.chfinternational.org/files/6020_file_Ghana_DEC_07.pdf

offered by mortgage institutions. Hence the target market for HMF according to income levels is people who earn between GH¢1,200 to GH¢3,600 per annum is indicated in the figure below.

Figure 5.4: Target market for HMF in Ghana

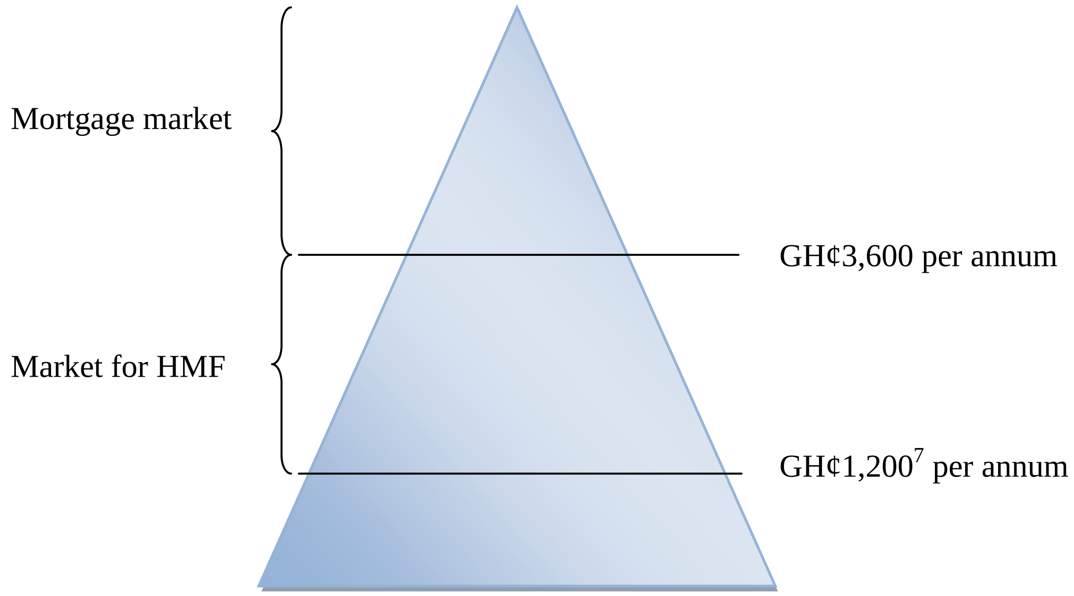
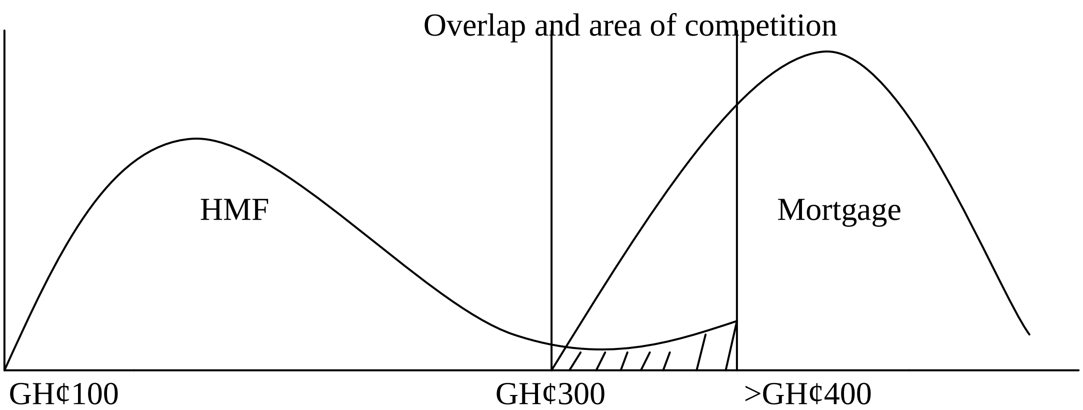


Figure 5.5: Overlap and competition between HMF and mortgage finance



What this means is that households earning below GH¢1,200 p.a. cannot afford housing micro-credit. This is the income group that falls within the estimated 35% of Ghanaian who are not capable of owning their own homes. Within the income range where HMF is currently operating, are series of overlaps housing needs so that while some people might be able to afford to own their own homes by building in stages, other might only need to improve their existing dwellings. This is the market niche that the MFIs and S&Ls are seeking to fill. There are also overlaps between the upper income limit for HMF and the lower income limit for mortgage finance. As indicated in figure 5.3, 14% of respondents earns above GH¢3,600 p.a.

[7] Exchange rate: US$1.00=GH¢1.00

and yet opted for housing micro-credit. The flexibility of and less collateral requirements for HMF loans are compelling reasons for these clients to opt for housing micro-credit loans.

5.8. Potential demand for HMF

It is estimated that more than 1.9 million urban poor people in Ghana face limited access to credit to improve or build their own homes. The suppliers of HMF are currently serving about 0.01% of this target group. This implies that about 99.99% of the target market is still untapped and these people continue to face limited access to appropriate housing finance mechanism to be able to improve or build their homes.

Besides, the mortgage market only caters for about 3% of the housing market in Ghana and the remaining 97% cannot afford any mortgage facility according to the current prices of houses produced by real estate developers (Karley, 2008). Karley indicates that these figures are based on the comparison made between estimates of average income according to the expected tax return for 2007 and the average housing prices produced by real estate developers. This implies that only 3% of employees who are on the tax roll of the Internal Revenue Service qualify for mortgage finance. The remaining 97% will need other housing finance mechanism to be able to afford housing. This is an indication of huge potential demand for HMF.

The potential demand is also reflected in the statement made by BoG that *"....housing supply in recent times is being driven largely by households rather than real estate developers or government. This has implications for appropriate finance and technical assistance which leads to delays in construction. In the process, capital which could have been channelled to other productive use is locked up in uncompleted houses"(Bank of Ghana, 2007a).* The bank estimates the yearly requirements for housing in table 5.2.

From the table below, the Bank estimates that an additional 665,920 housing units will be required to meet the population demand for housing by 2010 assuming there is a constant household ratio of 1:7. But it further states that the Ghana Real Estate Developers Association have been able to supply 10,954 houses since it was formed in 1988 and that most of the housing stock have been produced by individuals. What this tells us is that, about 98% of these estimated houses will be produced by individuals. These individuals do not have the resources to produce completed housing units and this is what leads to uncompleted housing structures.

What can be deduced from these phenomena is that, there is a huge potential demand for appropriate housing finance (HMF).This potential demand arises from the fact that people who have already started constructing their structures will need affordable finance to be able to complete those houses. More specifically, the demand for the product is likely to arise from people, who have already started with the foundation of their structures, or are at the lintel, roofing, plastering stages but are unable to access mortgage facility because of their incomes levels. Therefore, one major market segment of this potential demand include owners of existing structures which consists of new homes and people who already have completed and occupied houses but needs extensions as the family size increases. As has discussed below, about 90% of the beneficiary respondents use the home improvement loans to further the construction process of their existing structures.

Table 5.2: Estimated housing stock and deficit

	Population	Households	Estimated Housing requirements	Yearly requirement
2001	19,42,705	3,808,374	2,240,220	58,896
2002	19,947,118	3,91,200	2,300,706	60,486
2003	20,485,690	4,016,802	2,362,825	62,119
2004	21,038,804	4,125,256	2,426,621	63,796
2005	21,606,852	4,236,638	2,492,140	65,519
2006	22,190,237	4,351,027	2,559,428	67,28
2007	22,789,373	4,468,505	2,628,532	69,105
2008	23,404,686	4,589,154	2,69,502	70,970
2009	24,036,613	4,713,061	2,772,389	72,887
2010	24,685,601	4,840,314	2,847,24	74,85

Source: Bank of Ghana, 2007a

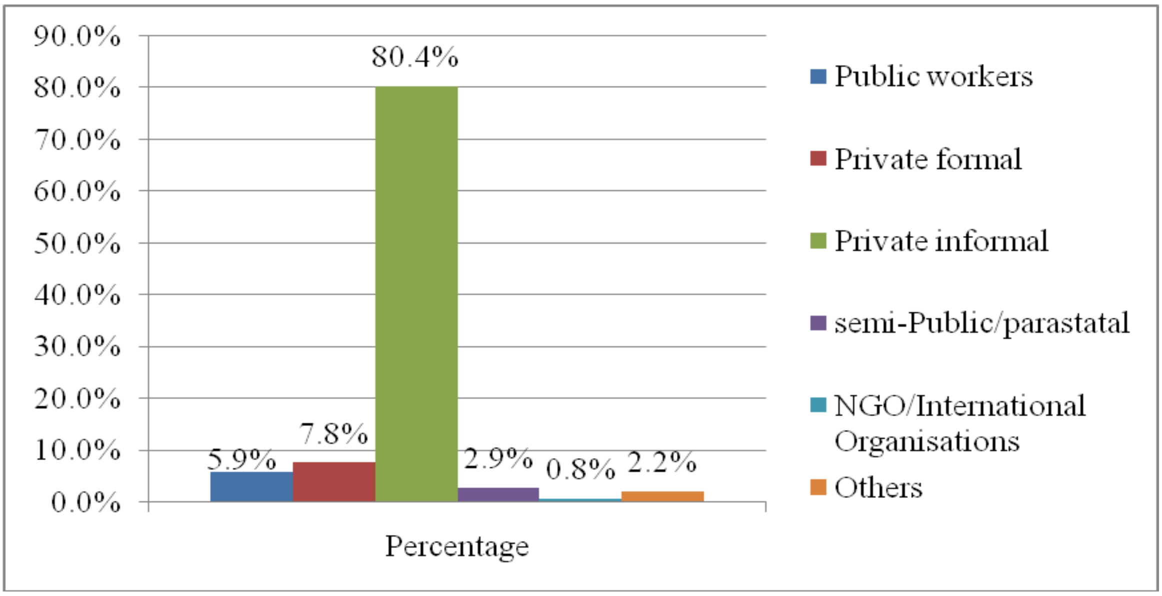
5.8.1. Nature of employment by the economically active population

According to the GSS (2002) and as indicated in figure 5.5, 80.4% of Ghanaian are employed in the private informal sector while 7.8% are in the private formal sector. 5.9% are public sector workers while 2.9% are employed in semi-public/parastatal institutions. The remaining 2.2% and 0.8% are employed in NGO/International organisations and others respectively. Assuming the mortgage institutions will provide mortgage finance to all people employed in semi-public/parastatal, NGOs and others who are deemed to fall in the middle to high income bracket, there is still a big percentage (92%) of the employees of private formal/informal and public sectors workers who will be left with no form of financial assistance for housing. This 92% constitute a potential demand for HMF in Ghana.

The employment characteristics of the target beneficiaries as shown in figure 5:6 indicates that 65% are salaried workers while 35% are the self-employed. Again, the researcher observed that business owners who benefitted from these loans were people who had well established business and had remarkable daily cash flows but are not registered businesses. These people also fall within the low/moderate income group. This also meant that by the eligibility criteria for mortgage finance, these groups do not quality for any mortgage facility and hence will opt for home improvement/construction loans.

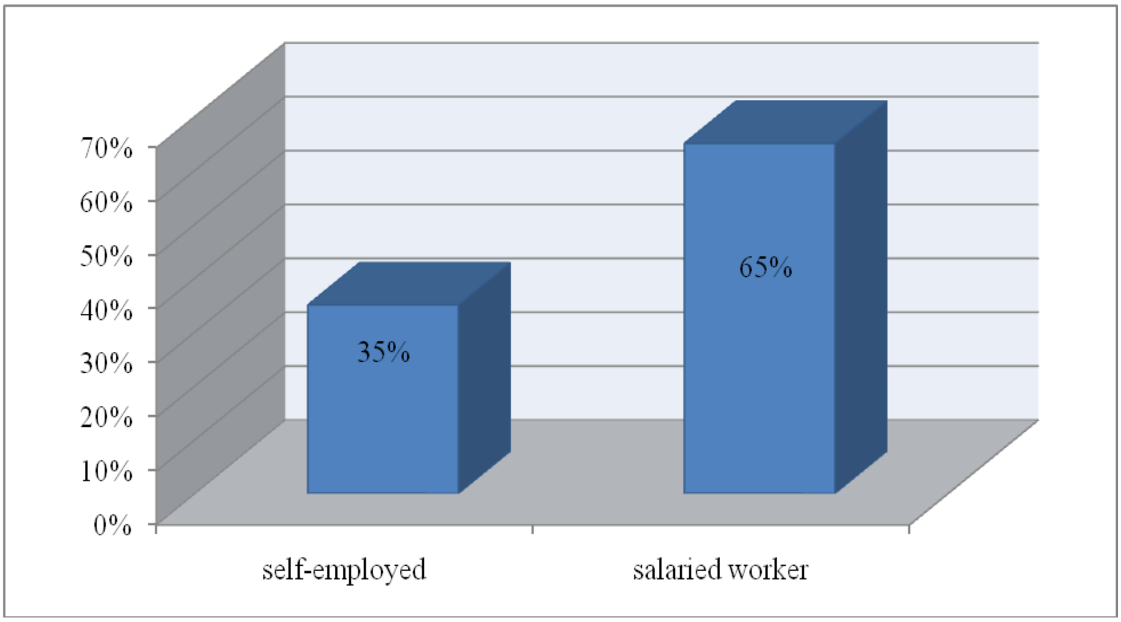
The figures above demonstrate that there is huge potential demand for HMF in Ghana and that about 99% of the potential market for HMF is still untapped. The argument that can be put forward on why the suppliers of this product are not taking advantage of this huge potential demand to expand their operations is that, it is a new, emerging market with high risks factors as will be discussed below. The providers of the product are risk averse and are not willing to take high risks to ensure that large segment of the target market is served.

Figure 5.6: Distribution of economically active population by sector of employment (%)



(Ghana Statistical Service, 2002)

Figure 5:7: Nature of employment of beneficiaries



5.8.2. Home ownership

Census data collected by the GSS in 2000 indicated that 57.4% Ghanaians claimed ownership of the dwellings national wide. In Greater Accra, 40.4% claimed that they owned their dwellings. 2% of households lived in public property while 4.5% lived in houses provided by private employers. 22% of households indicated that they lived in rented apartments out of which 37.5% are in Accra. Another 19.5% indicated that they lived in rent-free apartments, that is, accommodation provided by relatives and friends and of this number, 20.5% were in Accra (GSS, 2002). This implies that, 58% of people living in Accra do not have their own dwellings, that is, more than half of the total population living in the capital city do not own homes. This home ownership pattern in Accra can be partly attributed to migration trends in Ghana. Accra is witnessing both rural-urban and urban-urban migration at unprecedented levels and that if one moved to Accra, there was a 24% chance he migrated from a rural area but a 73% chance that he migrated to Accra from other urban areas. Two reasons have often been cited for migration, that is, employment and family reasons (Ghana Statistical Service, 2000). For instance, the GLSS 4 indicated that about 38% of migrants in Accra stated they migrated to the city for employment reasons while 43% migrated because family reasons.

This trend has two major implications on home ownership and potential demand for HMF services. Firstly, those moving to the city because of family reasons might require home ownership or improvement of existing homes since they are likely to move in with relatives thereby causing a strain on existing space (CHF, 2004). This implies that there is likely to be a potential demand for HMF services for home improvement and expansion for additional family members moving in with their relatives.

Secondly, it also means that, you might have few home owners accommodating large number of relatives since migrants might have different needs for housing. So that, those migrating from rural and other urban areas to the city for employment reasons might not necessarily desire for home ownership but regard their stay in the city us temporary. This is particularly true for residents of informal settlements and indigenous areas in the city of Accra. This was attested by all the managers interviewed. According to the managers, many of the residents in informal settlements are migrants from other parts of the country and their main purpose of migrating is to work so as to be able to save some money are remit to their relatives back home. Therefore, it is not uncommon to find 10 people sleeping in one room in these informal settlements. For these migrants' home ownership or improvement in the city was not an option for them, but they preferred to rent place in these areas to be able to stay and work.

This raises an important issue of home ownership status of people in informal settlements and their desire to improve their homes especially when the issue of tenure security has yet to be addressed. This issue has been addressed through research over many years indicating that home owners in informal settlements will not improve on their homes and living conditions when they perceived that their legal status to the land will not be regularised especially where there has been eviction threats from government officials. It also an indication that, the fact a survey result reveals potential demand for home improvement/construction does really mean that customers would really demand the products when it is introduced. What perhaps is important is designing specific products that best fit the needs of specific groups and segmenting the market in line with affordability levels.

It also explains why Boafo's home improvement/construction loans are targeted at people in peri-urban areas who desire to own their own homes through the incremental building process.

5.8.3. Land ownership

Land ownership in Ghana can be classified under two broad categories according to ownership and control and management. These are public and customary lands.

Public lands comprise state-owned lands and vested lands. State lands are lands that have been compulsorily acquired by government for specified public purpose and in the general public interest through the exercise of government's power of eminent domain. These lands constitute about 20% of total land mass in the country. It is owned and managed by the government through the Lands Commission. Vested lands on the other hand, are lands that are controlled and managed by government but the landowner retains customary land ownership. In other words, management is taken over by the state in trust for the landowners. It constitute about 2% of the total land mass in Ghana (Ministry of Lands and Forestery, 2003). These lands are now limited in supply in the country and the few that are still vacant are sold at exorbitant prices such that it is normally out of reach for the low income households. The only means of access to these lands by the low income households is to settle illegally on those lands that are vacant and are close to sources of employment and infrastructure. This confirms the argument by Payne (2002) that when low income households are faced with competition for land at strategic locations, they are forced to settle on it illegally.

Customary lands comprise stool, skin, clan, family and individual lands. These constitute about 78% of the total land mass in Ghana. Ownership and management is vested in the land owning community, clan or family and normally chiefs, clan and family heads are the custodian of these types of lands. They hold the land in trust and on behalf of the entire community, clan and family members who are entitled to the land and its benefits as of right (Ministry of Lands and Forestry, 2003). Customary lands have had major impacts on urban settlements patterns as well as rural settlements. Individual members of the community, clan or family have inherent rights to land for farming and housing. Many low income households who are members of the land owning communities, clans and families in per-urban and rural areas where land is still available for housing and farming possess rights to such lands. Rights to these lands by custom are not normally granted in writing so as to afford the customary holder title documents for him to access mortgage finance.

Customary land ownership is well recognised as a form land ownership in the legal status of Ghana. People who have acquired plot of lands through this type of ownership have considerable land security status and will not be evicted by the grantors or chiefs, clan and family heads of such lands. This implies that people in peri-urban areas who have acquired this form of land ownership have secured lands and therefore are potential consumers of HMF products. Hence potential demand for HMF exists in these areas.

However, with the rapid urbanisation and its resultant commoditisation of land, especially in peri-urban areas of Accra and other urban centres in Ghana, the customary landownership is under pressure of accommodating the formal legal system of land title registration. This has become necessary because of the many land litigations and disputes, and multiple sales of land among land owning groups especially in the per-urban areas. LAP is addressing these problems through the setting up of CLS to manage and keep records of land transactions so as to build public confidence in the system again. Lands clear of disputes throughout the country have been document and published as booklets for the public to access. This has created some level of public confidence in land transactions and also made land available for housing development.

5.9. Sources of funds for housing construction

A study conducted by GoG/UNDP/UNCHS as reported by Braimah (2008) in table 5.3 indicates that own savings is the major source of housing finance for low income people livings in urban areas in Ghana. Of the five low income urban communities, own savings top the list as a good source of housing finance for the low income. This was followed by relatives and friends. What this tells is that, there is lack of appropriate housing finance scheme for the low income and hence the only option available for these people to build according to their income levels as has been argued by Ferguson (1999). It explains why majority of people in this income group result to non-conventional building practices.

Table 5.3: Sources of housing finance in some selected low income urban communities in Ghana

Source	Ashaiman	Nima	James Town	Saltpond	Tamale
Bank Credit	-	-	-	-	-
Own Savings	**80.0**	**72.0**	**66.0**	**42.5**	**32.5**
Credit Union	-	-	-	-	**2.5**
Susu/money lender	**2.0**	**4.0**	**2.0**	**7.5**	-
Relatives/friends	**18.0**	**24.0**	**20.0**	**52.5**	**62.5**
Others	-	**2.0**	-	-	-

Source: (Braimah, 2008)

Besides, when respondents were asked their source of funding for constructing their structures, 51% of them said they used their owning savings, 16% said they had assistance from relatives and 48% said they borrowed money from financial institutions. However, when they were asked to name the financial institutions that money was borrowed from, 48% of them said Boafo Microfinance Services Ltd. This tells us that if there is a well designed home improvement scheme that really reflects the needs of these low income groups, they are most likely to demand the product. Table 5.4 shows the sources of funds for home improvement and construction.

Table 5.4: Sources of funds for housing improvements/construction

Sources of funds	Number of Respondents	% of Total Respondents
Owning Savings	31	51
Family member/friends	10	16
Loan from financial institution	29	48
Advance from tenants	0	0
Others	0	0

percentages do not add up to 100 due multiple responses by respondents

5.10. Impact of HMF on housing improvements/construction

5.10.1. Introduction

This section examines what has been done so far in relation to HMF and the possible impacts it has on housing improvements for the low/moderate income groups in Ghana. It starts by looking at a specific instance, in this case Boafo Microfinance Services Ltd and the context in which they started with HM intervention. It then goes on to examine the impacts this intervention has in terms of outreach, actual improvement made, the quality of the improvements as compared to non-beneficiaries of the product.

Context: Boafo Microfinance Services Ltd

Boafo Microfinance Services Ltd was established by a joint venture between CHF International and HFC Bank Ghana with support from the U.S. Agency for International Development and UN HABITAT. It started operating as a business entity in April 2007. Its mission is *"to service credit demands of low and moderate income Ghanaian households to maximise their potential in their pursuit of shelter, business, education and other opportunities"*. Initially, its attention especially for home improvement or expansion was directed at homes in informal settlements. According to the operations manager, before the introduction of the home improvements/construction loan package, a field survey was conducted and it was estimated that about 1.9 million urban poor face limited access to credit to improve or build their homes. The institution therefore, decided to provide non-mortgage housing finance loans which consist of the following:

- lending for the improvement or expansion of homes in informal settlements;
- lending for business expansion to improve household incomes;
- requires less collateral coverage for loans to informal sector entrepreneurs than that required by other lenders;
- offers access to savings services through the HFC Bank; and,
- offers minimal consumer education on managing credit and home improvement project

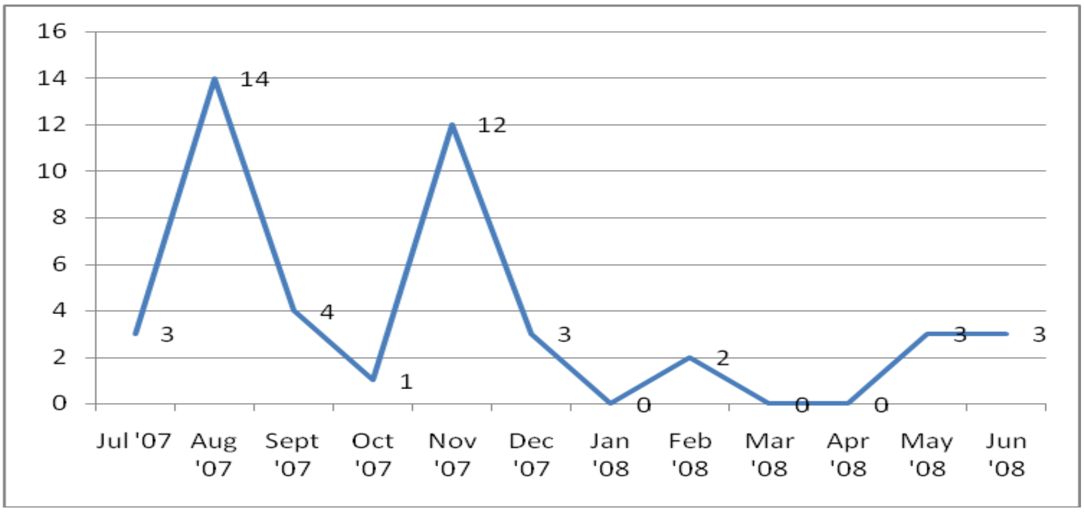
Furthermore, the institution was to work in partnership with People's Dialogue of Ghana (PDG) and the UN-Habitat Slum Upgrading programme to improve access to credit and construction assistance to improve housing conditions for residents of nine targeted slums in Accra and Sekondi-Takoradi. However, at the time this research was conducted, this partnership had not started because of teething problems. Interviews with management of Boafo and PDG indicated that there were problems as to form the partnership arrangement to take and also the slow process of land tenure regularisation in slums and informal settlements further contributed to the inability of the partners to agree on common issues. Interviews with beneficiaries of the home improvement/construction loans from Boafo revealed that none of them lived in slums/informal settlements.

5.10.2. Customer demand (Outreach in number of clients)

At the start of the home improvement loans programme, management of Boafo had projected that, by the end December 2007, they would have made about 100 loans. In other words 100 people should have benefitted from the product. They further projected that, in the next five years, at least a quarter of the loans are expected to be used for home improvements. However, as at July 2008 when this research was conducted only 45 people out 811 customers had benefitted and had outstanding home improvement loans. This represents 5.5% of the total number of customers. Figure 5.8 shows the number of active home improvement clients. This represents an average of 3.75 clients per month.

The programme started with three clients in July 2007, and by the end of August the number of clients had increased by 14. Then there was another peak in November, but since December the numbers have reduced drastically. What could have accounted for this trend? The reasons are for these unexpected results are discussed below.

Figure 5.8: Monthly trend of outreach of clients, July 2007 – June 2008



Marketing issues
Interviews with the operations manager and some credit officers indicated that, marketing was left in the hands of the credit officers and beneficiaries. These officers go out once a week to market the product. The credit officers target employees of private schools and other public sector workers they might find. They also rely on the beneficiaries of the product to tell others. Therefore, it was not uncommon to find that some beneficiaries indicated that they were introduced to Boafo by other beneficiaries. This was found not be an effective way of reaching out to the majority of the target group within a cosmopolitan city like Accra. This could not be effective because if beneficiary clients were not satisfied with the product, then instead of marketing it, they will end up discouraging potential clients from taking the loans. Besides, apart from the official launching of Boafo Microfinance Services Ltd which was broadcast in the national television and the daily news papers, there has not been any advert of the product in both print and electronic media.

Also, the HFC bank which was instrumental to the creation of Boafo, overshadowed the institution such that, 90% of the managers of other MFIs, banks and S & Ls interviewed misconstrued the HFC bank Buy Build Own a Home (BHOME) mortgage product as the home improvement/construction loans offered by Boafo.

Furthermore, the name HFC Boafo Microfinance Services Ltd and the fact that these two institutions are almost always located in the same building in any of their branches within the city is source of confusion to prospective customers. Since HFC bank is a well recognised institution for mortgage lending, many low to moderate income prospective customers might think, Boafo is an extension of their mortgage lending and as such will not approach the institution even when they might have heard of the home improvement loans package.

Another issue that affected adequate marketing of the product is the lack of an independent website. Any information relating to the company can only be found on CHF International and HFC bank websites. CHF international is actually marketing the company internationally by putting the success stories of clients and the products offered on its website. In a nutshell, there has not been any professional marketing of the product by the institution.

Lack of awareness HMF opportunities for the low/moderate income groups
There is general lack of awareness of HMF product in Ghana. The concept is relatively new and very few people have actually heard of it. Very limited has been done by Government to articulate the various housing finance opportunities available though it admits that about 90% of the housing stock is produce informally usually through the sweat equity of home owners. In the Government's shelter policy document, it recognises the need for HMF for home improvement and construction but it goes to state in the policy:

> "*The underlying problem that besets Ghana is that on one hand it has realized the significance of non-conventional strategies to housing, yet on the other hand, it is confronted with a monstrous task of articulating such a complex issue into a refined process to be promoted and implemented on a nation-wide basis*" (Government of Ghana: Ministry of Works and Housing, 2000).

Under these conditions, one would have expected that Boafo would intensify education campaign to create more awareness on the opportunities of HMF for the low to moderate income groups that are their target group.

Institutional business priorities
Boafo's priority of lending for home improvement and expansion in informal settlements was found to have shifted to lending more for business expansion. The reasons are that, it is easier to make a business loan than a home improvement loan because, the requirements for microenterprises follows the basic principles of microfinance and are not demanding like that of home improvement loans. Again, the shorter loan terms for microenterprise loans enables quick turnovers and repeated lending than home improvement loans. Perhaps the major reason why Boafo placed more priority on microenterprise lending in these informal settlements is the issue of home ownership discussed above. According to the operations manager, they found out that many people in informal settlements put more priority on microenterprise loans than home improvement or home ownership because many of these people do not have their own homes.

Client satisfaction
When respondents were asked whether they had any comments to make after filling a questionnaire, many of them indicated the interest rates were high and that there was no grace period for the loans. One of them had this to say;

> *"I took the loan on 16th of September and started repayment on the 16th of October"*
> Another said "*repayment period is short, I used 12 months to repay the GH¢500 loan with an interest of GH¢220"*

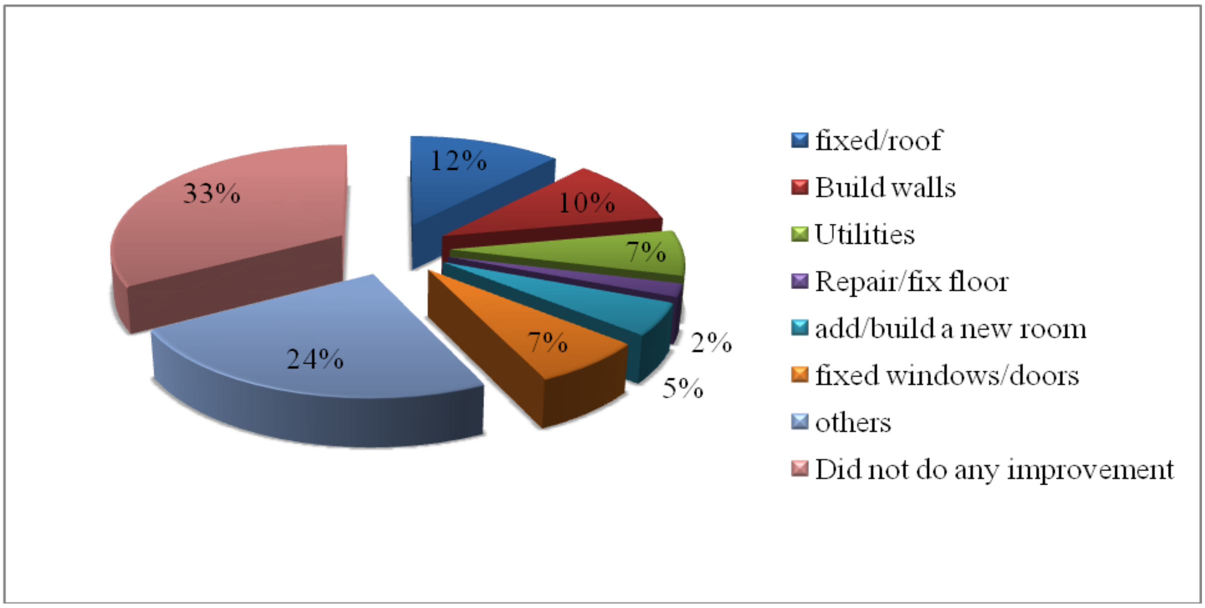
When respondents were asked whether after repaying the loan, they would be interested taking a second loan, many of them said no indicating some of the above reasons why they would not take a second loan. However, what was observed was that those who complained about high interest rates really did not use the loan for home improvement.

5.10.4. Number of houses improved in the last 12 months

Those who benefitted from the home improvement/construction loan, made improvements to their existing structures in the form of fixing of roof, building of walls, connecting to utilities, fixing of floor, adding or building of new rooms and others (plastering, painting, drainage/sanitation and raising of foundations). These improvements were not done on completed and occupied houses per se, but were done on uncompleted structures where respondents either fixed windows and doors in already roofed structures or building walls on already raised foundations. The beneficiaries used the loan to continue with their building projects to different construction stages from the levels they had reached with their own resources. Out the total number of respondents surveyed, 31 of them representing 74% used the loan to start or continue with their building projects or purchased land. Figure 5.5 shows the types of improvements made in the last twelve months.

In Figure 5.5, 24% indicated that they used the loan for other improvements. Out of the 24% who used the loan for other improvements, 20% of them used the loan to raise foundation of their buildings (see figure 5.11 below). 33% of respondents did not do any improvements. 20% of those who did not do any improvement used the loan to purchase land.

Figure 5.9: Types of improvement made in the last 12 months



Only 9% of the respondents had completed and occupied their dwellings and therefore had added a room or fixed the floor with ceramic tiles. There are very little additions made to houses as there were very completed and occupied homes which could be attributed to the home improvement loans. Out 31 respondents who have made some improvement in the form of furthering their construction stages, only three bedrooms were added to existing structures. These rooms were not completed as of the time of survey.

Those who did not receive the home improvement loans, that is, the control group, only 3out of the 10 respondents surveyed representing 30% had done some improvements in the last twelve months. 60% of respondents had bought lands with their own savings some years back but now wanted to start building their homes while the remaining 10% did not own any land but had intentions of taken the home improvement loans to purchase land.

Though there is no statistical test possible to prove that there is a significant difference between the quantity of houses improved by clients and non-clients (control group), it is clear from the above that those who received the home improvement loans made significant improvement in the form of continuing with their building project to the next construction stage as compared with the non-clients. Statistical test could not be done because the number of respondents for the control group was not up to half the number of treatment group as indicated by Nelson (2000).

Quantity could not be measured because 97% of the houses with still under construction, and there were few additions made to houses in terms of new living areas so as to be able to measure these areas in m^2. Those had completed and occupied their houses did little or no additions to these houses. Therefore, the impact hypothesis that physical output should be measured quantitatively in m^2 could not be fulfilled.

5.10.5. Sources of funds for the improvements made in the last 12 months

When respondents were asked their sources of funding for these improvements, 77% said they took home improvement loans. 13% they used own savings to be able to do the improvements.7% said they had support from relatives while 3% said his other sources of funds came from banks relatives and. What is tells us is that, to a large extent the improvements that were done within this period was as a result of the injection of the home improvements/construction loans that the respondents benefitted from. Besides, respondents indicated that the savings, money from relatives and bank credit were in addition to the home improvement loans taken from Boafo and therefore, it could be said that without the home improvement loans, very little of noticeable improvement would have been made within the period.

Table 5.5: Sources of funds for improvement made

Sources of funds	Number of Respondents	% of Total Respondents
Boafo Microfinance	31	82
Owning Savings	4	11
Bank Credit	1	3
Relative/friends	2	5

***percentages do not add up to 100 due to multiple responses by respondents*

This also tells us that, the home improvement loans actually forms a crucial part of the building process so that it is able to help clients to speed up the building process (CHF, 2004). It also confirms that the use of the builder's own money like savings is paramount in completely the building process.

5.10.7 Quality of building materials

The building materials used for the above improvements were seen to be of high quality. For those respondents who had completed their houses, the quality of building material used were of high quality as can been seen in image 1 and 2 below.

Image 1: floor tiles

Completed house **floor tiles fixed after roofing**

High quality materials – ceramic floor tiles, sandcrete blocks walls rendered and painted inside, louver blades fitted in aluminium carriers with mosquito proof nettings and corrugated metal roofing sheets. House is occupied but yet to be completed. The respondent took the loan to fix the floor with ceramic tiles in the hall, kitchen and the porch. The building itself has corrugated metal sheets roof, walls made of sandcrete blocks and windows made of louver blades fitted in aluminium carriers. The house was built from the personal savings of the respondents and the only part that he took the home improvement loans to do was the floor to enable him move in. The respondents had just moved into the new houses few months before the survey was conducted.

When the respondent was asked to give any comment he had on Boafo's home improvement loans, this is what he said

> *"The interest rate for the loan is high but it is good because, when I finished roofing my house, I did not have enough money to fix the floor to enable me move in. The loan help me to fix the floor with ceramic tiles, now I have moved into own house. I will no longer pay rent to anyone. When I finished paying this loan, I will take another one and paint the house"*

This confirms the theoretical underpinning that impact of HMF can be measured by the quality in terms of owner satisfaction. It also tells us that, he will be able to accumulate wealth since he will not be paying any rent. Though it is difficult to measure quality, the type of building material used can determine the quality of a house.

Image 2: House under construction

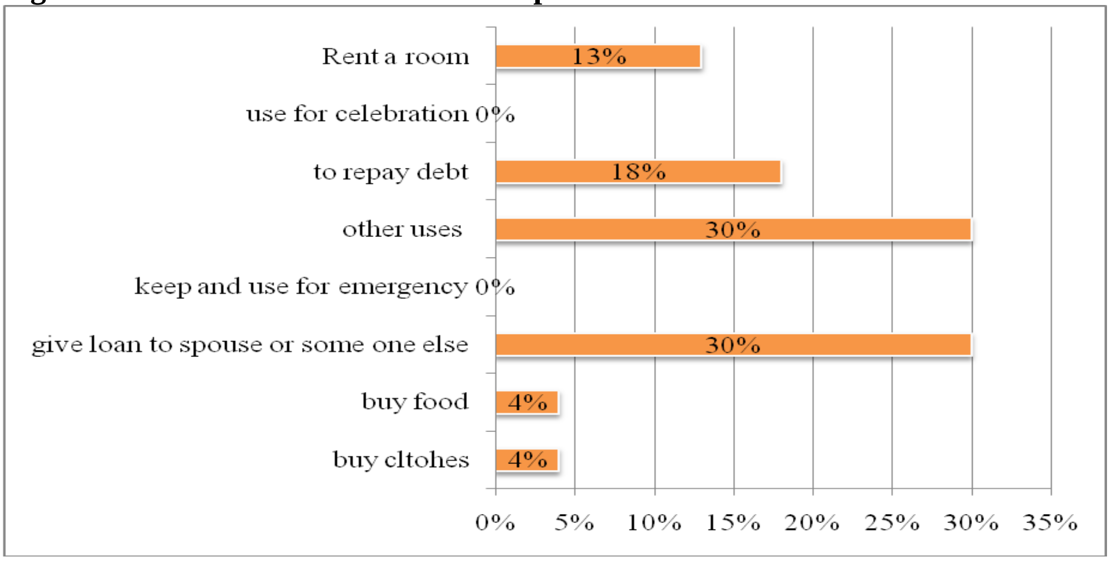
Ernestina Ameyam took a loan of (US$2,000) which she used to buy windows, doors, ceiling materials, and security mechanisms to keep her new home safe. Observed the type of materials used for constructions

Picture by Boafo

5.10.8. Loan fungibility

Loan fungibility is an issue that affected the impact of home improvement loans. 26% of the total respondents did not use any of their home improvement loans for home improvement or construction. This means that more than a quarter of these loans were used for purposes other than home improvement/construction. This was a major risk that threatened the impact of the programme and this explains why the impact of the HMF product on home improvement is abysmal. Figure 5.10 shows the various uses in which clients utilised the home improvement loans.

Figure 5.10: Other uses of the home improvement loan



As can be seen in figure 5.10, 30% of the respondents used either all or part of their home improvement/construction loans for other purposes like establishment of small business, paying school fees while 13% used for renting accommodation. 30% of the respondent especially women, gave the loan to their spouses while 18% used it to repay debt. It has been argued that loan fungibility in microfinance is not a bad thing since clients are able to use the money in a way that will improve their lives other the intended purpose. In HMF, fungibility limits the desired impact on home improvement.

The explanations to this unexpected result are; 1) lack of effective monitoring systems and, 2) the low interest rate charge on home improvement loans compared to the microenterprise loans. The first point will be discussed under monitoring. With regards to the differential interest rates between home improvement loans and microenterprise loans, interview with the operations manager revealed that, the low interest rate on home improvement loans was meant to encourage clients to borrow for home improvements. However, this seem to work against the motive because it made the home improvement loans cheaper and clients who really do not need these loans rather go in for it to use for either starting up their business or to expand existing business.

5.11. The risks and constraints of providing home improvement loans

An interview with the operations manager and credit officers revealed a number of critical issues that militated against successful implementation of the home improvement and construction loan programme. These include land/tenure security, availability of land and cost of land, income levels of the target group, loan use, and monitoring, limited knowledge and awareness of HMF product and inadequate funds to expand operations.

5.11.1. Land/tenure Security

This is an issue that have been dealt with through research over many years and it was therefore not surprising it was mentioned as a risk. Even from the perspective of the home improvement loan which really does not require land title as collateral, land security was seen as major risk for the organisation. The main concern regarding land security was the fact Boafo relies on evidence of proof of ownership which could come in the form of submitting an allocation letter from the traditional land owner/site plans of plot, building plans or a lease so they are able to ascertain whether the person has the right to use the land or residential property over a certain period at least while the loan is still subsisting. This amounts to risk because they could not really ascertain the land security status by this process especially in an environment where land has become a commodity, one could not be certain on the issues of land litigations. However, when asked whether they have had an experienced where a client after taken the loan had been evicted or had land dispute which affected repayment, the said there has not been such experience yet. But they feared that with the product becoming more popular and as more target are reached, this could be a major risk factor.

The field survey revealed that 55.8% (see annex) of the respondents had land title/lease on their lands. 23.1% did not have title to their lands while 21.2% did not own any land and as such that part of the questionnaire was not applicable to them. What this implies is that, more than half of the respondents (55.5%) had acquire plots of land some years back and had done the necessary documentation on the land but probably did not have money to build or started building in stages. This goes to affirm the incremental building practices as demonstrated by Ferguson (1999).

5.11.2. Availability of land/cost of land

Availability of land nearer to places of existing infrastructure according the operations manager and some credit staff is inadequate and as such they have to lend to clients who had lands and structures in peri-urban areas of the city. This increased their operations cost of monitoring. Besides, even where land was available at good locations (locations nearer to infrastructure) the price is so exorbitant that, it is beyond the affordable level of the target beneficiary.

5.11.3. Affordability

Low levels of incomes were also cited as a problem that affected the operations and expansion of the home improvement/construction loan programme. According to the operations staff, client's level of income was a major determining factor on how much will be advanced as loan. They indicated that, there were several instances that clients presented their constructions estimates which qualified them for a certain amount but when they examined their incomes, they had to reduce the loan amounts. For example, when a client was asked to give any comment he had about the operations of the home improvement/construction loan after filling a questionnaire, he had this to say;

> "*I requested for GH¢1,800 to buy a plot of land at Kasoa (*one of the peri-urban areas in Accra) *which I and the land owner had agreed upon, but when I applied for the loan, I was given only GH¢700. I was told by the officer in charge that my monthly income could only qualify me for that amount. Well I took the loan and use it to buy a*

second hand engine for my taxi so that the proceeds from the taxi will be used to repay the loan"

This goes to affirm that affordability issues is really a critical component of any HMF programme as indicated by Brown et al, 2002.

5.11.4. Loan fungibility

The way clients used their home improvement loans was an issue which the credit officers could not guarantee. This was seen as a major risk because about 26% of the total beneficiaries did not use their loans for home improvement and construction. This is attributed to the lack of technical assistance which has not been considered carefully by the institution. Perhaps, if the institution has had technical assistance as part of the loan administration process, this will help ensure that loans are used for the intended purpose since it will be possible to tight the loan to the acquisition of building materials and other component of the building process.

5.11.5. Monitoring

Monitoring was found to be a major constraint for the home improvement loan product. As seen from the figure 5.10, the diversion of loan from home improvement to other uses has roots in lack of effective monitoring. What made monitoring particularly difficult for the credit staff was the dispersed nature of target beneficiaries. Most of the beneficiaries had their structures located at the peri-urban areas of Accra even though they worked in the city's centre. Though credit officers did sometimes embark on unannounced visits to clients' projects site, it was no done frequently. Another issue that affected monitoring is the lack of technical assistance. If Boafo had a technical assistance as part of the home improvement loan package, it would have help in the monitoring of clients project since the construction expert will have to advice and keep track of what the client is building.

5.11.6. Limited knowledge and awareness of the product

Another constraint that has had an impact on the home improvement loan is the limited knowledge and awareness of the product among the Ghanaian public. This has already been discussed.

5.11.7. Inadequate funds for lending

Inadequate funding is major constraint for the effective implementation of the home improvement/construction loan. According to the operations manager, the institution relies on loans from commercial banks for on lending. This makes the interest rate relatively high and discourages many prospective clients for home improvements. Even though, this has been subsidised, it is still high as client pay up to 36% p.a.

5.11.8. Delinquency rate

This was not mentioned as a risk to the home improvement loans; however, analysis of the three main products of the organisation revealed that the home improvement loans constitute 4.96% of the total outstanding portfolio the organisation. Portfolio at risk less than 30 days as 30th June 2008 for the home improvement loans was 5.34% and actual delinquent loans was 2.15%. The business loans constitute 92.87% of the total portfolio and had a portfolio at risk of 12.96% while the Self Drive loans constituted 1.76% of the total outstanding portfolio and had portfolio at risk of 36.71% as shown in figure 5.11(see annex). In term of portfolio quality, the home improvement loans have lower delinquency index and appears to be performing better than the other products. The repayment performance of the home improvement loans was found to be superior to that of the others of the organisation.

5.11.9. Building codes

Building codes were mentioned as a constraint especially to clients who build within the Greater Accra Metropolitan Areas, but fortunately for Boafo, none of their clients owns a structure within these areas and therefore building codes did not pose much a problem since most of clients had their at the peri-urban areas where these codes were rarely enforced.

These risks and constraints have had significant impacts on the outreach and expansion of the home improvement programme. This is reflected in the number of clients who have so far benefitted from the programme. Though the performance of the home improvement loans appear to be successful as compared to the other product of the institution, it is not growing as fast as might be expected and as such has yet to have a significant impact on housing improvement in the study area.

5.12. Risk management strategies

The risk management strategies adopted by the organisation to help mitigate some of the risks and constraints mentioned above include the use of collateral substitutes and insurance policies.

5.12.1. Proof of ownership of a property

Before a client can benefit from the home improvement loan, Boafo requires the client to submit documents that shows an evidence of ownership of either land or house. These documents include land title or lease, site plan and allocation letter of plot, building plans and in the case the client intends to purchase a plot of land, a written agreement between the clients and the land owner. Any of these documents must be attached to the loan application form before approval is given for the loan. This is intended to ensure that the client has some reasonable degree of security on the land and that the client will not be evicted from the land or be asked to suspend work on the plot. This risk mitigation strategy employed by Boafo helps to explain the fact, HMF loans does not require land title as collateral but only takes possession of such documents as a form of pressure for repayment as well ensuring that there is certainty in the ownership of the property while the loan subsist.

5.12.2. Savings/letters of undertaking

Savings are another form of risk mitigation strategies the institutions uses. Every client is required to open savings accounts with HFC bank of which the institution is an affiliate. The home improvement loans are disbursed through this account. Clients who are self-employed are required to maintain and operate these accounts while the loans subsist. The savings serve as a form of collateral against the loan and could be used for monthly repayment when the clients are in hardships. On the other hand, salaried workers are supposed to submit a letter of undertaking from their employers indicating that in case of the default, the employer undertakes to pay default amount.

5.12.3. Personal guarantors (Co-signers)

The use of personal guarantors to secure loans was another risk management strategy that the institution used. This type of guarantee system was applicable to both self-employed and salaried workers. Each client is supposed to bring a guarantor who has the same eligibility criteria as the beneficiary client. If the loan amount was GH¢5,000 and above a client is asked to bring two guarantors. The guarantors serve two purposes; to repay the loan in case the guarantee default and to look for the guarantee in case he/she has relocated to another part of the city and cannot be easily traced by the credit officers.

5.12.4. Insurance

Perhaps one innovation that was found in the area of risk management of home improvement loans and which has not be covered by existing literature was the insurance aspect. The institution included an insurance component in the interest rate charged on home improvement loans. Every beneficiary paid 0.75% of insurance premium monthly. This was meant to cover loan loss as a result of death, permanent disability or natural hazards which might be experienced by the client. Also, in a situation where the client has absconded and all attempts to retrieve the loan from the above methods failed, the insurance will be used to defray the loan.

5.12.5. Small loan sizes and short-term

In order to avoid the issue of clients taking larger loan amounts than they can afford and also to avoid repayment fatigue as a result of longer loan terms, the institutions provided small loan at shorter terms. Every loan amount requested was matched against the client’s income and he/she was only given the amount his/her income could support. The average loan size is about GH¢2,000 and the maximum duration so far given is 24 months though it has been stated that the maximum loan term is 36 months.

5.13. Critical success factors for HMF in Ghana: Perceptions of Managers

This section examines the factors that might have limited the growth of HMF in Ghana. It discusses the perceptions of other managers of MFIs and S & Ls interviewed. These managers were asked about what they perceived to be the critical factors or risks and constraints of introducing and expanding HMF in Ghana. The following issues came up and of the four managers interviewed, the issues were similar. These include security of tenure, access to land/cost of land, home ownerships status of the low income groups, market conditions, affordability and cultural issues.

5.13.1. Security of tenure

Security of tenure was perceived to be one of the major critical issues that will affect any implementation of housing finance scheme that is target to the low-income groups. All the managers interviewed indicated that the land issues in the country were problematic and was frustrating many development projects. They cited issues of land litigations and disputes as constraining forces that has affected many a low-income groups from acquiring lands especially in Accra. Besides, the complexity of the land tenure systems especially in Accra, where ownership of land is the hands of families, chiefs and sometimes the government, it is difficult for one to ascertain the rightful owner so as to be sure of what one is buying. Some of them also indicated that double sale of land, that is selling a plot of land to two or more people was more rampant in the peri-urban areas of the city of Accra. In their opinions land security which HMF relies on could not be assured under such system land tenure.

5.13.2. Access to and cost of land

The general perceptions of managers surveyed is that access to land at location close to existing infrastructure and source of employment of the low-income groups is so expensive that it is normally beyond the means of this groups. Apart from this, some indicated that within the Greater Accra Metropolitan Area affordable land for the low-income was not available and the only option for these groups is to purchase land at the peri-urban areas where land is relatively cheap. In their opinion, HMF will work better in the peri-urban areas rather than in the city.

5.13.3. Low income groups home ownership status

The managers also perceived that very few low – income groups actually own houses in urban areas and even where they own houses especially in slums and informal settlements those houses were family properties and family members are entitled to rooms in the compound. In other words no individual can claim ownership of those houses but rather ownership was vested in all the members. According to GSS (2002), compound houses make up 45% of the total housing stock in Ghana. It noted that, 2% of dwellings are 'Improved house (Kiosk/container) and living quarters attached to shop' are found in urban localities in Greater Accra and Ashanti regions. In Greater Accra, 40.4% claimed ownership of their dwellings while about 58% live in rented and rent-free dwellings. Under such conditions it will be difficult for one member of the family to go in for home improvement loans to improve such a house. Some of the managers cited James Town and other indigenous areas in Accra which had dilapidated and sometimes completely rundown houses because of this type of housing tenure. Besides, most of the managers indicated that in those communities, there is hardly any land left for room additions and if one was interested replacing a roof; it will mean he has to rent a temporary place while he works on his house. To them, this was one of the greatest challenges that HMF is likely to face if it is introduced.

5.13.4. Market conditions

The general macroeconomic environment and its impact on market situations were another issue which some of the manager perceived will affect effective implementation of HMF programme in Ghana. They indicated that an economy that is prone to external shocks like escalating fuel prices could lead to market recession which could intend pose repayment risks on the part of the customer. They further indicated that since January this year inflation has been rising as well as interest rates and once inflation could not be incorporated in the home improvement loans like the case mortgages, it also poses some risk to the lender.

5.13.5. Affordability

All the managers who were interviewed indicated that income levels for many Ghanaians were generally low as compared to the cost of building materials which rises almost every day. This means that the cost of an improvement or home addition could be so high as compared to what the low income can afford. Hence granting a home improvement loan to this category meant one has to examine their capacity to pay which might not be commensurate to the loan amount requested. Once the lender reduces the loan amount to the level of affordability, it forfeits the purpose of the loan as it will no longer be enough to cover the home improvement cost estimated by the client.

5.13.6. Cultural issues

The general perception of managers interviewed is that, since the target beneficiaries of microfinance institutions are mostly women and the cultural dimension of home ownership have been skewed towards men, it was unlikely that HMF will have significant impact on home improvement and construction. They indicated that, though women are not forbidden to own homes in the cultural sense, but traditionally, women are suppose to move to their husband homes. This view can be contested on the basis there is a significant proportion of women who own homes in Ghana though there is no empirical data on the relative percentages. On another breath, it could also be argued that, those women who own homes are the well to do in society and probably more educated. For the low income groups however, it could be said very few women own homes or desire to own one as reflected in the survey conducted on Boafo Microfinance clients. In table 5.2, (see annex) 69.05% of the beneficiaries were male while female constituted only 30.95%. With the incoming clients 80.00% of them were male while female was only 20.00%. The overall composition, 71.15% were male while 28.85% were female. This actually goes to confirm the assertion that very few women own or have desire for home ownerships.

None of the respondents mentioned regulatory framework and building codes as perceived risks and constraints for HMF in Ghana. It appears there are no regulatory barriers to the implementation of the product in the country.

5.14. Conclusion

This chapter has analysed and synthesized the results of the research on the impacts of HMF on housing improvements for the low/moderate income groups. It has discussed that the concepts of HMF is relatively new in Ghana and as such the supply of the product is severely limited to only two pioneering institutions. These two institutions at best can be said to be piloting the product in order to evaluate the potential market for the product. It also discussed the lending methodologies and type of products supplied and realised that it is within the general framework of best practice of existing international HMF practices. Besides the data revealed that there has not been a significant different in terms of housing improvements made between beneficiary clients and incoming/new clients. The demand for the product is small relative to the expectation of the case study institutions. This was largely attributed to problems of marketing and lack of general awareness of HMF product in Ghana both from the institutional point of view and from the government side. Besides, institutional priority and lack of client satisfaction worked against the demand. The major risks and constraints that militated against the success of the product were identified as lack of land/tenure security, affordability (low income levels of beneficiaries) and cultural issues of home ownerships.

CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the conclusions of the study based on the findings in previous chapters. It gives recommendations on how to best contain the risks and constraints of HMF and increase outreach so as to be able to expand the operations of HMF in Ghana.

6.1. Conclusions

The market for HMF in Ghana can best be described as an emerging market and the two institutions providing this product could be said to be doing pilot testing in order to be able to evaluate the potentials of HMF in the country. The concept of HMF is relatively new and very few people actually have adequate knowledge on how it works. From the supply side, very little has been done to create awareness of the product and opportunities it presents to the consumer. The suppliers are operating a supply-led HMF and presenting consumers with products they think consumers are likely to demand in what can best be described as "one size fits all". For example, Boafo's HI-5 or home improvement/construction loan product has five components as indicated in the previous chapter, meaning once one applies for the home improvement loan he/she is free to use it for any of the five purposes. From the demand side little is known about the opportunities available for affordable finance for home improvement or incremental housing.

Furthermore, there is low patronage of HMF products. This low patronage is not due to the fact there is no demand for the products but it is largely attributed to lack of widespread housing consumer education that would create awareness and build information to ensure that those who can afford these products really know of the opportunities that exist and where to access these loans. There has been little or no housing consumer education done by both the government and the providers of these products. Besides, there is virtually no technical assistance given to these clients. Again, very limited information is available to the general public on construction costs estimates and how to carry low cost housing improvement projects as well as possible sources of funds for such projects.

There is huge potential demand for HMF in Ghana. This potential demand is seen in the light of the huge housing deficit the country currently faces. It is also reflected in the way individual households lead in the housing production process in the country. These individual households produce housing largely by the incremental building process. The potential is limited to low income households who have started the process of owning homes by purchasing land and have started or intending to start building their structures at the peri-urban areas in Ghana. In other words, the potential demand HMF is limited to core housing construction through the incremental building process and not improvement for already constructed structures as many of the target group do not yet own homes.

The HMF products have been targeted at a particular segment of the market. This market segment include private and public sector salaried workers who have either purchased land and had started some building structures or who desire to purchase land and start the building process. Few self-employed business entrepreneurs also form part of the target market. However, these are people who have well established business and have considerable daily cash flows. The people who fall within this market segment have acquired plots of land some years and have started building structures on their plots from their own resources. Within this market segment are the renters who are the young and unmarried public and private salaried workers who take HMF products for rental purposes. This affirms the argument by CHF (2005) that MFIs are diversifying their HMF loans to include low income salary workers.

In addition, the home improvement loan products are actually used for basic housing constructions and land purchases and not for replacement of building parts or basic housing repairs. In other words the loans are used for constructing core housing units. These core units' constructions take place in stages and the beneficiaries apply for loan amounts their income can support and according to the level they are in, in the construction stage. Majority (75%) the target group within this market segment are men who mostly have plots of land and existing building structures at the peri-urban areas of Accra. It is at these locations that land is relatively cheaper and affordable and building codes are rarely enforced. This supports the argument by Young (2007) and CHF (2005) that, HMF loans are also used for land purchases and the construction of new dwelling units. It also goes to confirm the theory that HMF is premix on incremental building practices (Ferguson, 1999). Contrary to the literature that suggest that low income households start the incremental building process with temporary structures and upgrade gradually (Ferguson, 1999, Hansen and Williams, 1998), incremental building practices as seen from the above information indicate that, the process start with permanent structures like the laying of building foundations with high quality building materials. This is particularly true for the low/moderate income incremental builders at the per-urban areas in Ghana.

HMF has not had a significant impact on housing improvement and construction in terms of quantity of houses improved or constructed. Loan fungibility is major constraint on impact with regards to number of improvement or constructions made. However, in terms of speeding up the incremental building process, there has been a significant impact. Beneficiary clients had done substantial improvements to their existing structures though very few houses were completed as a result of the loan. The impact of the home improvement loans is mainly seen in the light of the slight changes that clients made to already existing structures as compared to non-beneficiary or incoming clients. There is no significant different in terms of impact in the form of quality of construction materials and the number of home additions made, there is little or no significant difference between clients and incoming/new clients. Good quality building materials were used in both cases and since none of the beneficiary clients had completed and occupied houses solely financed by the home improvement loans it is hard to say that HMF loans had an impact based on that parameter.

Besides land security, access to and cost of land and low incomes levels of majority of Ghanaian are major risks and constraints that have limited the operations and impact of HMF on housing improvement in Accra. Affordability of the home improvement loans vis-à-vis the cost of home improvement/constructions has had negative impact on expansion of the HMF programme. Security of tenure continues to be the most important factor that poses great risk to lending to the low income groups since their legal status of land ownership cannot be guaranteed especially in Accra. The general perceptions of risks of HMF lending in Ghana far outweigh the opportunities and prospects of the product. It is perceived to be very risky to lend people who do not have any collateral and whose income levels are low and sometimes irregular. Suppliers of the product are simply risk averse and are not prepared to take more risks in expanding their operations in order to get HMF to scale.

Collateral substitutes have largely been used as risk management strategies for the home improvement/constructions loans. Savings and personal guarantee are the principal risk mitigation strategies adopted by the providers of the product. Significant innovation to these collateral substitutes is the insurance package introduced by Boafo Microfinance Services Ltd. Including insurance component in the interest rate calculation is seen as another effective way of management risks associated with HMF lending in Ghana especially where this component is such that it will not increase the interest rates by a reasonable margin.

Statistical test was not possible because the number of respondents in the control group was small relative to the expected number recommended by existing literature. The HMF programme is a little over year old and according to impact survey methodologies, impact should be measured after 5 years. This explains why the programme has not had significant impact on home improvement/construction. Again, the secondary data, used in estimating the potential demand for HMF is slightly old and does not give accurate estimates. But the findings give an indication of what is likely to happen to impact with time and the level of potential demand. Besides, the research methods used enabled the researcher to use triangulation to cross check the results.

The findings bring into light that, HMF loans are not only meant for people in informal settlements who do not have legal titles to land and therefore start their home ownership dreams by building temporary structures and upgrading gradually, but is it also applicable to people in regular employment as well. It also indicates that, insuring the home improvement loans is another effective strategy for managing risks. It tells us that, if the suppliers of the product will change their attitude of being risk averse and engage in housing consumer education and profession marketing, HMF in Ghana will indeed be a beacon of hope for the low/moderate income households.

6.2. Recommendations

6.2.1. Urgent need for housing consumer education

There is now urgent need for providers of HMF to start and speed up housing consumer education in Ghana. This education should include details of construction cost estimates of the various aspects of home improvement (repairs of walls, fixing of windows, building a house etc) and the various local building materials available. The amounts available as loans per one phase of construction or repairs and details of the repayment periods and interest rates should be made available either in the form of booklets of flyers. This could also be done on both print and electronic media and managers could arrange for breakfast meeting in the electronic media to tell the general public opportunities available for home improvement and construction for incremental builders. This calls for sustained housing consumer education. It should not be one time exercise but should continue in the form of radio or televisions advertise.

Furthermore, housing consumer education also calls for joint efforts of the stakeholders in housing and housing related activities. Therefore, there is the need to partner with the Ministry of Water Resources, Works and Housing, constructors and financiers like banks and other MFIs or S & Ls. This partnership should be a long term plan in which the supplier of HMF could lobby government to solicit support for the product so that the Ministry could eventually take up housing consumer education as part of its core responsibility. Besides, in the long term this joint partnership could get involved in a research to come out with technical assistance booklets which details the best way to realise a typical construction works on either home improvement or incremental building. However, as a short term measure, the supplier of HMF should champion the campaign for housing consumer education through their marketing departments. Though this might require financial resources to do but it will eventually pay off when there is increased awareness of the product and also help reduce default rates which have already started.

6.2.2. Institutional orientation

Closely linked to intensifying housing consumer education is the need for institutional orientation for the suppliers and potential suppliers of HMF. Once HMF has been recognised as a major product of the institution everything should be done to make it succeed, after all a good performing HMF product helps the institution to diversify its risks and increase its portfolio. Therefore equal priority should be given to the HMF product as well as the microenterprise products. It should be regarded as a core business of the institution since the MFI or S & L cannot be said to be transforming lives of low income groups without these groups having good quality dwelling units.

6.2.3. Land security

Land security should be emphasised rather than tenure security since the latter cannot be resolved overnight. Since most of the consumers of HMF products build in peri-urban areas usually on customary lands, letters of allocation and site plans of plots should be sufficient to guarantee land security. To be certain of land security, there is the need for the suppliers to work in tandem with the Lands Commission and the Land Administration Project (LAP) which is currently underway in Ghana. LAP has come up with a booklet that contains peri-urban areas that is devoid of land litigation and therefore safe to purchase a plot of land. It has also established Customary Lands Secretariats (CLS) for most land owning communities throughout Ghana. These secretariats are in charge of customary lands administration within their jurisdictions and therefore are in a position to advice people on which part of the area is litigation free. Hence if suppliers of HMF work with the LAP and CLS they would be able to advice their clients and also be certain that the land documents presented to them are free of any encumbrances and therefore will be secure for the period that the loan will be subsisting. This might not require any financial expense from the suppliers since the booklets for ‘safe’ lands are for free and can be accessed at the offices of any Regional Lands Commission.

6.2.4. Affordability

To ensure that the HMF products supplied are affordable to the low/moderate income groups, there is the need for market segmentation. Within the low/moderate income groups, the market should segmented based on net monthly incomes of individuals and their housing improvements/construction needs. HMF products should therefore be designed based on this segmentation so that whatever loan is given, it will be within the clients’ capacity to pay.

6.2.5. Partnerships

There is the need for the supplier of HMF to enter into private – private partnerships with building contractors and building materials suppliers. The HMF institutions should identify recognised building material suppliers and contractors and bargain for the best price of building materials so that they could issue coupons to their clients instead of cash and direct them to these suppliers. This will serve two purposes; 1) clients will be able to get the best price that is cheaper price for building materials and, 2) the HMF institution will prevent loan fungibility.

There is also the need for public – private partnership between HMF institutions and government. This partnership could be worked out in such a way that government can provide some funding to these institutions at the best interest rates for on lending for home improvement and construction. Since the government has been looking for an opportunity to present in a refined manner the issues of non-conventional housing strategies undertaking by many Ghanaians, this should be a good opportunity for government to partner with HMF institutions. Besides, the partnership could also work in areas of slum upgrading where government will provide basic infrastructure in slum communities while the HMF institutions provide slum dwellers with home improvement loans.

6.3. Recommendations for further research

There is the need for further research to establish the home ownership status of the low/moderate income groups in urban areas in Ghana. This will help find out how many low/moderate income groups own homes or have acquire plots of land and have started building so as to be able establish the demand for HMF products. Furthermore, there is also the need to research to find out home improvements patterns or improvements done by these groups over a period of one decade so as to establish the pattern of home improvements and the most frequent improvements made within the period. This will help establish the demand for home improvement loans.

Finally, there is also the need for research to find out how many clients of MFIs, S & Ls and other similar institutions have used part of their business loans for home improvement or construction. Besides, a research into the appropriate building technologies for low income groups which uses locally made building material is urgently need now than ever before.

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ANNEXES

Annex 1: International Cases Studies and best practices

There are several international cases on HMF programmes. Some are still at the experimental stages while others have had considerable experience and now thinking of scaling up their operations. However, those that make use of the best practices of HMF are relevant to this research. In addition, the selection of the cases are based on the number of years of experience with HMF lending, HMF product, target group, loan terms and conditions, lending and delivery methodologies, and financial sustainability and impact.

Case 1: FUNHAVI's HMF programme in Mexico

Institutional profile: FUNHAVI was founded in 1996 and provide HMF to low-income populations in Ciudad Juárez in Mexico. Its mission is to improve quality of life, especially for low-income households, by providing access to housing that is dignified, healthy, and environmentally sound. FUNHAVI operates in Ciudad Juárez only, but it plans to expand along the U.S.-Mexico border. It was established with the help of CHF. It long-term objectives include the following:

- Improve the lives of low-income working families living on the border by enabling them to construct safe and healthy homes;
- Improve the availability of housing to low-income families through providing technical assistance and access to credit, so that these families can and will construct their own houses through a self-help model; and
- Develop a sustainable financial institution that can be expanded to additional cities (www.chfinternational.org/files/826_file_Mexico_DEC_06.pdf).

Target group/market: The target market for Funhavi is primarily maquiladora workers, who make up about three-quarters of its clientele. This target also include the economically active poor who are in the city. There are also plans to expand to other Mexican cities.

HMF products: The main product offered by FUNHAVI is home improvement loans. There are plans to introduce new loan products. Three-fifths of Funhavi loans go toward room additions, while 30 percent are intended for the rebuilding of homes originally constructed from cardboard, wooden pallets, and other scrap material (Daphnis et al., 2002).

Loan terms and conditions: Loan amounts are based on the estimated valued of the improvement as well as the borrower's capacity to pay. The loan amount range from $500 to $2,500 and the borrower's monthly repayment does not exceed one-third of his net monthly household income. They charge varied interest rated depending on the net monthly household incomes. Applicants with net monthly household incomes between two and five times the minimum wage, pay 2.5% a month as interest and those with net monthly incomes more than six and eight times pay 3%. The loan term is 20 months on the average.

Lending and delivery methodologies: They use the individual lending methodology and require that, clients must be earning some income, and in addition show documents of proof of land ownership and a co-signer who earns similar income and also owns land. They have also included technical assistance in the loan package by contracting an architect and cost is borne by the borrower. Besides, FUNHAVI works in partnership with local building materials suppliers. When an applicant loan is approved, he is issued with a voucher to purchase construction materials from specific suppliers identified by FUNHAVI. This is to ensure that clients use quality building materials. Furthermore, loan repayments are done through S-MART which the company has establish special relationship with.

If clients delay in his repayment, he is notified by the organisation which he must go to the offices of the organisation to pay. If after 90 days the client has still not made the payment, he is giving another warning by the organisation lawyer. Legal action is taken against the defaulting client after 120 days in arrears.

Financial sustainability and impact: According to Daphnis et al (2002), the organisation prospects of long-term growth and financial viable appear strong. Since 2002, FUNHAVI and its partners have disbursed about 5,000 loans worth US$6.8million to low-income families and this is expected to increase with projected additional resources to achieve operational and financial sustainability.

Case 2: Kuyasa Fund-South Africa

Institutional profile: Kuyasa Fund was established in 2000 by Development Action Group (DAG), an NGO, in response to the need of the state housing subsidy recipient to access non-traditional forms of finance. The Government provided subsidies in the form of 26-36 meters starter house and secure tenure. The low-income groups were suppose to complete the house with the help from Kuyasa fund (Mills, 2007).

Target group/market: It provides small loans to low-income groups who have already accessed the state housing subsidy and have secure tenure.

HMF products: the organisation initially supported it clients with loans funds to complete new housing units especially to low-income groups that were part of the subsidy programme. It therefore introduced the home completion loan product. Gradually, when borrowers completed their housing units, it introduced the home improvements loan products which sort to help clients to finish the interiors, installing of plumbing or electricity, building internal walls, plastering of walls through repeat loans. In addition, it offers microenterprise loans.

Loan terms and conditions: Loans have a maximum term of 24 months, but most clients choose to repay over 12-18 months so that they take another loan. Loan amounts between ZAR 5,000 and ZAR 10,000. This shorter term and small amount sizes gives clients greater flexibility to manage their finances and build incrementally in ways that reflect their own economic life cycles. Interest rates for all loans are 38% and are based on the compound interest calculation. Repayment instalment is calculated at not more that 30% of the net monthly household income of the borrower.

Lending and delivery methodologies: The organisations make use of the group lending methodology. It requires clients to save for at least six months before they are qualified to take a loan. However, an individual will only qualify for an amount not greater than three times his savings. The savings serve three purposes. First, to show that the client ability to save and manage finances; second, to help build a relationship with other members and the organisation as well as encourage repayment through peer pressure; and thirdly to create personal savings to be added to the loan so as to increase amount available for the housing project. Besides, Kuyasa teamed up with the Peoples Housing Process (PHP) other institutions which sort to encourage households' participation and communities in the development and delivery of their houses. Through this support services Kuyasa was able to focus solely on the provision of housing finance.

Financial sustainability and impact: for the last seven years Kuyasa fund has grown rapidly and has delivered about 6,000 loans to clients, having an impact on an estimated 30,000 household's member in Western Cape directly or indirectly with improved housing through HMF. It has mobilised about ZAR 16million in savings which represent a significant resource for financially sustainability.

Case 3: SEWA Bank, India

Institutional profile: the Self Employed Women's Association (SEWA) was established in 1972 in Ahmedabad city as a trade union. Its goal is organising low-income women working in the informal sector. It transformed into a bank in 1974 as a cooperative bank fully owned by SEWA shareholding members. The bank initially served as an intermediary between low-income households and formal finance institutions so that the poor people would be able to access loans.
To diversity their operations, SEWA Bank in collaboration with other partners formed the Mahila Housing SEWA Trust (MHT) to help its clients to improve their shelter conditions. The objectives of this organisation are "to improve housing and infrastructure conditions of SEWA members, to create improve access to services such as housing and infrastructure finance, legal and technical assistance and to influence urban development policies and programmes" (Centre for Urban Development Studies, 2000).

Target group/market: it target mainly self-employed women in the informal sector. Most of its clients, that is, about 70% are in the urban areas.

HMF products: SEWA offers home improvements, home purchase and infrastructural loans.

Loan terms and conditions: housing loans have a maximum term of 60 months and a maximum amount of Rs 25,000. SEWA Bank charges an interest rate of 14.5% on housing loans lower than its non-housing loans where interest rate is set at 17%. However, it allows borrowers to obtain housing loans at their first loan without requiring prior participation in a microenterprise cycle.

Lending and delivery methodologies: the eligibility requirements are that, the borrower must first open a bank account and save regularly for a minimum of one year. This is to encourage the borrower to develop a habit of savings and to be able to use the savings as a lien against the loan. The evaluation criteria for loans income demonstrated savings, availability of household income, and capacity to repay the loan. In addition, the borrower is required to secure two guarantors to co-sign the loan application and one of them should have a pay slip or income certificate. The bank uses the credit history of the borrower through reviewing his or her previous year's savings. Possession of land title is not a requirement for loan but the bank demands housing loan and the ownership of the house be in the woman's name. When a borrower meets these criteria, the loan is disbursed through the person's savings account. Technical assistance is offered to borrowers when there is the need for it. In other words technical assistance is not made mandatory. The Bank has an Academy which provides training and members can choose to attend.

Financial sustainability and impact: at the end of 1999, SEWA Bank had disbursed a cumulative total of 33,975 loans. Out of this number, 50% were housing loans. These amounted to Rs468.99 million out of which Rs198.09 million were for housing construction and repair. The bank achieved an average liquidity ratio of 52% (Centre for Urban Development Studies, 2000).

2.13. Lessons learned from case studies

- HMF programmes that enter into partnership with local building materials suppliers improve the prices of construction materials and to enhance the sustainability of the project. This is because prices are guarantee and hence eliminate changes affecting the quantity of the building materials. This also helps to manage the problem of loan fungibility because vouchers are issued to borrowers to purchase the materials. Borrowers do not collect cash, but vouchers instead.
- Public private partnerships are necessary to ensure land tenure security and financial sustainability
- HMF programmes that provide technical advisory services helps clients to build quality homes and this directly impacts on the repayment as well as impacting on the social status of low-income families.
- Individual lending methodology and innovative collateral of co-signers are best suited for home improvement loans
- Varied interest rates increase the affordability levels of borrowers

Annex 2: Questionnaires for Clients and Incoming clients of Boafo Microfinance Centre

Introduction: *this questionnaire is a research instrument for my master thesis on **"The beacon of hope: The impact of housing microfinance on housing improvement for low-income groups in Accra".** This is an academic exercise and all information collected will be treated confidentially and will only be used for the intended purpose.*

Instructions on how to fill the questionnaire

This questionnaire is made of three types of questions; closed ended questions, open questions and semi open questions. For the close ended questions, please write the number attached to your preferred option in the box provided, for open questions write the answer in the space provided and for semi ended questions with multiple responses please circle the choices. In this type of questions you can circle more than one response.

Examples:

Closed ended question

Sex 0=Male 1= Female ☐

Open question

What reasons were given for your threats of eviction? ....

Semi ended question

How did you use the last loan you took from Boafo Microfinance Centre's home improvement programme to improve your home?
(Multiple responses possible)

1= fixed or improve existing roof/floor or walls
2= add/build a new room/shed
3= improve drainage/sewerage system or toilet facilities
4= lighting/electricity
5= other (Specify)
6= did not do any home improvement

Basic information

1. How old are you? (Specify number of years) ☐

2. Sex 0=Male 1= Female ☐

3. Currently, are you ...? (Read answers. Enter only one)
1 = Married/free union 3 = Widowed ☐

2 = Separated/divorced 4 = Single/never married

4. Educational level
   1= Never been to school 4= Vocational/Technical school
   2= Primary school 5= Tertiary
   3= Secondary school

5. Are you currently employed?
   1= Yes 0= No

6. If yes, what is the nature of the employment?
   1= Self-employed 3= others
   2= Salaried worker

Household Expenditure

7. How much do you earn in month
   1=GH¢50 - GH¢150 4= GH¢350 - GH¢450
   2= GH¢150 - GH¢250 5= >GH¢450
   3= GH¢250 - GH¢350

8. Specify the amount you spend in a month on the items listed in the table below

Sources of Expenses	**Amount spend in a month**
Rent	
Electricity	
Water	
Telephone	
Transportation	
Food	
Medical	
Clothing	
School fees	
Loan repayment (if any)	
Others (specify)	

9. In respect of the expenses in 8, do you receive any contributions from family members?
   1=Yes 2=No

10. If yes, how much contribution do you receive in a month? ....

11. Do you have additional sources of income?
    1=Yes 0=No
12. If yes, how much do you receive from this additional source of income in a month?...........

Property Ownership

13. Do you own a house?

1= Yes 0= No

(If yes go 22)

14. Have you acquire a plot land?

1= Yes 0= No

(If yes go to 18)

15. If yes, from whom did you acquire the land?

1= Traditional land owner 3= from an individual owner

2= Government 4= Other (Specify)...................................

16. Do you have title to this land?

1= Yes 0=No

17. Have you been threatened with eviction by other persons, organisation or government?

1=Yes 0=No

18. Have you started building a house on the plot?

1=Yes 0=No

19. If yes, at what stage is the building?

1=foundation stage

2=lintel stage

3=roof stage

4=plastering stage

5=other (specify)

20. How did you finance the construction of your house? (Multiple response possible)

1=own savings 4=advance from tenants

2=assistance from family members 5= other (Specify)..................

3=loans from financial institutions

21. (If answer to **20** is 3), which financial institution gave you the loan?

(Give the name of the institution)

Home Improvement

22. Have you constructed any additional rooms after you started living in your house in the last 12 months?

1=Yes 0= No

23. Who is responsible for constructing additional rooms or doing repair works on your house?

1=Husband 3=Husband and Wife

2=Wife 4= other (specify)....................................

24. Have you taken home improvement loan from Boafo Microfinance Centre in the last 12 months?

1=Yes 0=No

25. If yes, what was the purpose of the loan?

1= fixed roof
2=build/fix walls
3= add new room/shed
4= Utilities (specify)
5= fix/repair floor
6= Raised foundation
7= fix doors/windows/ceiling
8= Purchase land
9=other (specify)

26. Why did you choose to take the loan from Boafo Microfinance Centre? (Multiple response possible)
1= I did not know of any other organisation that offers such loans
2= I cannot afford the repayment of a bank loan
3=Banks do not give loans for extending your house
4=other (specify)..............................

27. If the answer in **24** is no, have you started the process to obtain home improvement loan from Boafo Microfinance Centre?
1= Yes 0=No

28. (Clients only), how much loan did you take from Boafo Microfinance Centre?
1=GH¢500
2=GH¢600
3= GH¢700
4= GH¢800
5= GH¢900
6=>GH¢900 specify...................

29. During the last 12 months, did you do any repairs, improvements or additions to your home?
1=Yes 0=No

30. Which of the following home improvements have you done in the last 12 months? (Multiple responses possible)
1= fixed roof
2=build/fix walls
3= add new room/shed
4= Utilities (specify)
5= fix/repair floor
6= Raised foundation
7= fix doors/windows/ceiling
8= other (Specify)

31. How much did it cause you to do the repairs, improvements or additions to you home?
....

32. Were you a member of the home improvement programme of Boafo Microfinance Centre when this was done?
1= Yes 0=No

33. Have you fixed or improve the roof of your house in the last 12 months?
1= Yes 0=No

34. Have your added any toilet facilities in the last 12 months?
1=Yes 0=No

35. Have you connected your house to piped water in the last 12 months?
1=Yes 0=No

36. Have you connected your house to electricity in the last 12 months?
1= Yes 0=No

37. Have you replaced the walls of your house with a more permanent material of construction in the last 12 months?
1= Yes 0=No

38. Give the total number of extensions you have made on your existing house in the last 12 months by stating the number in the table below

Type of Extension	**Number added/improved**
Bedrooms	
Toilets	
Kitchen	
Shops	

39. If you did any extensions/improvement, what type of building materials did you use? (Multiple response possible)
1=Sandcrete blocks
2=Corrugated iron sheets
3=Ceramics tiles
4=Water Closet
5=other (specify)..............................

40. Did the funds for these home improvements come from Boafo Microfinance Centre (clients only)?
1= Yes 0= No

41. If no, please specify the other sources..

42. How long did it take to get a home improvement loan from Boafo Microfinance Centre? (Specify number of weeks)...................................

43. What steps did you follow to access Boafo home improvement loan? (clients only)..
....
....

44. What did you use as security for the loan? (Clients only) (Multiple response possible)
1= own savings with Boafo Microfinance Centre

2= a third party guarantee
3= land title
4= group guarantee
5= other (Specify)............................

Loan Use

45. Did you use any of the last loan you took from Boafo Microfinance Centre's home improvement programme to improve your home? **(Clients only)**
1 = Yes 0 = No

46. If yes, how did you use the last loan you took from Boafo Microfinance Centre's home improvement programme? **(Clients only)**(Multiple responses possible)
1= fixed roof
2=build/fix walls
3= add new room/shed
4= Utilities (specify)
5= fix/repair floor
6= Raise foundation
7= fix doors/windows/ceiling
8=purchase land
9= other (Specify)

47. If no, did you use any portion of the last loan to do any of the following? **(Clients only)**

1. Buy food for your household? 1 = Yes 0 = No 99 = don't know

2. Buy clothes or other household items? 1 = Yes 0 = No 99 = don't know

3. Give or loan the money to your spouse or someone else
1 = Yes 0 = No 99 = don't know

4. Keep money on hand in case of an emergency or to repay the loan
1 = Yes 0 = No 99 = don't know

5. To repay other debt 1 = Yes 0 = No 99 = don't know

6. To spend on a celebration, like a wedding, etc.1 = Yes 0 = No 99 = don't know

7. Other (specify).. 1 = Yes 0 = No 99 = don't know

Knowledge of other Microfinance Institutions offering Home Improvement Loans

48. Do you know of any other Microfinance Institution providing home improvement loans?
1=Yes 0= No 99= don't know

49. If yes, specify name ....

50. Where did you hear about them? ....

Annex 3: List of Interview Questions for MFIs, S&Ls and Banks providing HMF

Introduction: *this interview questions is a research instrument for my master thesis on* ***"The beacon of hope: the impact of housing microfinance on housing improvement for low-income groups in Accra".*** *This is an academic exercise and all information collected will be treated confidentially and will only be used for the intended purpose.*

Name of Institution : ....
Name of interviewee : ....
Position in the organisation : ....
Date and time of interview : ....

1. When did you introduce the housing microfinance product in your organisation?
2. What made your organisation to introduce the housing microfinance loan product?
3. What processes did you go through in introducing this product?
4. From which sources do you get your funding for your operations?
5. How many clients have benefitted from the housing microfinance loan product since its inception?
6. Who do you think are your competitors in the provision of housing microfinance services in Ghana?
7. Could you state the types of housing microfinance product your organisation is currently implementing?
8. Which of these products is more patronised by clients?
9. What do you think are reasons why clients patronised this product more?
10. Who are your target group for the housing microfinance product?
11. What criteria do you use to identify this target group?
12. Which suburbs in Accra do you operate with the housing microfinance product?
13. Could you explain the steps involved in accessing the housing microfinance product?
14. Which departments in your organisation are involved in processing housing microfinance loan applications?
15. How long does it take on the average to disburse a housing microfinance loan?
16. What is your lending methodology?
17. What are the eligibility criteria for accessing the housing microfinance loans?
18. What do you consider to be the major risks in providing housing microfinance in Accra?
19. Could you explain the constraints your organisation faces in delivering this product?
20. Does your organisation provide technical assistance to the housing microfinance clients?
21. What strategies have you put in place to minimise the risks of tenure security and loan defaults?
22. In your opinion, does this programme meet the needs of the target group?
23. What are your loan terms and conditions for the housing microfinance loan products?
24. Since the start of the programme, how many target clients have you served?
25. What is the proportion of housing microfinance loans to the total loan portfolio of your organisation in the last 12 months?
26. In comparison with other microfinance loans, which product is growing faster?
27. What are your perceptions of the future of housing microfinance in Ghana?

Annex 4: List of Interview Questions for MFIs, S&Ls and Banks not providing HMF

Introduction: *this interview questions is a research instrument for my master thesis on* ***"The beacon of hope: the impact of housing microfinance on housing improvement for low-income groups in Accra"****. This is an academic exercise and all information collected will be treated confidentially and will only be used for the intended purpose.*

Name of Institution : ....
Name of interviewee : ....
Position in the organisation : ....
Date and time of interview : ....

1. When did your institution start operating as business entity?
2. How many products are you currently implementing?
3. Who are your target group?
4. Which areas in Ghana do you operate your business?
5. Where do you get your funding from?
6. How many clients do you currently serve?
7. Do you have plans of introducing new products?
8. Have you heard/read about housing microfinance/microfinance for housing?
9. Have you considered introducing it in your organisation?
10. Have you heard of any microfinance institution that has introduce this product?
11. What do you perceive to be the risks/constraints of introducing housing microfinance?
12. If you were to introduce this in your organisation, which critical factors will you consider before introducing it?

Annex 5: Observation list

Condition of house	State condition
Material for roof	
Material for walls	
Are wall painted	
Type of floor	
Is there a tap in the house	
Is the house connected to electricity	
Are there toilet facilities	
Type of toilet	
Kitchen	
Bathrooms	
Television set	
Refrigerators	

Annex 6: Figures and Tables

Figure 5:2. Perceived MFIs, S&Ls and Banks providing HMF

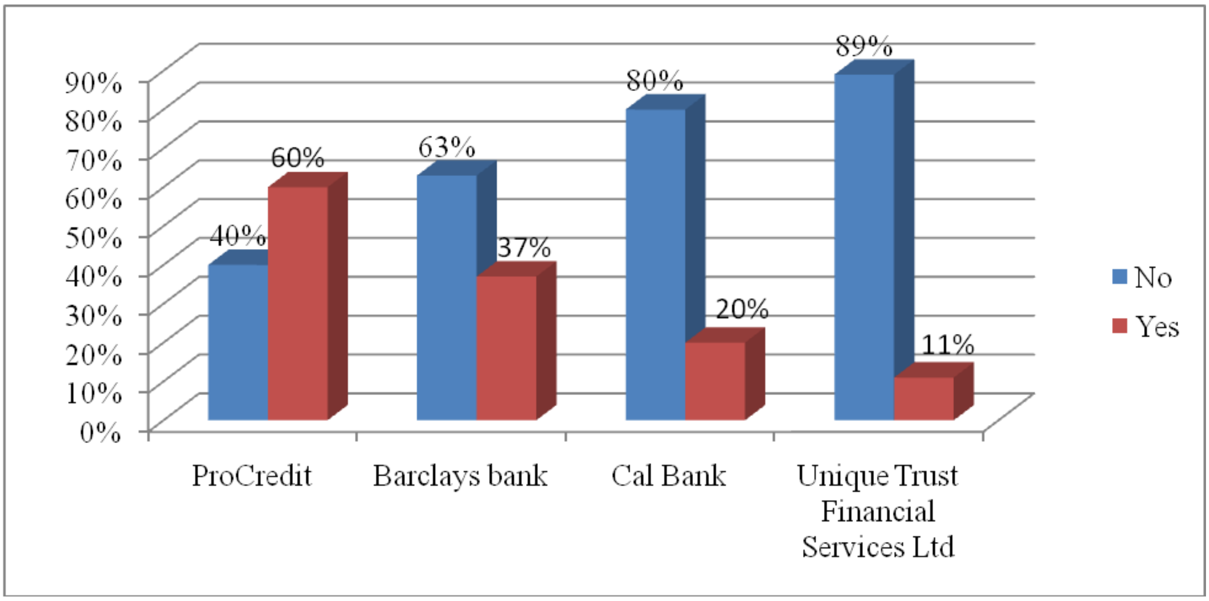

Table 5.3: Land title/lease status of respondents

Land title/lease		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	12	23.1	29.3	29.3
	Yes	29	55.8	70.7	100.0
	Total	41	78.8	100.0	
Missing	Not applicable	11	21.2		
Total		52	100.0		

Figure 5.11: Portfolio quality of home improvement loans

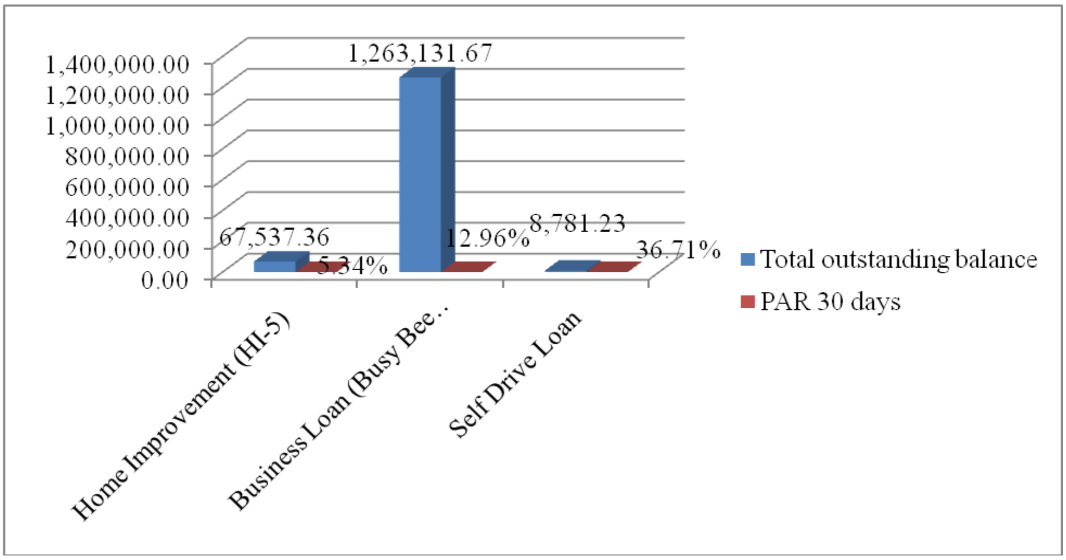

Table 5.4: Composition of home improvement clients by Gender

		type					
		clients	%	incoming clients	%	Total	%
Gender	Male	29	69.05	8	80.00	37	71.15
	Female	13	30.95	2	20.00	15	28.85
Total		42	100.00	10	100.00	52	100.00

Table 5.5: Priority for home improvement

Relative percentages (priority)	Type of project
1.	Raised foundation,
2.	Others (plastering, drainage and renting)
3.	Build walls
4.	Roofing
5.	Doors/windows and ceilings
6.	Land purchases
7.	Utilities
8.	Room addition
	floors

Annex 7: Problem tree