Human Settlements Working Paper Series

Poverty Reduction in Urban Areas - 32

Understanding pro-poor housing finance in Malawi

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June 2011

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ISBN: 978-1-84369-818-0

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Summary

Many of the urban poor in the global South live in insecure and inadequate accommodation. High rates of urbanisation exacerbate the challenge of addressing shelter needs. In Malawi, despite several attempts by government to address this situation, there are no approaches that have gone to scale and hundreds of thousands remain in need. In Lilongwe for example, only 37 per cent of the population of 675,000 lives in permanent housing. More specifically, there are no government programmes relevant to urban residents working in the informal sector who have low incomes and who are unable to apply for loans from the formal sector. There have been some attempts to provide shelter micro-finance but the scale of these activities is also very small. While 800,000 people have borrowed from micro-finance agencies for enterprise investments, there is little finance available for housing. A further difficulty is that repayment of these loans can be onerous for families, and goods are regularly seized due to late payments and loan defaults.

In the absence of alternatives, a group of 50 women savers was formed in Mtandire informal settlement in Lilongwe City in 2003, with this initiative spreading rapidly to other settlements. These women began the community-savings approach to shelter development. The approach has grown rapidly and the savings groups now include over 15,000 members. The consolidation of savings groups into the Malawi Homeless People's Federation (MHPF) and the subsequent formation of a support NGO in Malawi, the Centre for Community Organisation and Development (CCODE), have supported the efforts of these women to address their shelter needs. By the end of 2010, Federation groups had negotiated successfully for land for over 3000 members in a number of urban centres, with the first development of 222 plots taking place in Lilongwe in 2003.

The Malawi Homeless People's Federation is affiliated to Shack/Slum Dwellers International (SDI). The methodology used by these savings groups has grown in significance as formal mortgage finance is unable to reach down to informal low-income households. Shelter micro-finance offers solutions for those with secure tenure able to take on the risks associated with individual borrowing, but cannot finance collective investments in upgrading or new build. Such investments have to be collective because this is the only way that they can be affordable for low-income households. However, without tenure security the risks are too great for micro-finance agencies to take on. SDI affiliates have continued to experiment with pro-poor strategies. Their approach encourages residents to join local savings groups that work together at the city and/or national level in federations or less formal networks. Residents come together to pool monies, on a regular basis, with rules that they establish themselves to safeguard the funds.

In Malawi, to facilitate the development of shelter on land in Lilongwe and subsequent sites, the Federation members and CCODE established the Mchenga Fund. The Fund is capitalised by community savings and donor monies. The Federation manages the allocation process and subsequent lending-related and shelter-construction activities. Between 2007 and 2010, about 750 houses were constructed by members, financed by Mchenga. However, the development of loan-management skills and capabilities has not been straightforward and the Federation has had to learn from its mistakes as some members sought to take advantage of the learning processes of the Federation.

This paper explores the experience of lending for housing, the performance of housing-finance management tools and the development of alternatives. The discussion elaborates the challenges emerging from the first set of housing loans and in particular the problem of defaults on loan repayment. In the MHPF, there was a default rate of 83 per cent by September 2009 in Lilongwe's Area 49, the first project undertaken by MHPF. This initial outcome reflects the learning that the Federation leaders had to undertake. While the problems were predictable given the historical experience of lending in Malawi, the solutions were not. The three years to 2010 provided an opportunity for the urban poor, through savings-scheme members, their groups and their Federation, to design and re-design mechanisms that enable them to allocate and manage collective shelter finance.

The Federation recognised that scaling up financial mechanisms that include the lowest-income residents requires community-level management. Only decentralised management can ensure that interactions with borrowers are sufficiently sensitive to real affordability constraints, and negotiate difficult financial pressures. Only local groups are able to support those who face difficulties appropriately and effectively. At the same time, groups have to recognise problems. These include: some community members who are unaccountable and who seek to explore the process for their own benefit, politicians seeking to establish clientelist relations for their own interests, and the tendency to replicate professionally designed solutions despite their dysfunctionality with respect to the goal of inclusion. The first housing project was a learning exercise enabling the MHPF to develop and then fine-tune its loan-management skills to contribute to the development of strong grassroots financial institutions.

The paper elaborates on this history. It considers the gender dynamics that groups have to negotiate, as well as the strategies they followed to address the political interest. The discussion explains how the local savings schemes devised strategies to assist members to repay their loans, easing the pressure on households with multiple demands on scarce budgets. A further challenge was the introduction of more formal processes, with NGO staff and community leaders working together to assess what was needed and what would be fair to both individuals and the collective interest. New systems were developed for loan applications and repayment collection that did not undermine local processes but that added value to the efforts of savings-scheme members. Critically, an investment in Federation capacity at the local level was needed. The construction activities were already resulting in enhanced skills and capabilities, as groups scaled up their management activities at the district level. Equally important, Federation leaders took on the challenge of supporting local groups to decide what to do in the case of loan default. This included balancing how to be fair to the longer-term needs of Federation members who had yet to receive loans, while building a movement responsive to members facing problems of loan default.

The study reported here involved discussions with leaders and members of MHPF, CCODE staff, stakeholders in the housing sector and lawyers working to resolve problems related to non-repayment of house loans. The paper is structured as follows. Section 1 introduces the discussion. Section 2 provides more information on the development of housing options and shelter finance in Malawi, and on the emergence of the Mchenga Fund that is the particular focus of this paper. Section 3 places these approaches within the broader context of housing initiatives in the global South, discussing the failure of many approaches to housing, and subsequent attempts to shift from supply- to demand-led modalities including shelter micro-finance and community savings. Section 4 describes the history of the Mchenga Fund and provides a prelude to Section 5, which focuses on the difficulties facing the initiative. Section 6 presents solutions identified and tested in recent years, and Section 7 concludes. The annexes show the records and agreements developed by the Federation, CCODE and Mchenga staff to manage the substantive process and demonstrate transparency to all involved.

1. Introduction

Housing finance remains a major obstacle to home ownership in countries such as Malawi, especially among low-income earners. Many have decried the tendency of commercial banks to demand expensive collateral and formal employment for ease of enforcement of payroll deductions. This approach hinders access to credit by low-income citizens, not just in the housing sector but also for small-scale businesses.[1]

There are various strategies in Malawi at national, local and household levels to meet the growing demand for housing finance. Community finance is one way to address the challenges families face in accessing housing finance (UN-HABITAT 2005). However, for the Malawi Homeless People's Federation (MHPF) success has been hard to achieve. The Federation started disbursing house-building loans to members in 2003, using a revolving fund (the Mchenga Fund) established with the support NGO, the Centre for Community Organisation and Development (CCODE). There were high repayment rates of up to 100 per cent for the first batch of loans, but this has been declining over the years (Manda 2007a).[2] In South Africa, Pearson and Greeff (2006) observed a similar trend in a micro-finance programme with default rates of 20–35 per cent.

The Malawian Federation used group loans to replace collateral in a strategy seen as quite innovative in the Malawian housing sector. This use of organised communities was conceived to be a lowest-cost strategy to support low-income households to access loans but also one that guarantees repayments through peer pressure. A similar rationale has been used for micro-finance in housing in many countries including South Africa, although the success of the strategy is dependent on high levels of social pressure.[3] The model used by the Malawian Federation broadly replicates that used by other affiliates of Shack/Slum Dwellers International (SDI), the international network to which the MHPF and CCODE are affiliated (Mitlin 2008). The challenge is to develop a financial mechanism that facilitates community-led development to go to scale.

The use of loan finance is both a tool for extending external resources to a larger number of people, and a mechanism that builds on people's own willingness to invest in their shelter. The use of the Fund as a distinct institution rather than simply a component within the NGO support programme is deliberate, to facilitate the drawing in of external finance within an institution with clear lines of accountability to the broader Federation and related organisation (CCODE). The Fund encourages donations from donors and governments to be placed beyond their immediate control, with the explicit responsibility for decision-making being taken by those who seek to benefit from the monies and not by those who initially controlled the resources. Those who benefit have the responsibility for fund management – not as individuals but as organised groups able to act as custodians of the funds.

The lack of previous experience in building pro-poor financial institutions managed by organisations of low-income households means that this is a knowledge-building exercise, as systems and strategies are developed through practice. Previous efforts have been top-down with the systems and processes being designed by professionals. The top-down approach strengthens vertical relations, and the finance does not complement an empowerment process designed to maximise the agency of the poor. Micro-finance institutions have demonstrated both the strengths and weaknesses of such approaches. The

[1] 'Give folks loans, please – Banda', *The Maravi Post* 27 April 2010. See www.maravipost.com/index.php?option=com (accessed 5 May 2010).
[2] The test loans were made to small-scale business with a very short recovery period, giving the impression that house loans would achieve similar repayment rates.
[3] Van Rooyen, personal communication, 2007.

Federation process seeks to go beyond micro-finance to establish community-led financial institutions, as well as addressing the shelter needs of members.

This paper assesses the experience of lending for housing and the performance of housing finance mechanisms applied by MHPF. The authors begin by exploring the approach of savings schemes or groups, sometimes initially considered a panacea for inadequate housing finance among the urban poor in Malawi. The discussion seeks to understand the challenges emerging from the first set of housing loans and in particular the problem of defaults on loan repayment. Default is defined here to include both missing instalment repayments at any one point and total reneging, deliberate or otherwise. The main concern is that this creates the risk of all member borrowers choosing not to repay, thereby threatening the sustainability of the scheme. In the MHPF, there was a default rate of 83 per cent by September 2009 in Lilongwe's Area 49, the first project undertaken by MHPF.

The study reported here involved discussions with leaders and members of MHPF, CCODE staff, stakeholders in the housing sector and lawyers working to resolve problems related to non-repayment of house loans. Four focus-group discussions formed the main methodology for information gathering from Federation members, and a semi-structured questionnaire was used with three key officials. Eight interviews with Federation leaders from the three cities of Mzuzu, Lilongwe and Blantyre were undertaken, with a particular concentration on Area 49 in Lilongwe. This gave an in-depth understanding of the core issues behind loan defaults. House-loan default is complex, and is affected by weaknesses in loan design, history of defaults in housing development projects, interventions by local and national politicians, affordability and the mismatch between informal incomes and repayment requirements, gendered decisions in the household, and capacity constraints in fund management. As in other Federations, this first project was a learning exercise enabling the MHPF to identify dysfunctional approaches and to fine-tune its loan-management skills to contribute to the development of strong financial institutions.

The rest of this paper is structured as follows. Section 2 provides more information on the development of housing options and shelter finance in Malawi, and on the emergence of the Mchenga Fund that is the particular focus of this paper. Section 3 places these approaches within the broader context of housing initiatives in the global South, discussing the failure of many approaches to housing, and subsequent attempts to shift from supply- to demand-led modalities including shelter micro-finance and community savings. Section 4 describes the history of the Mchenga Fund and provides a prelude to Section 5, which focuses on the difficulties facing the initiative. Section 6 presents solutions identified and tested in recent years, and Section 7 concludes.

2. Approaches to housing provision in Malawi

This section summarises the history of the Malawi Homeless People's Federation (Manda 2007a), and the prevailing forces leading to its formation. This section also explains how the Federation, as a social movement of the urban poor, seeks to improve economic and social systems and make them more responsive to the needs of low-income households.

Malawi has a high rate of urbanisation, estimated at 4.3 per cent annually, and faces a considerable challenge in enabling the urban poor to access land and finance for housing. In recent years, the Malawi government has developed and approved a national land policy. One of the main implementation mechanisms is the promotion of secure tenure and upgrading, and government policy is to ensure that the housing delivery system enables all income groups to access housing. There are four strategies of housing delivery for both urban and rural communities.

1. **Creation of Traditional Housing Areas (THAs)[4] under local authorities:** a planned framework within which migrants can build their own houses according to their own tastes and financial standing. By 1962, 2415 residential plots had been demarcated, with some allocated to low-income residents. The building of houses in these THAs fully complies with minimum building standards and regulations. The allocation process is based on 'first come, first served', and the biggest problem is that demand exceeds supply. By 1981, there were 35,000 applicants on the waiting list nationwide, with the rate of THA plot delivery being 600 plots per annum. Further, most low-income people find it difficult to pay ground rent to the City Assembly, although the rent is only MK100. As a result, low-income people sell their plots to rich speculators and move to informal settlements.
2. **Construction by Malawi Housing Corporation (MHC) of complete structures for high-income groups.** By 1981, 5274 permanent houses had been built, principally for civil servants. In the 1980s, the housing situation had started worsening as MHC stopped housing development when government failed to continue subventions. The policy of 'build and sell' was introduced in the mid-1980s, but the houses sold did not successfully finance the development of new ones.
3. **Provision of surveyed plots with title deeds for construction of houses on mortgage loan through the New Building Society.** In the 45 years following its establishment on 7 February 1964, this scheme provided only 1300 loans. The loans were largely shunned because of high interest rates and experiences of seizure of houses from loan defaulters.
4. **Upgrading of informal settlements**. The government has announced its intention to launch a national programme of slum upgrading. It is not clear yet when this will start and there has been no commitment in the national budget.

The Lilongwe City Assembly has, since the 1990s, received under transfer from MHC and the Lands Department, 5000 hectares of land. Nearly 90 per cent of this land has been used to deliver 23,000 plots for THA development in four categories: 3,000 THA Normal, 1,500 THA Basic and 12,000 THA Layout, with 6,000 plots in upgraded areas.[5] An additional 500 plots were supplied for shops, maize mills and churches.

For many years, the only NGO working in the housing sector in Malawi was Habitat for Humanity (HFH), with a longstanding programme including initiatives around shelter micro-finance. This NGO has been active since 1986 and works in partnership with local communities and local governments to build simple but legal houses for the urban poor. HFH provides loans (with interest) in the form of materials (e.g. cement), and repayments from the completed houses go into a revolving fund that stays in the community to build more houses and latrines. Land for housing development is acquired from local governments as a block lease. HFH also collaborates with service providers for water, power supply and roads. HFH is achieving an 82 per cent repayment rate and urban residents are proving better at meeting repayments than rural ones. Defaulting households risk having doors and windows removed from their houses until repayments are made. Although this ensures commitment from beneficiaries, it also scares away others. Interviewees suggested that an inability to pay

[4] THAs are site-and-service schemes. 'Traditional' does not necessarily mean opposed to modern or European-type houses, but allows for any type of materials and minimum sanitation such as pit latrines.

[5] 'THA Normal' refers to plots with existing planning standards of THAs averaging 400 square metres and with high levels of service infrastructure provision. 'THA Basic' refers to smaller plots averaging 225–350 square metres with basic services like pit latrines and communal water points. 'THA Layout' involves the provision of non-serviced plots in anticipation that services will be provided when funds became available. The main principle was the provision of title to plot holders to ensure security and enhance investment. As with the basic scheme, people with low and irregular incomes were targeted. This was implemented in areas where community-development committees had been elected and were encouraged to work with NGOs for infrastructure development.

the MK2000 application fees reduces interest from other residents. A further major problem faced by Habitat for Humanity is delays in accessing land from local governments. By 2010, HFH had built over 5500 houses in both urban and rural areas and also embarked on development of 650 low-income plots in Mzuzu City.

In 1985, the Malawi government set up a programme, funded by KfW, the development bank owned by the German government, to implement a decentralised urbanisation policy by supporting the growth of small and medium-sized towns and promoting rural–urban linkages. The programme provided for the upgrading of unplanned traditional housing areas. Infrastructure investments were followed by formalising land ownership with prepared plans and demarcated and surveyed plots. More than 10,000 plots have been developed in eight towns.

The World Bank has been involved in providing loans and grants to MHC and local governments for various housing projects. In 1987, the first Bank-financed Urban Housing Project aimed to produce a suitable housing system and introduce a wide range of affordable housing designs including mortgage finance from the New Building Society. The project was based on full cost-recovery principles. In time, it was supposed to be replaced with a site-and-services programme in order to allow housing solutions for a wider range of income groups, and the incorporation of a squatter upgrading programme in Blantyre. The project in Blantyre was implemented in the settlements of Chimwankhunda and Kameza. At Kameza, the houses were later demolished and the plots consolidated by presidential order. Other projects have included providing conventional housing by financing house structures and services such as roads, water and schools. The most recent World Bank project has involved a change in target group by Blantyre City from low-income to middle-/high-income residents to improve the speed of loan repayments.

As these examples demonstrate, government efforts have been constrained by their inadequate scale. Millions remain in need, unable to access the limited opportunities either because of the formality of the political and social contracts required and/or because of their lack of income and the demands of the programmes for a financial contribution.

In Malawi, as elsewhere, commercial bank policies generally exclude those with low incomes and hence prevent private investment financed by loans from being a source of monies for housing improvement. Banks do not locate in informal settlements, and generally have branches only in the central areas of cities. Banks also demand collateral to guarantee loans, and often require formal employment, with its opportunities for payroll deductions, creating further obstacles to those without these resources. Mortgage rates depend on the purpose of the loan. For an owner-occupied house, the rate is currently 17.5 per cent; for rent, it is 20.5 per cent; and loans for commercial premises are charged at 22.5 per cent. Other loans for personal or business purposes have an interest rate of 24.5 per cent but also require the borrower to be a salaried employee able to produce a pay slip as evidence. To get a loan easily, it may be necessary to have a fixed deposit or investment account, when the bank will loan 85 per cent of the deposit.

In responding to the needs of the urban poor, especially women, it is appropriate to establish structures relevant to their needs and untapped energies. Such an exercise calls for awareness creation for the poor to discover their potential to transform their general perception of their ‘economic predicament’. The effectiveness of organising communities into savings groups through which they can learn from each other and build confidence levels has been recognised for nearly two decades through the work of Shack/Slum Dwellers International (SDI) and local NGOs in India and Thailand (Boonyabancha 2001).

The community-savings approach to credit has been used in Malawi since 2003 when the first group of 50 women savers was formed in Mtandire informal settlement in Lilongwe City.

Thereafter, savings groups were established in several locations within the city and these groups were networked together in the Malawi Homeless People's Federation. Capacity development took place through exchange visits with the Zimbabwe Homeless People's Federation and their support NGO, Dialogue on Shelter.[6]

The formation of a support NGO in Malawi, the Centre for Community Organisation and Development (CCODE), and the further consolidation of the Malawi Homeless People's Federation was encouraged by two main factors. First was the success of federations in other countries such as South Africa, India and Thailand, which saw the improvement of lives and living conditions of the urban poor including through access to secure tenure and positive relationships with government institutions. Second was the difficult economic situation being experienced by the urban poor in Malawi. Federation members felt that without a people-driven approach prioritising the needs of the poorest, greater polarisation would emerge. The formation of a Federation would, it was hoped, enable partnerships with local authorities – first to gather information and later to implement strategies to help the authorities understand and appreciate the plight of the poor. The Federation, through the growing presence of savings schemes and their ability to negotiate with the state, would further assist with revenue to improve the situation.

Community savings schemes within SDI consist of women and men who save daily, accumulating whatever money they can afford. The act of saving is a powerful mobilisation tool for the Federation. Each group in Malawi generally involves between 30 and 70 people in a neighbourhood; one settlement might have 10 or 20 saving schemes depending on its size. From 2005, the Federation has re-organised management of the savings schemes to operate by neighbourhood, to increase local participation and capital consolidation. Savings groups initially were mainly composed of women. Men started joining after seeing early progress on housing development and income-generating loans.

To date, there are saving groups in almost all low-income informal urban communities in the main cities and medium-sized towns of Malawi. The groups have grown spontaneously and exponentially, and the Federation has also extended to rural areas. The Federation now has a total of over 15,000 registered members who are actively saving, in both urban and rural areas.

The Mchenga[7] Fund is a capital fund established following demand from members who found that the capital in their local savings funds was inadequate to support business activities and housing requirements. It was agreed that members should contribute MK20 per month towards Mchenga and that it should operate as a revolving fund. The main objective of the Fund is to provide group loans to finance housing construction for Federation members, and it has provided leverage for support from external sources. In the case of other SDI affiliates, such external resources have come from central and local governments, international organisations and NGOs who consider the savings as evidence of commitment from the poor to support their own cause. In this way, savings schemes operate as a significant mechanism for mobilising resources for housing.

Since 2003, land has been acquired by local Federation groups from government and city assemblies. Lilongwe City provided land on which 222 plots were demarcated; the government gave land for 465 demarcated plots through Blantyre City; land for 80 plots was given in Mzuzu. More land has been earmarked in Lilongwe and other urban centres. The Federation agreed to a target of more than 3600 plots able to house over 18,000 low-income

[6] One author of this paper, Siku Nkhoma, has worked as an intern at *Dialogue on Shelter.*
[7] *Mchenga* means 'sand' in local languages. The small individual savings of MK20 are like sand grains which when put together are difficult to count. For the urban poor, small savings applied in combination can achieve great impact. Mchenga therefore emphasises the importance of unity.

people currently living in deplorable situations. Most Federation members are women – and the Federation is clear that women should own the houses with which they assist.

CCODE and the Federation have managed to negotiate with the Department of Physical Planning for plots of 150–200 square meters, smaller than the regulation size. Smaller plots reduce the likelihood of subletting tenements to other people. Further, the tendency of higher income earners to buy off the poor is reduced, as investment interest declines on small plots. Road sizes have also been negotiated down from the standard 12-metre access roads to 9 metres. Thus, the city by-laws and standards were changed to suit beneficiary needs.

The Federation supports savings schemes across Malawi and is the key representative agency for members of the savings schemes. CCODE, as the professional support NGO, has a number of specific functions, to:

- help create and support savings groups, for advocacy and lobbying for their rights
- undertake training to strengthen the collective leadership and capabilities of the savings groups
- ensure that women and men have an equal right to participate in decision-making
- create an information base through participatory research, on the poor and their problems to create a basis for dialogue, planning and action for change.
- facilitate access to affordable, adequate, hygienic and secure shelter for the urban poor
- strengthen the capacity of the urban poor to participate at all levels of development.

3. Financing low-cost shelter in low-income countries[8]

Finance for housing remains a daunting challenge in low-income countries. Conditions attached to commercial lending are unaffordable for many. Problems for mortgage lenders include the long period required for repayments, and lack of affordability particularly in an era of uncertain real interest rates. The introduction of micro-financing in the housing sector has appeared to offer a potential solution for both housing and infrastructure development in low-income areas (Mitlin 2008). However, as elaborated in this section, shelter micro-finance is making an important contribution to shelter improvements but inherent limitations to the design of shelter limit the value of this approach.

To understand the significance of this innovation, it is helpful to differentiate between micro-financing for housing, in which the main interest is to support house improvement or extension (Ferguson 1999, 2008), and a hybrid approach combining small loans and savings for construction of the superstructure itself (as well as for maintenance and improvements). The three sections below summarise these developments. Section 3.1 outlines the major deficiencies of conventional housing finance for low-income groups. Section 3.2 discusses the development of shelter micro-finance. Section 3.3 elaborates on the innovations in collective small-loan finance with a particular emphasis on the contribution of Shack/Slum Dwellers International (SDI), the international network to which CCODE and the Malawi Federation are affiliated.

3.1 The difficulties of financing low-income shelter

In the 1960s, governments emphasised the provision of complete homes, either through support for mortgage finance, and/or through the direct construction of dwellings for rent or purchase (Hardoy and Satterthwaite 1989). Buyers often benefited from subsidised mortgage finance provided by state housing agencies (UN-HABITAT 2005). As described in Section 2 above in the case of Malawi, many governments in the global South provided

[8] This section draws on Mitlin (2011).

limited numbers of units, generally offered to government workers or others with strong negotiating capacity (Hardoy and Satterthwaite 1989). These programmes were widely recognised to be an inefficient use of resources (Angel 2000 115–122).

From the 1970s, the significance of owner-led self-help as households constructed their dwellings and secured tenure, as well as pressuring the state to provide basic infrastructure and public services, became more widely known, particularly in relation to the work of John Turner (1976). Some suggehsted that this process was the optimum strategy for governments and donor agencies to follow for cost-effective and appropriate shelter interventions. State programmes that sought to copy incremental development strategies through the provision of serviced sites available for purchase and the efforts made in Malawi are discussed in Manda (2007a) and summarised in Section 2 above. Experience has been mixed but, for some of the reasons already given, these programmes have not managed to generate sufficient income to establish a momentum and a continued flow of serviced sites.

These attempts by governments to address shelter needs (and to include low-income households in state housing programmes) were overtaken by the view that states are not necessarily the most effective agencies to achieve development objectives. From the 1980s, the level and nature of state involvement in economic affairs was being blamed for the considerable economic problems in many Southern countries. One consequence of the economic crisis was the introduction of structural adjustment programmes from the early 1980s onwards. These programmes included a range of measures to control inflation, improve the balance of payments and promote exports, reduce government expenditure (including housing budgets) and hence improve the public sector deficit and restructure the economy. While neoliberal economic policies did not always mean the elimination of state support for housing in the lowest-income countries, there were few alternatives and households found state support increasingly hard to find. In this context, households became even more dependent on self-help and financial markets to make housing investments.

Many governments have preferred to support private-sector lending rather than offer direct mortgage provision, and some have sought to increase the availability of loan capital through securitisation and loan guarantees. This is in keeping with an emphasis on cost-recovery – improving the ability of financial markets to meet the needs of those able to purchase commercial goods and services. Following the growth in the United States of a secondary market in mortgage finance to expand the funds available for lending, similar strategies have been explored in the global South, although primarily in Latin America and Asia. Whatever the future of such initiatives, it should not be forgotten that mortgage finance remains unaffordable for a considerable proportion of the population in these and lower-income countries.

The lack of access to mortgage finance is partly related to systemic exclusion from financial services. Rooyen and Mills (2003) and Mills (2007) illustrate some of the causes in a review of formal lending institutions in South Africa. Specific challenges include the lending institutions':

- focus on high-income earners
- demand for minimum deposits
- location outside areas where low-income households live, hence increasing transaction costs
- discouraging of savings due to high bank fees negating any interest
- requiring formal employment, pension deduction, pension guarantees and collaterals for loan finance to be approved.

3.2 The growth of shelter micro-finance

In the last 15 years, there has been a growing interest in shelter micro-finance (Daphnis and Ferguson 2004, CGAP 2004). Micro-finance has grown in popularity with the realisation that informal financial markets, in which lenders offer finance at high interest rates (over 10 per cent a month) and where there is a lack of savings opportunities, have been a cause of under-development and have prevented entrepreneurial success (Hulme and Mosley 1996). Micro-finance interventions include both credit and savings opportunities. Micro-credit involves the short-term lending of small amounts of capital, primarily for enterprise development. Programmes generally seek financial viability, setting interest rates to cover administration, inflation and estimated loan defaults.

In the last 10 years, several shelter micro-finance programmes and/or agencies have been initiated, offering loans of US$500–3000 to homeowners, frequently with repeat lending opportunities (CGAP 2004, UN-HABITAT 2005). In part, this expansion has taken place following the realisation that some households were using micro-enterprise loans for housing investments. A further reason has been the need for micro-finance lenders to expand their client base. The key differences between shelter and enterprise loans are that the former are generally larger, given for longer periods of between one and five years, and interest rates are often lower (Daphnis and Ferguson 2004).

Shelter micro-finance has emerged both from specialist housing providers, for example, the Cooperative Housing Foundation (a US NGO working in the global South), and from micro-finance agencies such as BancoSol (Ferguson 1999). The scale of some such shelter programmes may be considerable; the Grameen Bank, for example, has provided more than 600,000 housing loans in rural areas. The Habitat for Humanity 'home improvement loans' used in rural Malawi is another example of this approach, also used in urban areas for households requiring house repairs or ancillary measures such as new toilets or new bathrooms. However, many initiatives are small in scale, and finding sufficient capital can be difficult for micro-shelter programmes due to the relatively large loans and long repayment periods.

Shelter micro-finance programmes generally offer small loans to individual homeowners with reasonably secure tenure who may be asked to put up their existing home as collateral. The size of the loan (and the need for collateral) means that support is for housing improvement, and not for completed dwellings or collective investments in land and services. A very small number of agencies providing micro-finance, for example Genesis Empresarial and Practical Action, have experimented with group lending for infrastructure and services, but this is exceptional. This orientation towards individual lending for housing improvement means that the strategy is less relevant for the lowest-income and landless residents who lack security of tenure and/or who need to make investments in land purchase, basic infrastructure and services. As with micro-finance for income generation, these programmes address the needs of the slightly better-off households among the urban poor (Malhotra 2003).

These programmes and/or agencies do not address the need for regulatory reforms to legalise incremental housing development and reduce the costs of new developments (Daphnis and Ferguson 2004). There are some notable exceptions where shelter micro-finance is used as one component within a more substantive and government-led programme of integrated urban development; Cain (2007) discusses this for Angola. Such experiences suggest that some governments are now interested in incorporating shelter micro-finance in programmes to upgrade informal settlements (Llanto 2007). However, these are not micro-finance programmes as such; rather, they are regularisation programmes that incorporate micro-finance. There has not yet been any interest in this approach in Malawi.

3.3 Community savings and loans

Faced with the continued failure to reach those households most in need of housing support at sufficient scale, civil society organisations have continued to experiment with pro-poor strategies. In the last decade, an alternative approach has emerged that is characterised by its organising methodology: local residents are encouraged to join local savings groups that work together at the city and/or national level in federations or less formal networks. Residents come together to pool monies, on a regular basis, with rules that they establish themselves to safeguard the funds. Unlike credit unions, or more traditional forms of savings groups (such as rotating savings and credit associations, or ROSCAs), community groups consider a wide range of development problems, and collectively plan how these might be addressed. These federations or networks support access to land, basic services and housing improvements. Their approach is different from that of housing cooperatives that have tended to work with higher-income groups more comfortable with formalised finance. One civil society network has invested in supporting its members to develop this approach and has supported the sharing of experiences across 17 national affiliates (D'Cruz and Satterthwaite 2005, Mitlin 2008). Shack/Slum Dwellers International (SDI) was founded in 1996 with eight members. Most SDI affiliates include two agencies: a national federation and a support NGO. By 2008, the affiliates reported that together they had secured tenure for more than 107,000 families (all members of savings groups), assisted 72,000 households to provide themselves with infrastructure and 55,000 with significant housing improvements (Mitlin 2008 28). These members were previously living in informal settlements without secure tenure or were tenants (in informal or formal areas). The Malawi Homeless People's Federation and CCODE are SDI affiliates.

As is the case in Malawi, savings activities are central to SDI's methodology. Recognising that finance is the common scarce commodity among those with low incomes, SDI groups use savings to rebuild and consolidate trust between local residents. Savings groups pool small amounts of cash, usually monies that women can pare from their daily budgets (Patel and D'Cruz 1993). Groups establish their own financial rules and procedures, learning basic skills such as bookkeeping, and becoming familiar with banking practices. As members organise themselves to protect and use this scarce resource, they acquire new capacities. Groups have to manage many problems including abuse from their own members, as treasurers and bookkeepers face conflicting personal and family pressures and collective responsibilities. Women, who often have low incomes and face specific vulnerabilities, are particularly active in these organisations.

A central objective of community savings schemes is to draw in state resources to improve access to land, services and housing (Mitlin 2008). SDI's experience is that the lowest-income households cannot afford to pay the market costs of improved shelter. Affiliates believe that state programmes have been ineffective because they have excluded communities from design and management. To develop and demonstrate these and other relevant skills, the 10 most mature affiliates of SDI have established Urban Poor Funds at the national, regional and/or city level. Urban Poor Funds are used by affiliates 'to finance their struggle to secure land tenure, infrastructure and housing for their members, and to force state institutions and other stakeholders to invest directly in the realisation of these rights' (Mitlin 2008 26). Savings groups borrow from Urban Poor Funds for local investments that exemplify projects and strategies that they would like the state to resource. Their federations assist local groups in, for example, supporting dialogue with the local authority and building loan-management capacities. In negotiations with the state, savings and Fund monies are valuable tools providing a capital base enabling the poor to shift from being supplicants to negotiators.

Using the precedents supported by their Funds and their organisational base, SDI federations have negotiated access to three types of state resources. First, four national affiliates (Namibia, Nepal, South Africa and Sri Lanka) receive state capital contributions to their Funds totalling US$2 million. Second, three federations (India, Namibia and South Africa) have been able to use their Funds as a conduit through which existing state subsidies are directed, giving local communities greater control over these monies. In South Africa, the affiliate persuaded the state to introduce a sub-programme (the People's Housing Process) to the main subsidy programme to facilitate community management and opportunities for self-build (Baumann 2003). In India, a significant area of state support has been for community-managed toilet blocks; the SDI affiliate has now more than 100,000 toilets provided within toilet blocks either completed or under contract (CLIFF 2009 18). Third, affiliates negotiate local resources such as free or discounted land, infrastructure investments and/or other project-specific capital contributions from a variety of state agencies. India, Kenya, Malawi, Namibia, Nepal, the Philippines, Sri Lanka, Tanzania, Uganda, Zambia and Zimbabwe have succeeded in securing such resources.

A second objective of SDI dealings with governments has been to change the regulations pertaining to building and settlement development in order to improve affordability. In Kenya, Malawi, Namibia, Tanzania and Zimbabwe, federation groups have been able to reduce plots sizes to below the present standard both through securing agreement for double occupancy and/or by using a collective land title to negotiate exemption from the regulations. Smaller plots reduce the costs of land development and orientate projects towards the lowest-income families.

The ability to secure state finance for subsidies is clearly important if the lowest-income households are to be able to participate in shelter improvements. In both South Africa and India, federation households have been able to participate in community-led housing programmes without incurring any costs. In other countries, the opportunities are considerably less. In Namibia, the mature SDI affiliate, the Namibia Shack Dwellers Federation (NSDF), has been active since the mid-1990s. NSDF helps local savings groups to negotiate for access to public land with bulk services financed by five-to-eight-year local authority loans with an interest rate of 15 per cent or less. Members are allowed to settle on plots of about 200 square metres, half the legal plot size. Prices vary between 1400 and 6000 Namibian dollars (N$) (US$190–800), with monthly repayments of N$30–80 (US$4–11).

To improve affordability, the state allows families to remain in shacks while they progressively improve their shelter. The lowest-income NSDF members use their savings to improve infrastructure, extending communal water and sewerage connections to their plot while paying off the land loan from their income. Pensioners (the lowest-income group, with a monthly state pension of N$600, or US$80) who are in need of housing improvement, but unable to repay the full costs of a loan, borrow from their Fund to construct a simple one-room dwelling (or two rooms if they are looking after orphans). They repay N$50 (US$7) a month to cover the interest charges. When the occupant dies, the family can purchase the house by paying off the full cost of the loan; or the unit is sold to another member. Higher-income households borrow, through the Federation's loan fund, from a state housing programme (Build Together) which provides one-off loans of up to N$40,000 (approximately US$5300) to households assessed as being poor but with sufficient income to repay the loan.

NSDF has secured land tenure for 3500 families in Namibia, 1500 of which have taken further loans to construct housing. Total membership of the Federation is 18,900 and two-thirds of members are women. Given the need to change strategies in order to have national relevance, the Federation carried out nationwide settlement profiling with government support in 2008 which identified 137,000 households living in informal and shack settlements. The affiliate is now drawing up development plans for these areas, starting in settlements where there are established links with the local authority. Planning will be followed by negotiations for secure tenure and the upgrading of services through joint state–community finance.

The Namibian experience highlights the evolution of local SDI strategies in the search for scale and inclusion. As suggested by this example, SDI affiliates have to manage a difficult situation, seeking to improve shelter options within a context that favours market-based transactions. Affiliates struggle to balance tensions between inclusion and affordability, and between deepening their work through precedent-setting projects and expanding their scale through negotiating new shelter options that can be extended to large numbers of members.

4. The Malawi Homeless People's Federation

A major factor in considering housing finance in Malawi is the low level of incomes, with an average house costing five times the average annual household income (UN-HABITAT 2009 60). This suggests that a household would need to save all its earnings for five years to construct a house of even modest size. In these circumstances, households are not able to build without credit. According to UN-HABITAT (2009 60), many households are unwilling to get loans for fear of indebtedness. However, small-scale loans offered by micro-finance institutions, including group loans offered by MARDEF,[9] are popular. Moreover, the number of people accessing loans from micro-finance institutions increased from 600,000 in 2008 (MK10 billion in loan finance) to 800,000 in 2010 (MK12 billion in loan finance).[10]

The growing importance of the micro-finance sector in Malawi has led to a micro-finance bill being passed by the national assembly in 2010. It is recognised that many low-income earners do not attempt to access formal loans, although this is not because of fear of indebtedness in itself. Rather, it is because of formal lending institutions' tendency to seize property when clients do not fully repay the loans even when only a small proportion of the total loan remains (Manda 1998). Further concerns about formal lending institutions include high interest rates and other conditionalities. For example (and see UN-HABITAT 2009: 60), mortgage banks NBS and the National Bank of Malawi requires:

- advance payment/deposit of 20 per cent (the National Bank may also require a fixed deposit equal to amount of the loan being applied for)
- title deeds (requiring full cadastral survey first; the whole process may cost MK150,000)
- approved building plans (scrutiny fees and building plans by a technician may cost MK50,000)
- valuation report (with a fee of 1 per cent of the property value payable to the valuer)
- confirmation of formal waged employment
- Proof of identity such as a driver's licence (costing about MK30,000 including training) or a passport (which costs about MK20,000).

The costs associated with such demands for obtaining a loan would be enough to buy three houses at the Area 49 Federation village, where each house costs around MK100,000.

The lack of alternatives to conventional bank loans has encouraged the development of shelter micro-finance, where micro-finance was previously largely concerned with small-scale businesses. In Malawi, accordingly, non-financial institutions have provided more housing finance than have banks (Table 1). Non-financial institutions started providing shelter finance only recently: CCODE, for example, began lending in 2003. The national banks have existed since independence in the 1960s, with NBS Bank existing solely for

[9] Malawi Rural Development Fund totalling some MK5 billion, set up by parliament in 2005 to disburse loans to rural, small-scale business groups. Any group of 10–20 people can apply for the loan.
[10] Khanje, Thom, 'Microfinance institutions give out K12 billion in loans', *Daily Times* 17 June 2010. US$1=MK155 in 2010.

mortgage lending. In general, micro-finance institutions view housing as a 'secondary product' unrelated to their core mission of promoting economic development. Another notable feature shown in Table 1 is the very small number of housing loans issued by banks in Malawi.

Table 1: Housing finance in Malawi: lending organisations and numbers of loans

Organisation	Number of loans issued	Category
CCODE	600	Non-finance NGO
Rural housing project	1022	Donor-funded
HFH	7000	Non-finance NGO
OIBM	900	Finance
MUSCO	100	Micro-finance
Public Service Home Ownership scheme	3500	Government
NBS Bank	1300	Formal Finance
Standard Bank	31	Formal Finance
National Bank	334	Formal Finance

Source: Thompson and Agar (2009).

To fill this gap, the MHPF, supported by CCODE, devised a mechanism to allow the urban poor to access loan finance for housing. In 2003, when the organisation began, those families in need were defined as those renting homes at less than MK500 per month. As the urban poor communities could not afford to access loans from the financial institutions, and there is no capitalised fund specifically tailored to address housing problems in Malawi, Federation members initially used their savings to engage various stakeholders to access housing. A community fund, the Mchenga Fund, was consequently established, with members originally contributing MK20 per month. The savings schemes or groups are seen as a means through which communities can realise their collective efforts to alleviate poverty, rather than as an end in themselves. The savings so far have been the basis for the Federation to negotiate for bigger and broader initiatives with resource-rich authorities. Since 2003, the Federation has used members' savings as a means to strategise and secure resources like funding and land for housing.

Each member is eligible for a housing loan, but has to go through rigorous screening to determine their eligibility through the assessment of their savings, participation in group meetings and other Federation activities. The assessment also considers how loan applicants have managed to repay other loans within the groups. A member must make daily savings, contribute MK50 to the Chisoni Fund[11] and MK20 monthly to the Mchenga account (this last figure was raised to MK50 in September 2010). Apart from assessing the credit-worthiness of the member, the Federation looks at how much a particular individual pays in rent to their landlord. Those paying less are defined as low-income and so can score more points. When a member passes through the vetting process, they qualify as part of a group and become eligible for any of four loans to:

- construct their own house (up to K140,000)
- construct a toilet (up to K35,000),
- improve an existing house (incremental landlord loans of about K20,000 per cycle)

[11] The Chisoni Fund is held and used in the district as a bereavement fund. All members are part of the scheme. Federation members use it to cover costs for funerals or to support each other when sick. Benefits from the fund depend on who has died. If a spouse has died, the family receives MK4000; on the death of a child, the family receives MK2000. The other funds have been explained above, but the Mchenga fund contribution is now MK50 (from MK20) and the slogan *kusonkha ndi cholinga (saving* [literally 'contributing'] *with a purpose)* has since been adopted.

- start a small-scale business (any amount but less than those for construction).

The MHPF, like other SDI affiliates, negotiates land from the authorities and then subdivides it for beneficiaries who get loans to build houses. Most SDI affiliates hold land collectively but in Malawi, as in some other Southern African countries, members hold the land individually. The individual registers with the local authority and, after repaying the loan, gains their land titles and registration with the city. At this stage, CCODE makes a recommendation to the city council to give ownership papers to the applicant (largely because group title has not been adopted in Malawi). The documents issued by the council at this stage are one step towards full title-holding, and each plot-/house-owner is expected to process the title deeds individually. The council then starts to charge ground/land rent of K900 per year to each individual. Individual ownership may not be appropriate for current projects involving upgrading in high-density planned areas, and CCODE and the Federation are currently negotiating with the Lands Department.

Over 750 houses have been constructed through the MHPF in a period of three years. This is roughly 275 houses per year. Each house has two bedrooms, a lounge and kitchen, with adobe walls, a cement floor and iron sheet for the roof. The walls are meant to be lime-plastered although some have been cemented. The quality of the houses has been severely criticised by observers including government officials and the media. A UN-HABITAT report (2009 20, 110) also cited the following shortcomings: poor workmanship,[12] roofing sheets too thin, gum-pole rafters too thin and insufficiently treated with anti-termite poison, roofs and foundation walls not large enough to protect the walls, and ill-advised use of cement to plaster walls. The report did not consider the costs associated with a higher-standard product.

The urban poor, and especially the Federation members themselves, are highly satisfied with the contributions of the savings schemes and the housing fund to their housing needs. Many of them had never lived in a house on a legal plot before, or in a house having a cement floor and an iron-sheet roof (of whatever quality). This should be understood within the context of the poor housing situation in Malawi. The 2008 national census by the National Statistics Office (NSO 2009118–123) reports that in Lilongwe City, of the total population of 674,448, 36.7 per cent lived in permanent houses, 9.3 per cent lived in traditional houses and the rest lived in semi-permanent houses. By the NSO definition, Federation houses at Area 49 are ‘semi-permanent’ only because of the adobe walls (Malawi’s planning and building standards do not currently categorise sun-dried bricks as permanent). In other words, Federation members have graduated from traditional (poor-quality) houses to nearly permanent (good-quality) houses.[13] Moreover, they have joined the 44 per cent of the Lilongwe city population living in their own houses (47.3 per cent live in rented homes).

A recent evaluation of a Federation housing project in Lilongwe found very high levels of satisfaction. This is not surprising, as 90 per cent of the residents previously lived in rented accommodation (Kalimba 2010). In Malawi, especially for low-income households, available rental accommodation tends to be deficient in basic services due to over-crowding as owners seek to earn additional income by increasing the number of houses per plot. This is

[12] Reference was made to a case when roofs of houses were blown off by heavy rainstorms. But the same rainstorm had also blown off roofs of houses constructed by MHC within the area soon after occupation by tenants.

[13] The NSO (2009, page137) definition of a permanent house is one built with durable materials, a roof made of iron sheet, tiles, concrete or asbestos, and walls made of burnt bricks, concrete or stones. A semi-permanent house is one lacking materials of permanent structure for wall or roof and built of non-permanent walls such as sun-dried bricks [adobe] or non-permanent roofing materials such as grass thatch. Traditional houses have thatch roofs and mud walls.

done without necessarily improving the services or the quality of the accommodation. Sanitation is a particular challenge, with several households having to share poorly maintained pit latrines and unhygienic baths (Manda 2009). Furthermore, due to the absence of legislation regulating tenant–landlord relationships, eviction without notice is common. Many low-income people therefore prefer owning to renting, and many also see their houses as assets (Thompson and Agar 2009).

To facilitate access to housing, the Malawi Federation has had to establish and consolidate its housing fund. Not surprisingly, and despite the positive evaluation, this has involved considerable challenges. The following section elaborates the core problems that the Federation has faced as members began to use loan monies to facilitate access to improved shelter.

5. Challenges encountered by the Malawi Federation

This section explores why loan programmes face challenges, and focuses on several underlying factors. The challenges related to loan defaults in housing finance reveal a complex interaction between issues of inexperience, history, politics, affordability, loan design and gender.

5.1 History of loan defaults in housing development

Malawi has had a history of loan defaults by households. There is even a general view that 'Malawians will never repay a loan'. This is especially true of loans sourced with government support, as there is a feeling 'the loan is a grant'. In 1994, the government introduced a public-service scheme of home ownership through which public servants got loans to purchase or build houses. One of the most serious challenges was defaulting occasioned through fraudulent filling of application forms, transfers, resignations and deaths (Manda 2007b). A rural housing programme administered by the government Department of Housing with UN grant funding was discontinued in the 1980s due to loan defaults despite high repayments in the first phase of the project (Manda 2007b). In Lilongwe City a revolving fund set up to support peri-urban small-scale entrepreneurs by ActionAid in 2003 could not be accounted for in most of the target areas because recipients felt the loans were grants.[14]

Habitat for Humanity (HFH) Malawi has faced serious challenges in recovering housing loans. As noted in Section 2 above, this has led the organisation to enforce strict loan-repayment measures that included removal of doors and windows from houses built using a loan that was not being repaid. HFH Malawi staff members argue that some beneficiaries did not make repayments even when they had money.[15] In this context, it is no surprise that there are similar concerns within MHPF. The Manager of the Mchenga Fund explained that it is a serious challenge to recover loans as the trust that was the basis of the loan has been abused by some members of the Federation. Once some stop repaying, there is a danger that they will influence others to do the same. It is clearly in the interests of those who are not repaying as it increases their chances of going unchallenged for this behaviour. As the process of non-payment gathers momentum, some people hope that the houses will be provided for free.

5.2 Local and national politics

The MHPF has been able to support its members to build 193 houses in Lilongwe, 460 houses in Blantyre , 83 houses in Mzuzu and 26 houses in Kasungu. This success had political impact, and local politicians as well as national party leaders have sought to identify

[14] *Sunday Times* 25 March 2007 (cited in Manda 2007b).
[15] See www.habitat.org/newsroom/pdf/houseFinance_Malawi (accessed 20 April 2010).

themselves with the Federation process. This has led to Lilongwe City offering more land for housing to the Federation, followed by similar offers from Mzuzu and Blantyre. In recognition of this, the central government hired CCODE to implement a housing project for junior public servants.[16] The Federation's negotiations in Lilongwe (2004–2009) were complicated by the scarcity of state resources and the lack of a robust allocation system that enables all to access the resources required for adequate shelter. Politicians respond to the demands of organised citizens but may not have the information required to make a measured decision.

In this case, when the development began, the incumbent local MP was from the opposition political party, and he lost in the 2009 election to a ruling-party candidate. It took time for the new MP to understand the housing process of the MHPF members. Since politics in Malawi is orientated towards patronage relations, a group refusing to make repayments to the Mchenga Fund attempted to identify with the new MP. The protests were formalised within a splinter group called the Nthawi Group. The Nthawi Group[17] became very controversial within the Federation as it campaigned and coerced members to refuse repayment of housing loans, arguing that the loans were grants from SDI. The repayment boycott gained prominence after the 2009 elections. All members of the Group were initially repaying the loans without any coercion. However, Nthawi members developed a sense that their claims were legitimate and sought support from government ministers, the offices of the president and cabinet and from the president himself. They sought not just to have the repayment declared null and void, but also to deregister CCODE on the grounds that it was exploiting low-income people.

The main issues of concern raised by the Nthawi Group, in a letter[18] to President Mutharika circulated to about 18 national institutions, included:

- funds totalling MK70 million for the construction of 460 houses complete with water, toilets and power in Blantyre were a grant from SDI, but the houses were not built according to plans and residents were being forced to repay at an annual interest rate of 12 per cent
- CCODE has offices but the Federation has no offices
- leaders of the Federation are selected by CCODE
- the links between the federation and CCODE are unclear.

Although this debate has become controversial, some of these points represent real concerns that are regularly discussed with the Malawian SDI affiliate.[19]

In the 2009 election campaign, the Nthawi Group sought support from the former president Muluzi and other senior politicians, without success. The former president bluntly told the Group: 'If you got a loan, you must repay without hiding behind me.' President Mutharika, who had a landslide victory in the 2009 elections, also responded through his legal assistant:

> The president has directed me to inform you that all members of the federation who were advanced loans… are under legal obligation to repay… it is important for every

[16] MOU document Ref.MLHUD/HOS/11/04, 10 May 2010.
[17] The Nthawi Group emerged in 2006 with its main leaders being men whose wives had acquired houses through the loan facility. The men did not understand the logic of the loans and interest chargeable. They considered the interest too high and so coerced their families and others to boycott repayment. With no preventive measures in place, they gained power. Some members of the Federation suggested that some of the Group had houses elsewhere and had abused the Federation's vetting process for beneficiaries, taking advantage of the inexperience of the first members.
[18] The letter dated 25 November 2009 from disgruntled Federation members called Nthawi can be accessed through files MOH/U and LG/1/1/32 at the Ministries of Housing and Local Government.
[19] For example, an assessment team from SDI noted in 2008 unclear linkages between the Mchenga Fund, CCODE and MHPF, as well who would be held responsible by investors in case of defaults.

> member to fulfil their responsibility and not to attempt to use the office of the president in a plot to avoid paying back the loans.[20]

A core challenge for the Federation is how to shift these political debates away from the detail of financial management and individual interests at project level, and towards the large-scale redistribution of resources to facilitate housing improvement for very low-income households. Politicians may prefer to focus on the project level because specific problems can be solved but this focus does not address the needs of millions who remain without adequate shelter. A further factor, not explored here but experienced elsewhere within the SDI network, is that the collective interests of the urban poor may be best served by an incremental approach to housing which maximises the numbers that can be assisted. However, politicians can be reluctant to support incremental solutions for multiple reasons including their lack of fit with a 'modern' city.

The Malawi Federation did not consider incremental solutions in its first developments, both because it was orientated to the complete solutions promoted by the government and external development agencies and because it was motivated to address housing needs. However, the Federation's experience with construction and loan repayments has shown that a single 'one-stop' approach is too expensive for many members, and that inclusion requires an alternative. At the same time, experience with Fund management has the MHPF to recognise that being truly in control of a resource requires a behaviour change. In particular, the Federation leadership has to ensure that savings schemes do not simply maximise loan acquisitions and think through optimum strategies for the longer term. Whatever the specific strategy for going to scale, an important pre-condition is to establish the financial mechanisms that will enable the Federation to manage resources and prevent abuse by small numbers of self-interested members.

5.3 Gender dimensions

The primary membership of the Malawi Federation is female. Discussion with Federation members reveals that most of those who refuse to repay loans are men whose spouses were actually the house owners. In most cases, the men became involved after housing construction began, and at this point they sought to renegotiate the financial terms and conditions. The Federation tended to ignore this activity in its early stages, thinking that it had reached agreement with its members.

However, the men continued to press their case without a good understanding of the situation. They argued that the loans were expensive and that some members within the Federation or CCODE were exploiting low-income women by using them to secure external donor support.

These men noted procedural shortcomings such as the initial absence of loan-agreement forms and other legally binding documentation. This happened because loans were initially disbursed on trust, with relatively light formal financial procedures. Federation members discussed this in focus groups reviewing experiences in Area 49 of Lilongwe. They suggested that the men leading the repayment boycotts did so mainly because of failure to accept that their wives had now become the owners of the houses in which the families lived, and more importantly that women were actually the majority in leadership positions within the Federation. However, members also recognised that it was difficult for wives to challenge their husbands' behaviour because of entrenched gender relations, and that their loan systems needed to be strengthened to address these problems.

[20] Letter No. SH/LC/03/2010/2, and also Federation newsletter *Halala* Vol. 1 No. 1, 2010.

5.4 Loan design

Initially there was no legal agreement between the Malawi Federation and its members or CCODE. Loan disbursement was based purely on trust that the beneficiaries understood the funds were their own and required to revolve for the ultimate benefit of all. There was a high expectation that local communities could themselves develop the necessary systems. However, difficulties emerged and there was no clear set of procedures and agreements to fall back on. As explained by one Federation leader:

> The Federation wrongly assumed that all the loan applicants were the poor who needed shelter, at least iron sheets on top of their heads. So we worked on trust, there was no paperwork until at a later time. But as it turned out, not all of us were poor needy people. Some were poor but crooked people who wanted to get things for free and get away with it....
> (Winnie Jalasi, national leader, Blantyre, 10 April 2010)

The first loan documents were prepared in Lilongwe's Area 49 without legal support or scrutiny because the community leaders believed that they could manage this process themselves. However, some beneficiaries sought to exploit this situation for their personal advantage. For example, the contract documents simply pegged interest at 12 per cent without explaining further that the charges would be 1 per cent per month on the reducing balance. This lack of precision was a source of both confusion and subsequent challenge.

A further problem was that the construction quantities for each house were not recorded, although the amount of Federation materials was intended to determine the amount of each loan. The lack of recording was partly because of the rapidity of building, with 200 housing units completed within two months. Members simply collected building materials from a central depot as required. Some collected a little less and others more; some brought materials from elsewhere as a measure to limit the loan amount. There was even some silent competition as to who would use fewer materials. However, there were no clear records to show exactly the materials each had taken to complete the house and so determine the actual loan amount. To derive the cost for each house therefore, CCODE divided the total investment by the number of beneficiaries giving a standard loan of MK100,000 for each house, despite the variation in materials utilised. This was vehemently protested until the loans were re-negotiated downwards, with some of items being covered by CCODE rather than being included in the loan amount.

With the support of the government district office, a team of 16 people from CCODE, the Federation and the Nthawi Group audited all materials and related costs, and agreed on an average loan of MK81,500. This reduction gave protesting Nthawi members the confidence to make a legal challenge for a further reduction. The MK81,500 is the allocation for materials, and the total amount payable for each house is MK92,633, including the ground charges and rents payable to Lilongwe City of MK11,133 for each plot. Nevertheless, beneficiaries argue that this amount ought to include sweat equity and demand a further reduction.

This case (civil cause number 87 of 2009) was resolved in the Lilongwe Magistrate Court on 4th April 2011 when Justice Chifundo Kachale ruled that beneficiaries had an obligation to repay the loans and that CCODE could evict those defaulting even with the intervention of police officers. Had the protestors won the case, the loan could have been reduced further to the disadvantage of the Fund. The collection of repayments through judicial process is proving costly – more expensive than the loans themselves, as CCODE must meet legal fees and transport costs for members who are witnesses. At the same time, some members who have completed their repayments are now demanding a refund.[21] As of April 2010, there were at least five other court cases related to this. One case involves an application by the chairperson of the Nthawi Group for a court injunction to stop the collection of repayments, although this could not proceed due to legal technicalities.

Loans provided by the Mchenga Fund are given to savings schemes who then lend out to members. The first Federation project at Area 49 was on a large scale and this made it more difficult for CCODE staff to support MHPF loan committees in the allocation of materials and the collection of repayments. The historical sequence in Malawi was unusual for SDI in that work began with a large development rather than a series of smaller housing projects. The success of the development led to the acquisition of further plots and CCODE was under immediate pressure to work with the new groups, switching its attention away from the consolidation of activities in Area 49. In retrospect it is clear that staff should have spent more time supporting the development of financial management systems within the first settlement.

Another problem emerged when it was found that, after the collection of repayments, detailed information was never relayed to the Mchenga office in CCODE. There were occasions when some revenue collectors or national leaders misappropriated repayment monies.[22] However, not all the problems related to misappropriation. There was also a failure to track correctly banked funds in the system for reconciliation, as the loans and repayments were attached to the normal accounting system of CCODE. This occurred because deposits were not accurately recorded and so did not appear as Mchenga repayments. This is a common problem for SDI funds, arising when deposit slips are not completed precisely and the details are not always input accurately. CCODE needs to be able to track each deposit to an individual group and date to which the repayments apply. Due to the lack of monthly salaries, a group may make several payments throughout one month. Complete accuracy requires both that the deposit details are correct and that duplicate repayment information is sent to the Mchenga office. The lack of accurate repayment records further fuelled concerns about the robustness of the repayment systems and encouraged members to withhold repayments. (This problem has been corrected with the development of stronger financial systems within Mchenga.)

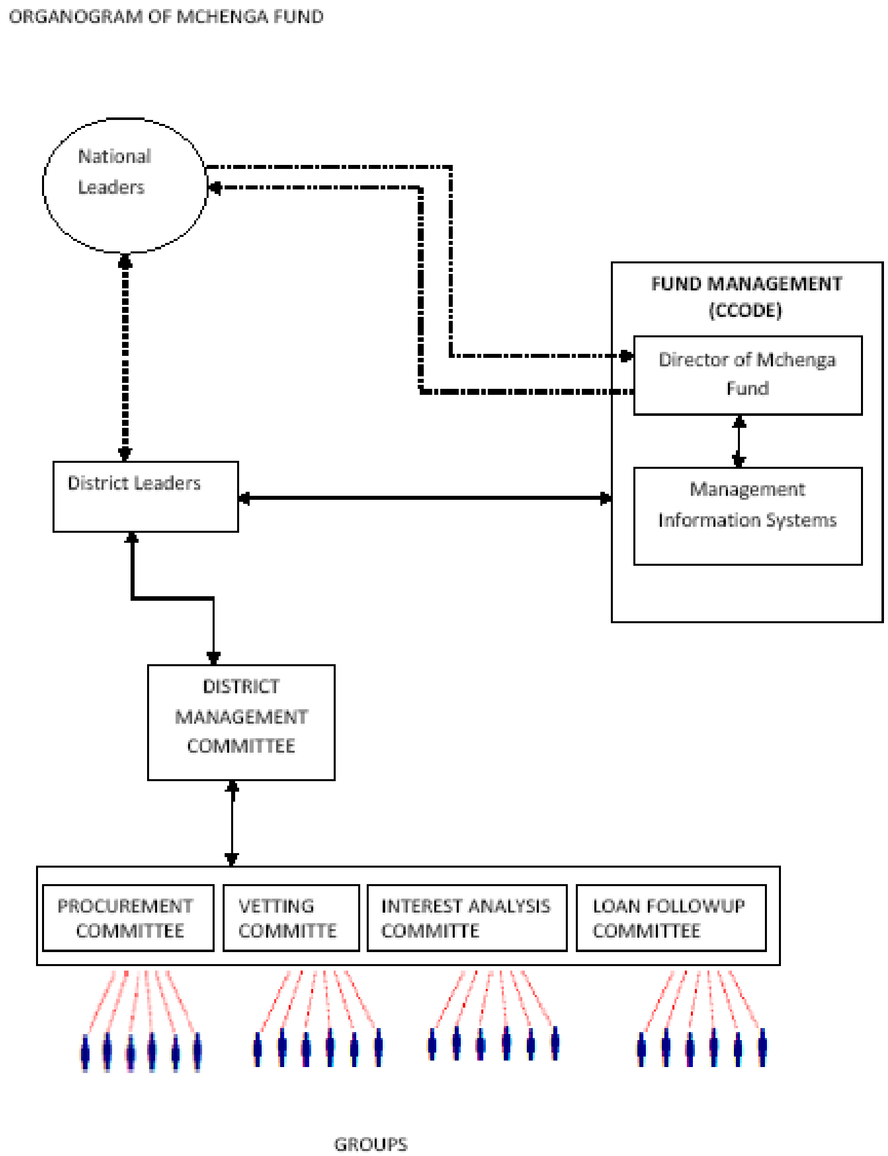
Further, there are no punitive measures for defaulters except threats of eviction.[23] To date, no member has been evicted for defaulting. It is assumed that the Federation, as group or centre, or at district, regional and/or national level, will be able to manage with the support of CCODE. No formal measures are in place in case of failure by Federation leaders and/or CCODE staff to move to eviction.

5.5 Leadership challenges

One of the concerns of the disgruntled members of the Malawi Federation relates to the selection of Federation leaders. There are complaints that leaders are chosen by CCODE, which alienates some members. The approach of collective leadership (Figure 1) helps to clarify the system to members but does not elaborate on the details of leadership and its legitimacy. Federation leaders agree to select additional leaders based on their own actions rather than their promises. This is hard to understand for Malawians who have only had 15 years experience with democracy.

[21] Discussion with Innocent Mnolo, Mchenga Fund Manager, 16th April, 2010.
[22] This is one of the complaints made by defaulters (see Mzungu 2009).
[23] The Mchenga Fund application form is very clear that in the case of any three-month consecutive defaulting for reasons other than a funeral or sickness, a house can be taken over by the Federation and allocated to those on the waiting list.

Figure 1: Organogram of the Mchenga Fund



The experience of other SDI initiatives is that leadership elections help with issues of accountability and enable members to make a public choice. However, many of the leaders that emerge do not support accountable practices nor are they representative of members within the organisation. Typically, elected leaders are male and of higher social status. Consequently, the Federation in new SDI countries emerges through a leadership co-opted from members who participate actively in the initial savings schemes. As new Federations consolidate, their leadership is generally a mix of elected representatives and those co-opted by the existing leadership because of their hard work and effective impact among local groups. Many of this latter leadership group are women who would never think about putting themselves forward to stand for election.

Federation leaders travel widely, creating some envy among those without this opportunity. One member told a focus group meeting that she relied on the lunch allowances given to her during her participation in exchange visits to make her loan repayments. The allowances are meant to compensate for loss of earnings as the leaders travel to support different savings groups, and are currently MK300 per trip within one city and at MK2000 per night spent away from home if travelling to other cities in Malawi. The allowance is higher for trips outside Malawi. The frequency and duration of such trips determines the actual amount each leader earns. Currently, women hold most of the leadership positions. The selection mechanism relies on observable hard work, and choice of leaders may be considered to be subject to favouritism especially by those who only observe one part of the process.[24] Suggestions have been made for revising the leadership of the Federation in Malawi, with the addition of some elected members (Mzungu 2009).

This challenge has increased as the Federation has grown rapidly. New members do not always appreciate the main idea behind the Federation – savings schemes and the housing process followed in MHPF.[25] This view was echoed during focus group discussions. Both the Federation leadership and CCODE may have been weakened because the Federation has expanded too widely and too fast to manage these essential issues. The challenge related to the legitimacy of the leadership is evident when it comes to enforcing repayments. None of the present leaders has the power to enforce an eviction, even though this is the agreed last resort for defaulting. The court cases are handled by CCODE staff because the loans are issued to groups by Mchenga which is managed within COODE.

5.6 Income level and affordability

Most of the Federation members are not formally employed and therefore do not have regular incomes to enable them to make regular repayments. Repayment difficulties have been exacerbated by the large size of the loan required because whole houses have been built at once rather than incrementally. As observed with the first developments in other SDI affiliates, members were initially very keen to maximise their housing acquisition and overly optimistic about the ease of repayment. Those in employment typically work as housekeepers, gardeners, cooks and security staff, and receive low monthly wages of between MK4000 and MK10,000. Their monthly loan repayment may be around MK1500–1700 depending on the individual loan amounts.

To assist with raising the money for repayment, the Malawi Federation has now introduced other loan opportunities for small-scale businesses. Even the Mchenga Fund now has an element of small-scale business loans for this purpose. Such business activity helps households secure the monies they need for water, food, school fees and health costs. In most cases, borrowers will prioritise food expenditure so that their family is not hungry;

[24] CCODE staff members claim that the leaders are identified and then supported to build their capacities, but this raises further questions about who is not being supported in this way.
[25] Discussion with Catherine Mseteka, Federation leader, 16 April 2010, Lilongwe.

however, many of these members would wish to repay if they could afford it. The Federation practice of regular meetings to strengthen collective action and solidarity may also reduce the time that members have to concentrate on individual household business activities. Since access to the loans is tied to membership of the Federation, women can be reluctant not to participate in case this is construed as loss of interest in the Federation movement. During focus group discussions, members suggested that the frequency of meetings may contribute to difficulties. The Federation leadership and CCODE have realised that some members, on moving into their new homes, pay less in rent than the amount of their former loan repayments. This is due to inexperience in costing loans and in completing the affordability assessment.

To address these problems, innovative mechanisms for raising extra monies have been introduced. Federation members at the Area 49 Village introduced a 'house top-up' system in which members save towards repayment of their house loans in smaller groups. At the end of the month, fundraising parties are held to assist one group member in their repayments; such arrangements have led to some households paying off their loans within a year. In Area 49, the response to these initiatives is so significant that 20 members have finished their repayments early. The house top-up exercise was initially raising MK9000 but can now raise as much as MK60,000. Another five members have completed their repayments through other strategies including death benefits from a departed husband, retirement benefits and remittances. Other sources of money for repayments include:

- small-scale businesses such as grocery shops or selling sugar canes and scones
- husbands' wages
- earnings from washing clothes or drawing water for other families
- adult children sending money for repayments.

5.7 CCODE's lack of expertise and experience

CCODE did not have staff experienced in loan management before launching the Mchenga Fund, and loans were issued without any risk assessment or business understanding of the operational challenges. The understanding was simply:

> the banks are bad, the banks marginalise the urban poor, the poor need support, we can help; current micro-finance institutions in the country do not consider housing, they only want tiny business loans that perennially make borrowers some slaves of these institutions, the people need some respect, the people need decent houses, CCODE can try and help out.

When the Area 49 project began in 2005, the Federation was just two years old, having been established in September 2003. At this time, CCODE had a core staff of three people, now increased to 20. Many Federation members had previously taken loans from micro-credit institutions like FINCA Malawi for small businesses, for selling of buns or charcoal, and faced penal conditions on default. Some had to sell kitchen utensils to make repayments. When the housing finance supported by CCODE came with almost no sanction for defaulters, some members saw this as an opportunity to exploit. According to one interviewee, some members of the Nthawi Group had previously participated in land invasions to gain access to plots of land.[26]

Although the first formal agreement in Lilongwe emerged following challenges from the Nthawi Group in 2008, Federation groups believe that this is good practice. An agreement form was prepared and approved by a Commissioner of Oaths in the name of Lilongwe District Commissioner. Among other things, the agreement (Annexe 1) includes the three signatories of the borrower, CCODE official and Commissioner of Oaths, and specifies the

[26] Discussion with Catherine Mseteka, Federation leader, 16 April 2010, Lilongwe.

loan amount at K81,500 for the house and K11,333 development charge payable to the city of Lilongwe.[27] As noted above, this did not help greatly in Area 49 due to the high level of contestation within the community but the practice (with adjustment to costs) may pre-empt similar difficulties arising elsewhere.

The agreement stipulates that a member would get full house ownership only after the full loan repayment. At that time, there were some Federation members who had repaid only 15 per cent of the loan in five years. Different savings schemes have chosen different loan periods: the Lilongwe contract requires repayment in 72 months, and the Blantyre contract refers to eight years (Mzungu 2009). The Blantyre contract includes punitive measures such as enforcement of repayments through debt-collection firms, closure of debtors' houses and/or use of lawyers.

This level of communication was enough for some to assume that the house loans were actually grants. One of the beneficiaries told the press that 'what I know is that we are not supposed to pay anything for this house', as there was no agreement for repayment of the loans and the only condition having been 'join the federation to benefit from the project' (Mzungu 2009). This observation was also made in Kalimba's (2010) evaluation of the Federation housing projects.

Completion of the loan repayment means that the new homeowner receives an authority letter from CCODE to Lilongwe City Assembly asking them to issue the borrower with a document of ownership (Form No.THA2) that includes the plot number. This document is officially the trigger for the processing of legal title to the land. Each member is to meet the cost of this on their own, after completing the loan. A beneficiary also has to pay annual land rents of MK900 to city authorities, a cost that is not part of the loan. Unfortunately, while this information is communicated to beneficiaries at meetings, there are some who are not present and others who forget, resulting in considerable confusion.

5.8 Weaknesses in the vetting process

Assessing members before loan disbursement is considered essential by Federation members to identify committed members in need of shelter improvements who can be trusted with a house loan. However, it was noted during focus group discussions that undeserving members did successfully pass the vetting process because leaders included friends or relations who were either never committed or had little understanding of the process. It was also mentioned during discussions that the vetting committees sometimes selected members to access loans simply because, having lived with them, they 'felt very sorry' about their level of poverty or predicament as widows or through other misfortune.

Further, the vetting process mainly concerned itself with contributions and attendance at meetings as the main criteria for selection, without detailed assessment of the actual effective demand or need (that is, whether or not the loans were affordable). According to Kalimba (2010), the selection criteria were not clear, and so the target group was not properly defined; as a result, 'selection was based mainly on contributions and affordability but not housing need'. The review of vetting for this paper also highlighted the difficulty for women leaders of challenging powerful individuals within communities. In particular, being the first, the group in Area 49 did not have the benefit of learning from the experience of other communities familiar with the likely problems.

[27] Although initially it was thought that land was allocated free of charge, authorities later demanded ground charges and land rent.

6. Towards resolving the challenge

This section summarises the attempts made so far to restructure loan administration and Federation management, and looks at the extent to which these attempts have succeeded. The MHPF and CCODE approach to housing finance is very strong in terms of delivering construction. However, it was lacking in financial management: the system lacked adequate rules and regulations to safeguard and protect the funds from some members. Following the experiences summarised in Section 5 above, several strategies have been used to improve the system and to recover loans. The experiences have been positive; loans given after 2008 have improved repayment rates and the recovery rate is currently estimated at over 85 per cent.

6.1 Collection of repayments

Smaller loan groups of 10–20 members are now encouraged. Previously there was no limit on group size, which was based on location or project.[28] Large groups made it difficult for members to exert peer pressure for loan repayment or indeed for revenue collectors to follow up. The smaller groups are for the purposes of construction and loan repayments.

The number of revenue collectors has been increased. While initially there was only one revenue collector in Lilongwe for the whole group at Area 4, five collectors are now responsible for the 183 households within Area 49.

To reduce the problem of misappropriation of repayments, the new system requires the CCODE office to forward a report to the each savings scheme or group. A Federation loans officer selected from among members is now responsible for depositing the repayments into the bank account and forwarding the deposit receipt to CCODE, therefore informing the office who has repaid how much on what date. A copy of the deposit form is retained by the specific savings group for later reconciliation. There is now less opportunity to misappropriate funds. The increase in clarity also helps to build trust.

6.2 Information exchange: Fund manual and meetings

A Fund manual has been developed which sets out all the procedures to be followed by savings groups and loan applicants. Among other things, savings groups with members who have qualified for a housing loan are required to hold monthly meetings to prepare for the project and enable leaders to sensitise would-be borrowers to the importance of loan repayments. During such meetings, the groups also develop their own rules and regulations. Some of the rules relate to construction of the houses, repayment of the loans and enforcement. These rules and regulations recorded in writing.

The weekly meetings and exchange visits have become central for information dissemination. Mechanisms are also established for enforcing savings and credit at all levels of the Federation – from centres and districts to regional and national levels.

6.3 Change of application and vetting procedures

Procedures for loan applications have been strengthened. Interested persons have to apply for the loan both as individuals in a group and as a group. A special form has been developed and must be completed in which the borrowers and CCODE agree the details; this has sections to be signed by Federation leaders and applicants with a CCODE staff member as witness and family members as witnesses for applicants. A new dimension, a

[28] Specifically, all members in Mzuzu (83), Lilongwe (193) and Blantyre (460) were treated as three groups.

lesson adopted from Kasungu project, is that each beneficiary has to swear before a magistrate and police officer in charge that she/he agrees the loan will be repaid in the agreed period with the agreed interest and that she/he will become full owner only after fully repaying the house loan. In the interim, the Federation owns the house.

Another agreement is reached between the Mchenga Fund and each savings group. This agreement commits the savings group to encourage and enforce loan repayments by members (Annexes 4 and 5). The group is responsible for all the loan repayments and has a treasurer who deposits the repayments of each individual directly into the Federation bank account. The repayments are made as a group.

A new vetting process has been adopted, using a questionnaire (Annexe 6) that helps in the detailed assessment of the applicants' housing need and effective demand. It is expected that this form will help to identify members really in need of housing who understand the Federation housing approach (Kalimba 2010). To show commitment, members are also required to make a deposit of 10 per cent of the intended loan amount before they access loan monies. Mchenga Fund housing loans may be in the region of MK140,000–200,000 currently, and so a deposit of at least K14,000 would be required. This has the potential to exclude those with very low incomes. However, in other SDI affiliates, households have moved onto the allocated land and live in a shack saving funds until they can afford to build.

6.4 Decentralised management

Instead of having a centralised system and a national coordinator, the Federation has a decentralised structure that ensures proper reporting and management of the savings from the centres in each district. Each centre within a district has to make a report about its savings and other issues arising in the area at monthly district meetings. In the same way, members of a particular centre apply for a loan at the district level.

District members assess all applications, reject or approve members and recommend whether loans should be disbursed. Districts set up several teams working across different projects (water and sanitation, housing, home improvement, or small business loans) to ensure that the procedures are followed. These teams are responsible for vetting, training on repayment procedures, loan enforcement, and material audit, among other things. Once districts are ready for a project, there is exchange of information between a group already practising and the one about to start. Successes and failures are then discussed at the regional and national monthly meetings, at which leaders discuss all the issues arising from districts. As a result of this some process, centres have become quite strong. For example, Mzuzu Federation is able to ensure that each member makes their payments as agreed, and they has been able to repel the Nthawi Group. This Federation has raised monthly repayments from MK8000 to MK100,000 in one year.

To strengthen the systems further at all levels, CCODE has increased budgetary support to districts for building leadership. Federation building-fund systems are now managed and administered by the districts. The districts exercise relative autonomy from the national leadership as they handle and plan the use of their finances. This is one way of strengthening the capacity of districts to be able to execute bigger projects on their own. Districts support the management of construction materials at the project level. Materials are distributed to each small group, and individuals are then allocated materials for their own construction with each individual signing each time they collect materials. The groups manage the procurement and all price negotiations. They do not receive any other loan finance except for the materials that they secure through this process.

6.5 Developing homes in existing locations

The Malawi Federation and CCODE have agreed to consider both greenfield and upgrading projects. Since 'loss of income' was mentioned at focus group meetings as contributing to loan defaulting, the hope is that greater use of informal-settlement upgrading will enable incomes to be maintained. Upgrading of land procured close to established locations is also underway so that members can secure new homes without shifting to distant greenfield areas. Presently, the Federation is implementing projects in Mchesi, Area 23 and Area 25. The advantage of this approach is that the new developments also benefit from existing investments in proximate infrastructure and services such as roads and water reticulation.

6.6 Renegotiating loans

Renegotiation of house loans in Area 49 of Lilongwe was eventually agreed at K81,500 (as discussed in Section 5.4 above) and CCODE agreed to write off additional expenditures. Loan-repayment periods for those members considered by the MHPF as genuinely struggling to make repayments because of affordability have been extended, and arrangements have been made to enable them to make repayments in the future when they earn an income. It is hoped that this can increase the repayment rate.

6.7 Demands for repayment through a credit firm

CCODE sought the services of credit collection firm, Credit Data Limited in August 2009. By June 2010, however, the organisation had failed to make headway because of threats from disgruntled members who disputed the actual loan amounts and interests chargeable and little cooperation from the loan defaulters. The loan amounts collected across the three cities fluctuated between a high of MK527, 930 in September 2009 to a low of MK209,700 in March 2010. The exercise was therefore abandoned in June 2010.

Federation members in Mzuzu have devised their own way of ensuring loan repayments. They have formed a taskforce that challenges loan defaulters by telling them that they must repay the loan or move out of the house. So far, the taskforce in Mzuzu has been successful, as previous defaulters have started honouring their repayments after warnings from their peers. However, this route has not been successful in Area 49 of Lilongwe.

6.8 Effects of legal proceedings

As noted in Section 5.4 above, several court cases have resulted from disputes about repayments. Both adjournments and legal decisions increase the cost of managing loans. For example, while outstanding loan amounts are equal to MK90, 778, 677[29] ($607,000) as of May 2010, the legal costs even before conclusion of the cases were already more than K800, 000 ($5333). By the time the case was concluded in April 2011, the costs had increased by K400, 000.00 ($2666.5). Since the Nthawi Group has appealed the case, the cost may increase further.

There have also been problems with court rulings subject to misinterpretation among the Federation and Nthawi Groups. The rulings are made in English, and members of both the Federation and the Nthawi Group have low literacy levels and struggle to decipher the legal language. Those who appear to understand the rulings, particularly in the Nthawi Group, have been the leaders since they are close to their legal counsel. However, these leaders

[29] This figure includes 1 per cent monthly interest on the balance.

rarely pass on the rulings accurately, and they become subject to misinformation and exaggeration.[30]

To avoid similar developments with the formation of 'opposition' groups, and to ensure that members are fully aware of Federation procedures, there is a proposal for membership criteria. For new members, forms now have to be signed ahead of the loan disbursement (see Annexe 5). The Federation has resolved that, whatever the cost of legal challenges, all member borrowers have to repay their loans to avoid setting a precedent that would threaten the existence of the Mchenga Fund. This aspect has been incorporated in new loan-agreement forms.

7. Conclusion

The main aim of the Malawi Homeless People's Federation remains to improve housing conditions of its members through the contributory Mchenga Fund to which each member pays MK20 monthly. These contributions leverage external funding. However, defaulting has escalated because of poor information leading some members to construe the loans as grants. Defaulting and misinformation pose a great threat to the sustainability of the Mchenga Fund. Among many factors involved in defaulting, loan design, gender stereotypes, lack of experience, and leadership challenges stand out. In recent years, major changes have been undertaken, including a shift from working on trust to a detailed assessment of would-be borrowers. The question of collective versus elective leadership has yet to be resolved. These challenges have been instrumental in building the current capacities, processes and systems within the Federation and CCODE, as such challenges led to a new thinking on the appropriate processes of financial loan management. Reflecting more broadly, what are the lessons that stand out from this experience? The following paragraphs reflect on selected critical issues. We look first at the specific context in Malawi, which has clearly influenced some aspects of the process. Then we turn to a number of other salient factors that appear consistently in other experience across the SDI network and beyond.

The Malawian government has no history of investment in shelter solutions for the urban poor at scale. Considerable numbers of urban residents have to rent rooms in informal settlements with inadequate infrastructure and services. Even when the Federation has been successful in securing land, the plots have generally been some distance from the town centre (with limited employment opportunities) and without adequate infrastructure. This has multiple ramifications for both income and expenditure. Households have to adjust their employment strategies, and have to pay relatively high charges (over US$200) for safe sanitation (primarily eco-sanitation or sky-loos). Federation groups have understood the disadvantages of these locations and are now negotiating for access to better located land (to reduce transport costs) and improved access to services.[31]

Also important in the Malawi context is the association of donor finance with grant aid and a history of non-payment of state loans. One challenge in a country with high levels of donor assistance is that the historic conditionalities associated with donor finance are an important part of the expectations that citizens have of such finance. In this case, some of those peripherally associated with the Federation, notably the husbands of Federation members, did not believe that the finance was loan monies. They suspected that CCODE had misled

[30] For example, in January 2010, there was a case involving CCODE and some leaders of the Nthawi Group at the Lilongwe Magistrates Court. The magistrate adjourned the case on the basis that he had to review the arguments before his verdict. The Nthawi people took this as a sign of triumph and burst into jubilation outside the court.
[31] See Boonyabancha (2004) on a similar experience in Thailand.

them and was cheating them of a grant that donors had provided.[32] In this case, their expectations were encouraged by a previous lack of follow-up from those managing government loan programmes, and some households successfully defaulting on such loans but maintaining control of the asset.

These problems go to the heart of the challenge facing the Federation in Malawi. It is these practices that help to account for the largely unsuccessful attempts to address housing need and the inability of projects to go to scale. Without control of the monies, it has not been possible for organised groups of the urban poor to behave differently; the incentives are to plunder resources having dysfunctional terms and conditions. Collective initiatives that receive donor finance often fail because they are dominated by professional organisations that remove control from local groups. Given such a commonality of experience, the challenge facing the Federation is considerable. The MHPF has to establish strong local controls to prevent individual self-interest among those who acquire resources from sabotaging the collective good.

These problems are exacerbated by the complexities of the first construction projects undertaken by Federation groups in SDI affiliates. There are some universal patterns that can be identified. However, the SDI experience is that some difficulties cannot be entirely prevented, and groups have to experience them in order to identify and practice behaviours that address the problems. While the network can speed up learning and support solutions, experience shows that it cannot pre-empt problems by imposing systems from other federations. Generally speaking, in most cases, the first construction projects undertaken in a country are associated with financial and construction management systems that are found to be too weak, and with the housing products being unaffordable for the lowest-income members. The first construction developments provide an opportunity for Federation groups to appreciate what it takes to complete housing projects. Common problems are that systems do not clearly distinguish who has used what quantity of materials, that members do not keep their own records but place too much responsibility on the group for monitoring household-level expenditures, and that housing construction is expensive.

In terms of affordability, there are two common problems: the designs are too expensive for most members, and efficient methods of low-cost construction are not yet institutionalised. There are multiple reasons for these problems. One reason is the arbitrary nature of opportunities from both development agencies and the state. This encourages individuals to agree to any required conditions in the hope that they will be able to manage. Borrowing households simply do not address the complexities of long-term loan repayments, partly because the process is new to them. Many members believe that this may be their only opportunity for access to a house. With no evidence of the potential problems, they are reluctant to reduce their aspirations voluntarily. Once there is evidence of problems – when the first groups find they are unable to repay their loans – then they seek to defend their new-found home ownership despite their predicament. Over time, a collective develops systems to manage these issues.

A second reason for problems of affordability is that it takes time to develop low-cost construction systems. Experiences have demonstrated that, if the process is to be community-led, this development work has to be completed by communities rather than imported from outside. Once federations become more experienced in construction, they typically find cheaper ways to secure doors and windows, come to understand the advantages of incremental development, and may negotiate the right to remain in shacks for

[32] This is very similar to the situation faced by the Orangi Pilot Project in Karachi when it began to support self-help sanitation in the 1980s. The NGO has been publishing and distributing three-month accounts detailing income and expenditure from that date in order to address these misunderstandings.

longer periods – all to improve affordability. Third, it is not easy for Federation members, mainly women, to control the community process and demand lower-cost options, even if they anticipate problems. They are likely to wait for others (men) to fail before they are confident enough to claim the space to be involved in the decision making. This reflects poor women's lack of confidence and their lack of public recognition and social status.

The challenges of affordability are often exacerbated by the desire to secure political support and trigger more substantive redistribution. Therefore, households want their houses to be as grand as possible, not just for their individual household needs, but also because they want the approval of politicians and officials who are sometimes sceptical about the ability of low-income communities to build to a satisfactory standard. Politicians are keen to have high-quality houses because this adds to their own prestige and increases the political recognition they receive due to their support for the investment. Moreover, they and officials often have an orientation towards modernisation of urban space, without sufficient recognition of the problems of affordability. Politicians and officials also have to learn about what it might take to get shelter improvements at scale. In South Africa, for example, it has taken many years for the state to recognise the importance of upgrading informal settlements, although recent developments with the local SDI affiliate suggest that this shift has now been made.

A community process cannot formalise in abstract, and systems are designed and strengthened through practice. They need to be modified to respond to the specific and evolving details of each location, and build on the strengths that Federation groups can bring to the process. In Malawi, the Federation activities were successful in catalysing a positive response from the state, with the relatively large-scale acquisition of land at an early stage in the development. While there have been benefits, particularly in the visual impacts of completed houses, there have also been difficulties. The costs are evident when the continuing struggles of Area 49 are set against the ability of the women in Mzuzu (the third area to build) to renegotiate the politics of community resource management and ensure that members carry on paying. The challenges are related to the nature of the formalisation process. The need to conform to public processes is widely agreed but there are concerns that the rule-making is modelled on formal, professionally designed solutions that are likely to exclude the lowest-income and most vulnerable people. Rooting the development of solutions in communities experiencing problems, and verifying them with a more widely based community process, is critical to ensuring the Mchenga Fund's continued relevance to its target population.

Finally, there are notable dynamics around gender in the context of Federation construction. It has long been recognised that the Federation process is primarily led by women, but that once housing construction begins men become more involved and/or are more interested in the process. Women members may have participated with a good understanding of the Federation and the nature of the loan agreement, but may find that their husbands do not agree either with the loan terms or with the women's right to participate in the Federation. The Federation in Malawi now recognises that it has to build women's capacity to manage the community process, and draw in men more explicitly to avoid them sabotaging the relationships between members and savings schemes. The mainly women leaders of the Federation have been leading the system design and strengthening the communications processes at the local level. However, they are also increasingly aware of the difficulties they face in changing household dynamics.

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ANNEXES

Annex 1: House loan agreement form, 2008

This agreement is entered between CCODE and Area 49 Federation Village household, herein referred to as 'loan provider' and Mrs/S ……………………………………… whose address is ……………………………… herein referred to as 'Loan beneficiary'.

<u>Full personal details of the beneficiary</u>

Name of member …………………………………plot no…………………
Sex…………………………Next of kin…………………..Relationship………Home address. Village………..TA…………………District……………………………Contact Address (in Lilongwe)…………………….

<u>Declaration of terms and conditions</u>

CCODE and Area 49 Federation members shall hereby agree and abide by the conditions as laid down herein that:

1. The value of the house is MK81,500
2. The city ground value is MK11,333
3. Mode of payment is
    a. By instalment for 72 months at 12% interest p.a. plus ground rent
    b. Loan paying in cash outright if member will afford to do so plus ground rent
4. Loan repayments made by the beneficiary before this agreement will be accounted for as repayment made towards the loan
5. The member shall acquire full ownership of the house upon completion of the full payment
6. The relation to the member shall inherit membership and loan upon his or her death before full payment
7. No member shall be allowed to sell the house before full payment[33]
8. The member shall be allowed to withdraw the membership before signing this agreement if not satisfied with the conditions laid down herein and CCODE shall reimburse the conditions already honoured by the beneficiary
9. Any member who defaults payment for three consecutive months and or fails to finish within 72 months period will be withdrawn indefinitely and the loan provider shall not pay damages therefore

<u>Termination of contract</u>
This agreement shall be terminated without any obligation on the loan provider in any of the following circumstances:
1. When the beneficiary has completed his or her loan repayments
2. When the beneficiary defaults the monthly loan repayment for three consecutive months and or after the expiry of the 72 months maximum loan repayment period
3. When both parties to the contract agree to terminate before the completion of the contract

[33] This is a new dimension that never existed before, as selling houses was one of the factors excluding the poor from housing initiatives in Malawi.

Arbitration

Any disputes arising from this contract shall be resolved through arbitration before any litigation process.

A. To completed by village member:

1. I (name of beneficiary)…………………………………hereby agree and declare that my contribution is MK…………..and my balance is MK………to be repaid by equal instalments for seventy-two months at MK…………..per month at 12% interest pa Signed …………………………………….
2. I (name of borrower)………………………………hereby agree that I contributed the sum of MK…………by cash and my remaining balance is……………signed ……………………………………………………………

B. To be completed by CCODE official

1. I (name of official)……………………………..on behalf of CCODE management hereby agree and declare that the information is true and correct. Signed ………………..

Declared at Lilongwe District Commissioner's Office at Lilongwe District assembly office this …………………………..day of…………………………in the year of our Lord, Two Thousand and Eight;

Before me (sign)………………………………………………..
COMMISSIONER FOR OATHS

Date & Stamp……………………………….

Annexe 2: Mchenga loan application form

Section 1

Date_________________

1.1

1.1.1 Address of the Applying Group:

____

1.1.2 Physical Address

1.1.3 Postal Address

1.5 Type of the Loan being requested:

Water Connection
Toilet
Housing
Business
other

1.5.1 Note that;

The maximum repayment period for this loan is Eight years. 1% interest is charged on the reducing balance accrued monthly

An advance payment of 10% of the requested amount must be pre deposited to CCODE Mchenga account as contribution towards the loan amount to be deducted from the loan

Your loan principle will be the loan amount applied for less the 10%

Section 2

Loan Amount and other Information

2.1 Total amount budgeted to complete the project MK______________________
2.2 Loan Amount being requested MK______________________
2.3 Number of loan applicants _____________members
(please attach the names of the loan applicants)
2.4 Expected Loan Start Date ______________

Section 3

Declarations of the group

We have read and fully understood the requirements set in this application form and are aware that the fund administration system may disqualify us if it is later discovered that we have supplied false and misleading information in this document.

On behalf of the group;

	Name	Signature	Date	Phone number
Chairman				
Secretary				
Treasurer				
Village head/ Traditional Leader				

	Group member name	Signature	Date (d/m/y)	Phone number
1				
2				
3				
...				
20				

Annexe 3: Agreement between Mchenga Fund and Borrower

Section 1

This is an agreement made between Centre for Community and Development herein after known as the "CCODE"

And

Mr. /Mrs. /Ms ____

Of _______________________________________ (Physical resident Address)

Herein after called the "Debtor"

Section 2

Personal information of the Borrower

1. Names

   a. First name__________________________
   b. First name
   c. Second name __________________________
   d. Surname __________________________
2. Sex (*tick*)
   a. Male ☐
   b. Female ☐

1. Applicant's address:

   c. District______________________________________
   d. Traditional Authority (T/A)__________________________________
   e. Village name
   f. Postal address

Phone number:

3. Next of kin(who will inherit the toilet and loan in case of death)
4. Full Name: ____________________________________
5. Type of relationship(*tick*)

   i. Son ☐
   ii. Daughter ☐
   iii. Husband ☐
   iv. Wife ☐
   v. Brother ☐
   vi. Sister ☐

vii. Other (explain) ___________________________

Agreed and Signed_________________________________

6. Full Name: ___________________________________
7. Type of relationship(*tick*)

i. Son	☐
ii. Daughter	☐
iii. Husband	☐
iv. Wife	☐
v. Brother	☐
vi. Sister	☐
vii. Other explain ___________________________	

Agreed and Signed_________________________________

Section 3

TERMS OF CONTRACT

CCODE Mchnega Fund and …………………………………… will upon signing this agreement be bound by the following agreed terms:

1. Loan amount taken by the debtor MK ____________________________
2. 10% Upfront payment MK ____________________________
3. Balance to be the initial principle MK ____________________________
4. Mode of repayment of the debt by the debtor
   a. Repayment will be by monthly instalments of MK__________________ within a maximum period of 96 months after ascertainment of the loan principle.
5. I undertake the duty of informing CCODE Mchenga Fund in their partnership with Malawi Homeless Peoples Federation about my failure to pay the monthly required repayment in writing through my group to Mchenga technical committee at district level
6. This letter sent to CCODE Mchenga Fund in their partnership with Malawi Homeless Peoples Federation shall not in any case mean that the partnership is satisfied with your excuse
7. An interest of ____% will be charged and added to the reducing balance of my loan every month
8. The interest of ____% will be charged and added to the reducing balance of my loan every month until full completion of the loan
9. Title to the house/ toilet/ business assets/ or any other assets I owe directly to the fund remain with the fund until the loan is completed
10. However should the debtor fail to pay the agreed monthly minimum amount for three consecutive months or should the average amount paid within those three consecutive months be below the agreed minimum monthly amount then the contract shall determine and CCODE shall be at liberty to claim Principle amount and accrued interest as at that date using any options available or by taking the following options:

- Business Loan
    i. Confiscate the business assets
    ii. Confiscate any other assets equal in value to the loan balance if the business no longer has assets
- Housing loan
    i. Confiscate the house and transfer the loan to any other poor person as the fund may deem necessary
    ii. Confiscate any other assets equal in value to the loan balance if necessary
- Toilet Loan
    i. Confiscate the toilet and transfer the loan to any other poor person as the fund may deem necessary if practical
    ii. Close the toilet
    iii. Confiscate any other assets equal in value to the loan balance if necessary
- Any other loan type not in the above category
    i. Confiscate any other assets acquired as a result of the loan
    ii. Confiscate any other assets equal in value to the loan balance if necessary

11. In case of death before completion of the loan

    i. My loan and all related assets will be transferred to my next of keen who agreed and signed above
    ii. In case the first next of keen above is not willing or is prevented by circumstances beyond his/her control to take over, my loan and all related assets will be transferred to my second next of keen
    iii. Any person to whom this loan may be transferred will have to sign this contract

Section 4

---

1. This agreement will remain binding until the full amount of the loan plus all the accruing interests are settled
2. However should the borrower fail to pay the agreed monthly minimum amount for three consecutive months or should the average amount paid within those three consecutive months be below the agreed minimum monthly amount then the contract shall determine and CCODE shall be at liberty to claim Principle amount and accrued interest as at that date.

Section 5

Loan Top Up or Reduction

---

1. I will ask a loan top up in the event that the money requested for has proved insufficient for purchasing all the materials required, and or labour
2. The loan i am requesting may also change to to additional fees like for surveying, grading/landscaping, beacon planting etc
3. I am also aware that the amount being requested for may be reduced if the proves that less money is required
4. I am also aware that the final amount will become the loan amount to be repayed after deduction of the initial 10%

Section 6

Signing

Borrower
I____ (FULL NAME)
Hereby declare

a) That I have contributed MK ___________________ as 10% towards the CCODE loan;
b) That my loan balance is MK____________________________ In words: (________ Malawi Kwacha and ________________tambala);

I declare that I will endeavor to follow the loan repayment agreed procedures and am aware that i can be sued by the fund to recover the loan as stipulated in this agreement

Signature __________________________ Date _____________ (dd/mm/yyyy)
In the presence of

a) Witness
   Name ________________________________
   Signature ________________________________
   Date ________________________________

In the presence of

a) Witness
   Name ________________________________
   Signature ________________________________
   Date ________________________________

	Name	Signature	Date (d/m/y)
Director of Mchenga Fund (CCODE)			
National Leader Mchenga (MHPF)			
District Leader Mchenga			

Annexe 4: Agreement between Mchenga Fund and Savings Groups

Section 1

GROUP NAME/ (VILLAGE NAME) _____________________ THIS ______ DAY OF _____________ YEAR 20______

OBJECTIVE: This form stipulates the terms of agreement binding the Trust fund and (group name) __________________________ of (T/A) __________________________ in (District name) __________________________________ on behalf of its members.

Section 2

Group Details

1.1 Group Name________________________

1.2 Physical Address___________________________

1.3 Village Name________________________

1.4 T/A____________________________

Section 3: The Agreement,

By signing this contract, it is agreed

1. that both parties have read and fully understood the contract and
2. that both parties fully agree to be bound by the terms stipulated in it;
3. that the group members exercise due diligence to ensure that every loan applicant has receives the exact loan amount;

4. that the group herein-after commits itself to endeavour to encourage and enforce its members to repay the loan;
5. That the group will purchase the required documentation materials that are sold at a cost price from CCODE before the funds are disbursed in preparation for the loan;
6. that whilst CCODE endeavours to supply the trainings and respective materials, the group will ensure that materials and labour are documented in Material and Labour books and that all information is written in duplicate to ensure that every member has signed against the services and materials they received.
7. The group will endeavour to ensure that every member has understood the nature of agreement they are entering into and that every member has signed the agreement between him/herself and the CCODE Mchenga Fund

Section 4

Savings Group Responibility

The Savings Group agrees as follows:

1. Total Loan Amount;MK ______________________________
2. Less Total 10%; MK ______________________________
3. Balance as principle; MK______________________________
4. Village Name; MK ______________________________
5. Interest rate; 1% on the reducing balance The Loan repayment duration; maximum of 96 months

6. Loan Start date _____ (Day)/________Month/20___ (Year) to; Loan end date _____ (Day)/________Month/20___ (Year)
7. Loan Type; __________________________
8. Note that attempts to divert the use of the loan may attract the fund management to disqualify the group and pull out its resources even after approval
9. The loan will be issued out in form of:
    i. Money in case of business loan type
    ii. Materials and Services for a construction related loan type

10 The loan depending on the amount will be issued out in phases like;

i. Foundation
ii. Window
iii. Roofing

as deemed convenient by parties to this contract and as advised by the skilled personnel undertaking the construction works.

3.0 OTHER IMPORTANT TERMS

I. Mode of disbursement

II. Burden of Repayment

CCODE disburses its loans through the Federation District Account to the group and not to the individual loan applicants.

III. This means that;

i. The group has the burden to repay the loan to CCODE Mchenga fund's account
ii. It is the cooperative responsibility of the group to collect the monthly repayments from its members and deposit them to the fund's special account
iii. CCODE primarily regards the group answerable for non repayment and not the defaulting member

IV. The group will endeavour to:

i. Select among them a capable person who will be a loan officer to perform duties of this office;
ii. Ensure that every month the loan officer has collected the minimum required sum of repayments from the group and deposited to the CCODE Mchenga fund account.

V. Handling Individual Loan Defaulters

i. The group has the primary responsibility to handle loan defaulters through encouragement or any other necessary interventions.
ii. Exchange visits will be encouraged at district level with other groups that are doing well to stimulate sharing of ideas and learning of repayment strategies.
iii. The National leaders of the Federation will be asked to intervene if the situation perpetuates.
iv. CCODE Mchenga fund comes in as a last resort in case of further problems

VI. CCODE will endeavour to:

i. Supply the group with technical expertise;
ii. Supply the group with reports which the group will reconcile against loan books kept by the loan officers;
iii. Train the loan officer how to record and send repayment details to CCODE office every month.

Section 5

TERMINATION OF CONTRACT

1. This agreement will remain binding until the full amount of the loan plus all the accruing interests are settled

Section 6

Loan top Up or Redection

1. The loan i am requesting may also change to to additional fees like for surveying, grading/landscaping, beacon planting etc
2. I am also aware that the amount being requested for may be reduced if the proves that less money is required
3. I am also aware that the final amount will become the loan amount to be repayed after deduction of the initial 10%

Section 7

Signatures:

	Group Member Name	Signature	Date(d/m/y)	Phone No.
1				
2				
...				
20				

	Name	Signature	Date(d/m/y)
Director of Mchenga Fund (CCODE)			
National Leader Mchenga (MHPF)			
District Leader Mchenga			

Annexe 5: Housing loan agreement

		Loan Type			
Notes	Description	Tenant	Landlord	Toilet	Water Connection
I	Land	**X**			
II	Materials	**X**	**X**	**X**	**X**
III	unskilled labour	**X**	**X**	**X**	**X**
IV	City/Town Assembly Fees	**X**			
V	Consultancy Fees	**X**	**X**	**X**	
VI	Power Connection Fees	**X**			**X**
VII	Water Connection Fees	**X**			**X**
VIII	Transport for materials	**X**	**X**	**X**	**X**
Totals		**X**	**X**	**X**	**X**

Notes

I. If land is acquired by CCODE
II. All building materials costs inclusive surtax until project is completed
III. Labour contributed by borrower
IV. Fees to City/Town Assembly related to Layout plans, plot surveys
V. Consultancy fees
VI. Connection Fees to Escom
VII. Connection Fees to Water Board

I ________________________ agree as follows:

1. I will repay the loan within _______________months or ___________Years
2. Each month i will make repayment of MK___________________ or CCODE Mchenga Fund /Malawi Homeless People's Federation can decide
3. Each month i am unable to make repayment i will inform CCODE Mchenga Fund / Malawi Homeless People's Federation before end of month in written form explaining reason through district committee

4. The said letter does guarantee that CCODE Mchenga Fund /Malawi Homeless People's Federation can be sastified
5. I will repay the loan plus the interest totalling ___% on my loan
6. I am aware that if i do not make monthly repayments, the interest increases
7. I am aware that this interest will accrue every month until the whole loan is repaid
8. The house /tolite/business goods/property acquired through this loan belongs to CCODE/MHPF until i fully repay the loan and accruing monthly interest
9. If i breach this agreement within 3 months CCODE Mchenga Fund / Malawi Homeless People's Federation should do as follows:
12. any options available or by taking the following options:

- Business Loan
  - iii. Confiscate the business assets
  - iv. Confiscate any other assets equal in value to the loan balance if the business no longer has assets
- Housing loan
  - i. Confiscate the house and transfer the loan to any other poor person as the fund may deem necessary
  - ii. Confiscate any other assets equal in value to the loan balance if necessary
- Toilet Loan
  - i. Confiscate the toilet and transfer the loan to any other poor person as the fund may deem necessary if practical
  - ii. Close the toilet
  - iii. Confiscate any other assets equal in value to the loan balance if necessary
- Any other loan type not in the above category
  - i. Confiscate any other assets acquired as a result of the loan
  - ii. Confiscate any other assets equal in value to the loan balance if necessary

I ________________________________ have read and understood this agreement

	Name	Signature	Date
Borrower			
Witness 1			
Witness 2			
Witness 3			

Annex 6: Vetting Forms CCODE in Partnership with MHPF

Name of the Group ________________________
Physical Address ________________________

Names of Applicant
1. First Name ________________________
2. Second Name ________________________
3. Sur Name ________________________

Name of the Secretary ________________________

1. Are you a tenant? Yes/ No

2. Are you a landlord? Yes/ No
3. What are your main sources of income?
    a. ____
    b. ____
    c. ____
4. What is your average monthly income K _________________________
5. Do you have a toilet? Yes/ No
    a. If you have one what type?
        i. Sky loo
        ii. Forsa alterna
        iii. abaloo
        iv. Water closet latrine
        v. Pit latrine
        vi. Flying toilet
        vii. _______________________________
6. Are you willing to occupy a house with an eco san toilet? Yes/ No
7. What is your household size? __________________________
8. Who is the household head?
    a. Father
    b. Mother
    c. Daughter
    d. Son
    e. Grand mum
    f. Grand father
9. If you are contemplating to mitigate your loan how do you think you are going to be involved? ____
10. Have you already deposited the10% of your loan requested loan amount to the special fund's account?
11. How prepared are you to construct a new or improve your house using a loan at ________________(place); ____________________________________
12. How much have you saved in the MHPF Mchenga Fund Account? MK__________________
    a. Do you have deposit slips to support your claim? Yes/ No
13. For the past three months how many times have you contributed towards "Daily Savings" at your group level?
14. How much have you saved with the MHPF Chisoni District Fund? MK_____________________
15. To be answered by leaders at Centre level
    a. Has the applicant ever accessed any loan from the daily savings at the Centre level?
    b. How active is the applicant at the centre level in the following areas?
        i. Attendance _________________________
        ii. Participation in MHPF activities ________________________

Score; ____________________________

Recommendation by the District Committee; _________________________

Reason for the recommendation;________________________________ ___

Annexe 7: Loan application vetting form

Centre	
Member	
Location	
Secretary	

Checklist	Yes	No
Has he/she had a centre loan before?		
Does applicant attend centre meetings?		
How does applicant participate in federation activities?		
Purpose of loan?		
Mchenga Loan amount?		
Reputation of applicant on loan repayment		

Annexe 8: Loan repayment procedure

Monthly repayments?	MK

Repayment	month 1	month 2	month 3	month 4	month 5	month 6
Month						
Amount						

COMMITTEE

	(Yes)	(No)
Committee supports ?		
Committee does not support?		

Reasons

1. …………………………………………………
2. ………………………………………………
3. ………………………………………………

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