HOUSING SUPPORT SERVICES FOR HOUSING MICROFINANCE LENDING IN EAST AND SOUTHERN AFRICA: 
A Case Study of Centre for Community Organisation and Development / Malawi Homeless People’s Federation / The Mchenga Urban Poor Fund

By Anthea Houston
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Introduction

This case study forms part of a research study conducted for FinMark Trust and Rooftops Canada into the provision of housing support products and services for housing microfinance lending in East and Southern Africa. The study aims to understand the extent to which housing support services form part of the housing microfinance process, whether these services can be enhanced and if so, how. Using an action-research approach the study examines the kind of housing support products and services accompanying housing microfinance in six diverse organisations in Kenya, Malawi, South Africa, Tanzania and Uganda.

The Mchenga Fund (Mchenga / the Fund) is a microcredit revolving loan fund established by the Malawi Homeless People’s Federation (Federation) and the Centre for Community Organisation and Development (CCODE). The Federation is a grassroots social movement of over 50,000 members in Malawi. These members are organised by the Federation into community groups that save collectively on a daily basis. Each group also provides small loans to group members. CCODE is a non-government organisation that supports the efforts of the Federation exclusively to improve the quality of life of the poor in Malawi.

The day-to-day operations of the Mchenga Fund are actively managed by the Federation members with technical support from CCODE, the financial administrators of the Fund. CCODE builds capacity within the Federation and the two institutions work hand-in-hand for the effective management and growth of the fund. Federation members determine the Fund rules, select the recipients of loans, process loans and ensure repayment while CCODE manages the management information system, disbursements, monitors repayments, prepares reports, ensures regulatory compliance, identifies potential partners and develops funding proposals etc.

Since 2003, 1583 members (99.5% women) obtained loans from the Fund, 768 new homes were constructed in urban Malawi and 100 new sanitation facilities installed. Other households have benefited by making home improvements. Since the construction of the first 200 houses the membership of the Federation has grown exponentially placing tremendous demand on the Fund for loans as thousands of members save regularly to access better shelter.

Contextual information

Landlocked Malawi has a core, developed, urbanised region in the South and a peripheral, rural, underdeveloped Northern region. The population is fast growing; the annual increase between 1998 and 2008 was on average 2.8%. In urban areas this estimate doubles to 5.6% indicating a rapid rate of urbanisation, one of the highest rates in the world and significantly higher than the Southern African region’s average (estimated at 1.9%). This rate is worrying since Malawi is one of the poorest countries in the world.

The agricultural sector, a cornerstone of the Malawian economy, contributes the majority of exports and the largest portion of gross domestic product. Favourable weather conditions resulted in strong economic growth between 2006 and 2008 but the economy remains...
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vulnerable to shocks. The decline in the agricultural sector is a key driver of urbanisation along with the country’s low Human Development Index.

Customary law is deeply rooted in Malawi and chiefs are *de facto* land managers in urban areas. In the 1960s the government, through the Malawi Housing Corporation (MHC), facilitated the provision of serviced land with the introduction of Traditional Housing Authorities (THAs). This was initially very effective and set a new standard for low-income housing provision in the region. Traditional leaders played a central role in allocating and developing land in the THAs (including land for housing). THAs struggled to keep pace with the growth in urban demand and legislative changes were effected which gave Local Assemblies responsibility for the provision of low-income housing and control of THA land.

Control over physical planning and land development also shifted but the overall transition of responsibilities has been ineffective. Chiefs have not been compensated as planned, policies are not sufficiently aligned, appropriate human resources are lacking and powers are not aptly devolved or centralized. Furthermore, MHC failed to transfer significant land holdings and develops land with disregard for the needs of people with low incomes. This has resulted in many unplanned and unauthorized developments in informal settlements and peri-urban areas and the ongoing active involvement of chiefs in settlement and housing development.

The housing paradigm in Malawi is characterized by an undersupply of serviced land and low-income housing, a lack of affordable housing finance and few role-players in the housing and housing finance markets. Administrative processes involved in land and housing development are lengthy and costly and the formal land tenure system is dysfunctional. Most land in urban areas is managed informally by traditional leaders with tacit and, at times, explicit consent from the authorities. At the same time, the City Assemblies report exponential growth in demand for serviced plots. Although these local authorities are mandated to facilitate housing provision and a new Housing Act is being tabled by the newly formed Ministry of Lands, Housing and Urban Development, housing does not feature as one of the government’s key priorities in the Malawi Economic Growth Strategy.

Malawi has experienced high inflation and high interest rates in the decade prior to 2004. Thereafter more effective fiscal policies were implemented and the economy strengthened. Throughout 2009 the prime rate was 19% and headline inflation averaged 8.4%. Both these rates fluctuate due the economy’s overall vulnerability to weather conditions and commodity prices. This negatively affects access to credit in the formal financial sector which is conservative and disinterested in low-income clients and housing finance in general and housing microfinance specifically.

Malawi has a phenomenal undersupply of housing finance and housing microfinance. The key challenges to increased provision of housing finance in Malawi include the limited capital base of potential lenders, the lack of housing microfinance providers, prohibitive eligibility requirements including requisite collateral and high interest rates.
Given this context poor people rely on traditional leaders to access land, live without services and build their own homes, mainly using earth bricks which they produce themselves. This is often financed through savings and the diversion of loans accessed for non-housing purposes. UN-HABITAT notes the low affordability levels of Malawians as the main stumbling block to increasing housing supply and suggests that measures to increase incomes are needed to address the housing problems. They argue that there is no substantial quantitative shortfall in housing stock in Malawi but rather a need to improve the quality of existing housing stock and to ensure a steady supply of new housing in urban areas to keep pace with growth in demand which they estimate as 21 000 new houses annually. This creates an ideal environment for growth in the housing microfinance sector since housing microfinance is well suited to incremental home improvements.

### Centre for Community Organisation and Development (CCODE), Malawi Homeless People’s Federation (Federation) and The Mchenga Urban Poor Fund

<table>
<thead>
<tr>
<th>Geographic scope</th>
<th>Malawi: the Federation is active in eighteen of 28 districts in Malawi.</th>
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</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>The Mchenga Fund’s objective is to provide group loans to empower Federation members to change their lives by obtaining capital for new homes, home improvement projects, sanitation facilities or small scale businesses.</td>
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<td></td>
<td>CCODE’s goal is to improve the quality of life of the poor in Malawi by empowering them to change their lives by improving livelihoods, living standards and skills.</td>
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<td></td>
<td>The Federation works to improve its members’ quality of life.</td>
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<tr>
<td>Type of institution</td>
<td>CCODE is a provider of housing support products and services, and administrator of housing microfinance and micro-enterprise loans.</td>
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<td></td>
<td>The Federation is a grassroots movement which through The Mchenga Fund is a provider of housing microfinance with a small percentage of micro-enterprise loans.</td>
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<tr>
<td>Sector</td>
<td>CCODE and the Federation are both non-profit non-government organisations. The Federation is a membership based organisation with members organised at a local level in savings centres (within centres members sometimes also choose to form smaller groups).</td>
</tr>
<tr>
<td>Target market</td>
<td>The Fund specifically supports the 50,000 Federation members who save regularly, 80% are women with low incomes in rural and urban towns.</td>
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<td></td>
<td>CCODE’s target group is also exclusively the Federation and its members.</td>
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<tr>
<td>Loan book size</td>
<td>As at June 2009 the Fund’s outstanding loan balance was MWK 85,989,171 (USD 609,852).</td>
</tr>
<tr>
<td>Housing microfinance as a percentage of loan book</td>
<td>Housing microfinance represents 98% of Mchenga Fund’s loan book.</td>
</tr>
<tr>
<td>Total no. of loans</td>
<td>As at June 2009 Mchenga Fund issued loans to 1583 people (1575, 99.5% females).</td>
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<tr>
<td>Annual turnover</td>
<td>The Mchenga Funds’ turnover for the financial year end June 2009 was reflected as MWK 6,968,958 (USD 49,425). CCODE’s overall costs for the financial year end June 2009 was MWK 72,648,022 (USD 515,234).</td>
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<td>PAR18</td>
<td>PAR was 15% as at November 2009.</td>
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### Housing support products and services offered

#### Key role-players providing support

The day-to-day operations of the Mchenga Fund are actively managed by Federation members with technical support from CCODE, the financial administrators of the Fund. CCODE builds the Federation’s capacity and the two institutions work hand-in-hand for the effective management and growth of the Fund. Federation members determine the Fund rules, select recipients of loans, process loans and ensure repayment while CCODE manages the information systems, disbursements, monitors repayments, prepares reports, ensures regulatory compliance, identifies potential partners and develops funding proposals etc.
CCODE staff, the Federation leaders and members are the primary providers of housing support products and services to Federation members. Their capacity is boosted through partnerships and by occasionally engaging professional consultants.

**FINANCIAL PRODUCT RANGE**

The Mchenga Fund has the following housing related loan products:

- **Housing loans:**
  - Depending on the cost of building materials in the city where the housing project is implemented the loan values are between MWK 70,000 – 140,000 (USD 496 - 993);
  - The household is required to contribute in sweat equity and building materials;
  - Interest is charged at the rate of 12%pa on reducing balance accrued monthly;
  - Loan periods range up to a maximum of eight years;
  - Loans are available when CCODE and the Federation access land from government. The land is purchased and housing is constructed with Fund’s finances with involvement of the members who will acquire the houses after taking Housing loans from the Fund;
  - Loans are only available to housing saving schemes on a collective basis.

- **Home Improvement loans:**
  - Initially loans are for a maximum of MWK 20,000 (USD 142). After servicing the initial loan well, a member may apply for a subsequent loan for a maximum of MWK 30,000 (USD 213);
  - Interest is charged at the rate of 24%pa on reducing balance accrued monthly.
  - Loan periods range up to a maximum of two years;
  - Loans are available to members with houses which are being improved incrementally.

- **Water and Sanitation loans:**
  - Loans are for a maximum of MWK 30,000 (USD 213);
  - Interest is charged at the rate of 24%pa on reducing balance accrued monthly.
  - Loan periods range up to a maximum of six months;
  - Loans are given to an entire community through a comprehensive engagement process often involving the local chiefs;
  - Loans are for the installation of toilets and bathrooms and for water connections.

No administration or application fees are collected and all loans are also subject to the following terms and conditions:

- All borrowers must be Federation members – membership requires that someone joins a centre, pays a month membership fee (MWK 20 / USD 0.14) and practices daily savings. The Sanitation loans are the only exception as they are given to entire communities even if some community members are not Federation members.
- Loans are given to groups (five to twenty people within a centre) to ensure that peer pressure encourages people to repay.
- Contracts are entered into between The Mchenga Fund and the centre as well as between the Fund and the member.
- On approval of the loan a borrower must make a 10% down-payment towards repayment to ensure that people are prepared and accustomed to saving before incurring the debt.
- Borrowers do not receive cash for housing related loans. Loan amounts are paid directly to material suppliers or service providers.
- No security is taken and the Fund relies on social pressure in groups, centres and districts to ensure repayment. Groups, centres and eventually districts cannot access subsequent loans without first addressing defaults.

**Nature of support**

Unless indicated otherwise below, these services are provided for free.

CCODE’s staff advise members on **house design**. Members instruct CCODE about their needs and preferences and houses are designed by CCODE staff. They also take the lead in obtaining approval from the authorities. Where houses have been constructed a starter house is designed (two-bedrooms, lounge, store-room and Ecosan toilet) using adobe bricks.
(a stronger version of the sunburnt bricks typically used in self-help housing in urban areas in Malawi). This costs between MWK 70,000 and MWK 100,000 depending on the soil conditions and inflationary effects on the prices of materials and artisans.19

Where infrastructure development is needed the design services are outsourced by CCODE to private consultants at market rates and the costs are passed on to the members in their loans. Similarly, in larger projects layout design is outsourced and the cost is borne by the member. In small projects these services may be provided by CCODE staff.

CCODE and the affected groups jointly select the professional consultants (such as planners, architects and engineers) after extensive engagement processes to clarify the needs of affected members and after considering different consultants’ quotations. These consultants work as professionals without any supervision. When partnering with the university, a faculty member is assigned and s/he selects and supervises the students involved.

Members decide on the selection of contractors and artisans (such as bricklayers, electricians and carpenters) with some input from CCODE. Wherever necessary, loan values include the cost of skilled or semi-skilled artisans. A foreman is contracted by CCODE to supervise building works at no cost to members. Problems have been experienced with quality of workmanship due to contradictory instructions from the member and the foreman and CCODE has since boosted internal capacity. They also intend recruiting more staff to supervise construction or provide supplementary advice when such contradictions arise.

The members provide unskilled labour on a voluntary basis. Groups determine whether any provision is made for people with special needs. In serious cases group members are likely to assist those with special needs.

Federation leaders and members independently lobby officials and politicians for access to land. CCODE supports them by assessing the suitability and capacity of selected land parcels and by helping them to identify the appropriate decision-makers to target. Once land is obtained, the administrative requirements for securing planning approval are substantial and CCODE staff work closely with the groups to engage the local authorities and meet these requirements.

Each district establishes a Procurement Team to source quotations for building materials, chooses suppliers and oversee procurement in consultation with the families who will benefit. They take collective decisions and consider advice received from CCODE on the material quantities and quality needed. The Team orders materials and CCODE makes payments to suppliers on their instruction. Materials may be distributed directly to individuals or to a central store if the project is large. In the latter case, the district establishes a Storage Team to manage the storage and distribution of materials during the project.

Innovatively, the Fund established the Shire Lime Company in partnership with a private investor in 2006 so that the Fund could benefit from the profits made from cement sales.

Growth plans

Recognising the high demand for housing and housing finance in Malawi and the growth in Federation members, The Mchenga Fund aspires to be the leading microfinance institution in Malawi. The Fund intends to grow but does not have any firm growth plans.

In the short term The Fund is focused on improving loan book performance by improving its accounting and reporting systems, refining its collections and default procedures, obtaining more donor capital and expanding its geographic reach.

In the longer term it intends developing stronger relationships with local banks and expanding its loan portfolio.
The company supplied the Federation members in the Mzuzu and Blantyre projects and created fifteen permanent and ten temporary jobs for members.

Centres are supported at various stages with **training** provided by CCODE and/or the Federation leaders. The districts ensure that centre members have the appropriate skills and training to adhere to Federation and Fund rules, review loan applications, ensure loan recovery, administer and collect loan repayments, follow-up defaults, produce reports and resolve disputes.

Initially when new centres are formed district leaders convene a five day training session to explore how the centre works and how this can improve and to build understanding of:

- how the Federation works and the obligations of members;
- why members should save;
- how to collect and administer daily savings;
- how to give loans within the centre (criteria, processes for giving loans, collecting repayments, dealing with defaulters, etc.);
- the reporting requirements and how to prepare and submit reports;
- how the Mchenga Fund works;
- how to resolve conflict;
- setting up centre structures (establishing loan committees, selecting loan officers and treasurers etc.).

District leaders, with assistance from CCODE staff, also provide training and support to the loan officers selected by the centres. Loan officers come together for a one day training session on how the Mchenga Fund works, handling the loans, use of the loan books, calculating interest and balances, and maintaining the flow of information between CCODE, Federation and the centre. District leaders and loan officers are trained on how to read and interpret the reports generated by the Fund’s management information system. Loan officers are also given materials such as bank deposit slips and calculators to perform their duties.

Members are supported through exchanges with peers. When new initiatives are undertaken or if problems arise at a centre level they may participate in exchanges with other groups to address it. These informal exchanges are planned by the members themselves, with support from the district leaders. Exchanges also occur with other development organisations.

In addition, Federation members get support from monthly district meetings and from livelihoods skills training such as training about HIV/AIDS or to develop skills like beading, carpentry, bricklaying, building Ecosan toilets, etc. In the four latter examples external service providers are involved and paid by CCODE.

**Location of support and personnel**

CCODE’s national office is in Lilongwe with thirteen staff, two of whom are dedicated to the Fund (a fulltime Fund Director and a Management Information Support Officer who spends about 80% of his time on the Fund). Two CCODE staff members provide technical expertise on house design, building costs, affordable materials and compliance with local authority regulations. They also advise members and Federation leaders on the value of the loans needed to complete the works identified by the member requesting the loan.
The staff members are appropriately trained graduates who undergo a formal orientation process when joining CCODE. Their skills are also broadened through on-the-job exposure and networking with Federations in other parts of the world.

CCODE does not operate any field, district or regional offices. Instead, through coaching and mentoring, CCODE enhances the capacity of the Federation leaders to provide the support independently. There is frequent interaction between CCODE staff and the Federation leaders who work together in the execution of their duties.

Each centre selects a Loans Officer and Treasurer, both volunteers, who are trained by district trainers (with support from CCODE).

The Federation does not have offices but two districts have rented office space for administrative purposes. District leaders work in these offices on a voluntary basis.

**Support to individuals or groups**

Individuals access loans and support products and services through the centres via the group. These groups are groups of Federation members who voluntarily come together to collectively apply for a loan.

CCODE focuses on building the leadership capacity within the Federation especially at the national and district levels. Where groups access land, build houses or access sanitation loans, they will also access the housing support services directly.

This mirrors the way loans are provided as all loans are group loans, approved at each level of the institutional hierarchy (at centre, district, regional and national level) as a control mechanism to eliminate unfairness, ensure consistency and reduce the risk of default.

**Accessibility of skills**

The skills needed are inaccessible to the poor because of their limited buying power and the scarcity of such skills in the market. CCODE faces challenges in increasing its human resources as built environment professionals tend to prefer private sector construction jobs which provide better remuneration, especially in the urban areas where Federation housing projects have been located thus far.

**Partnerships**

The Federation manages the Fund and has a partnership with CCODE which works exclusively for the success of the Federation including the growth, effective management and administration of the Fund. Housing support products and services are mainly provided in-house by CCODE and the Federation and when necessary external organisations are engaged (consultants or partners) to provide support.

The Federation’s partners, Homeless International and Shack Dwellers International provide further financial and technical support.

CCODE and the Federation also have partnerships with tertiary education institutions such as the Namitete Technical College and the University of Malawi’s Faculty of the Built
Environment. In the latter instance they have a broad memorandum of understanding (MOU). Under the partnership students provide some technical services to Federation members and are paid stipends for their travel expenses. These payments are included in the loan. Federation members in three projects benefited directly from partnerships with the university. Some of these experiences have not worked well and it has been necessary to develop clearer briefs and project based MOUs.

Implications for operations

The housing microfinance function and the provision of housing support products and services are managed by two different entities, CCODE and the Federation who work in close collaboration. The partnership required the establishment of an elaborate communication system between the Fund’s decision-makers, the Federation and CCODE. It also necessitated the establishment of complex organisational structures and the development of an effective management information system (MIS). A complex hierarchical structure exists involving a series of approvals and reviews in the granting and managing of loans. This structure is also used to provide technical support to members who access loans. The MIS, communication system and organisational structure is onerous but has enabled transparency, the flow of information and skills transfer.

Pricing of housing support products and services

Costs

CCODE does not track the costs of providing housing support products and services but since they support the efforts of the Federation exclusively their overall turnover (MWK 72,648,022 / USD 515,234 for the financial year ended June 2009) represents the cost of:

- Administering The Mchenga Fund;
- Providing housing support products and services to Federation leaders and members including building the capacity of the Federation leaders.

Based on this turnover the maximum cost per new loan granted in the same period can be estimated at MWK 122,716 (USD 870).

Pricing and cost recovery

In general, the costs incurred by both CCODE and the Federation in managing and administering the Fund are not passed on to the Fund or the Federation members. As such the Fund’s only expense is its bank charges. All CCODE and Federation expenses (human resources, training expenses, etc.) are entirely donor funded.

Some training is however provided to districts and centres by Federation leaders on a voluntary basis. Only the costs of external professionals like surveyors or artisans (bricklayers, electricians, etc.) are recovered by inclusion in the principle loan value.

The interest rates charged bear no relation to the cost of funds or administration. The rate is considerably lower than that charged by most other role-players who provide mortgage loans, home improvement loans or microfinance (MUSCCO, New Building Society, Standard Bank, Opportunity Internal, National Bank and Habitat for Humanity Malawi). Interest rates were set in relation to inflation so that the real value of the Fund’s capital would not decline. Since inflation remains volatile the Fund’s rates have not been adjusted downward. Considering
this and that capital has been donated and no interest is paid on savings a level of recovery of administrative and housing support services costs may be possible. This is certainly necessary if the Fund is to address the demands of the growing Federation.

Both CCODE and Federation have identified the need to recapitalise the Fund to serve the Federation’s burgeoning membership. They recognise that attracting funding requires improved sustainability. They believe, however, that loans will become too expensive for Federation members if costs are recovered and that members will be more likely to default which will threaten the sustainability of the Fund. This argument disregards that the status quo is unsustainable and change is therefore inevitable.

A possible solution could be incorporating the costs of housing support products and services into the interest rate calculation as this may be more acceptable to members than adding a direct flat cost per loan. Since current interest rates do not relate to overall costs it would still be hard to initially persuade members to accept this.

Client willingness to pay and affordability

Members report that they struggle with the existing interest rates and believe that adding the cost of housing support products and services will make the loans unaffordable. Some members do not find these support services essential and say they would forego the services rather than pay for it. Others object to paying a donor-funded NGO like CCODE for services.

Overall assessment

Successful aspects of the approach

The success of the Mchenga Fund must be considered within the context of the general lack of housing finance and housing delivery in Malawi. With substantially fewer financial and human resources, the Fund has succeeded in delivery where the government, MHC and commercial banks have failed. They have engaged the Malawian government and gained access to land for developing 465 plots in Blantyre, 222 in Lilongwe and 83 Mzuzu. Through the loans extended by the Fund 768 families have new homes, 100 new sanitation facilities have been installed (which in the majority of cases also benefits other families in the community) and hundreds of households have benefited by making home improvements. A number have also installed solar energy panels and taken business loans. Importantly, 99.5% of the Fund’s beneficiaries have been women.

The institutional arrangements, although complex, recognise that housing support services and housing microfinance require different types of expertise. The partnership and distribution of responsibilities allows for this to some extent as housing support is provided by both CCODE and the Federation while CCODE takes responsibility for the more technical financial administration of the Fund.

The dynamism of the Fund is one of its most successful aspects. The rules and operations of the Fund evolve continuously as they are refined in response to the needs of members, the financial performance of the Fund, operational problems experienced and the lessons learned. For example learning from experience has enabled the recovery rate to steadily improve and the systems, structure and culture of the Fund to gradually mature.
The CCODE – Federation partnership’s training programmes improve the quality of service offered by the Fund. The training gives borrowers improved access to information and skills which improves their capacity to use the loans for the intended purposes and their understanding of how to work with credit. It also improves the Federation leaders’ Fund Management knowledge and skills.

The approach maximises the potential of the poor who, in this model are the providers of housing finance products and increasingly also the providers of housing support products and services. While government is remiss in its responsibility to house the poor, this environment has ironically created the conditions in which poor people are empowered.

By using the group lending model time and resources are saved and the Fund’s monitoring system is strengthened as groups track loan repayments and apply pressure when individuals default. The approach recognises existing practices regarding informal financial services and takes advantage of the African tradition of group savings.

Main benefits of the approach mentioned by CCODE, Federation leaders and members

CCODE, Federation leaders and members recognise that the approach not only empowers members financially, it transforms their lives by developing life skills that are empowering and enables the poor to change their relationship with government and in so doing to shift the balance of power in their favour.

Furthermore, Federation leaders note that developing the financial literacy of members has encouraged some to become active in the formal financial sector by opening savings accounts at commercial banks. They and members report that some members also save in the centres and never apply for loans from the Fund once they understand the impact of interest on their household. The Fund still benefits from this in that its available capital increases while at the same time the local micro-economy within member communities is strengthened.

CCODE and Federation leaders comment that when loans are granted they do ultimately result in housing improvements as people are supported in developing the capacity to use the money for its intended purpose. Similarly, people are able to negotiate with government to access land, confident of their capacity (financial and technical) to successfully develop the land and improve their housing.

CCODE says that the involvement of Federation leaders and peer groups and centres in the provision of housing support products and services reduces their human resource needs and costs. Leaders of the Federation add that this improves their understanding of the leadership role and has empowered them as stewards of the Fund and of the Federation.

They comment that the centres are increasingly sustainable and self-reliant. Members explain that women become self-reliant and are able to take financial control of their lives. They are empowered with knowledge, financial life skills and confidence to save, work with credit and improve their lives. Women say that the Fund has changed their lives as they are more confident, informed and socially active.
Members say that the proactive and collective nature of the centres enables them to work together and use their savings to achieve together what they cannot do alone. They say that the Fund has the added benefit of overcoming tribal boundaries as members of the Federation gather together to tackle their common need to improve their lives.

Members also report that people who do not belong to the Federation have benefited from the Fund through the community sanitation loans.

In addition, leaders comment that higher repayment rates resulted from using a group lending approach and acting on defaulting groups to ensure that members exert peer pressure through the centres and districts.

**Challenges and barriers to expanding operations**

*External context*

The absence of a government housing development programme results in a lack of a clear process of engagement by government with civil society organisations working on housing. Although land has previously been accessed from the government, the lack of express government commitment to the Fund represents a significant barrier to accessing sufficient land and finance to achieve the desired greater scale. It is thus impossible to make a significant impact on the demand for loans and housing support products and services.

As this is not a priority for the Malawian government, housing does not feature on the agendas of most donors active in Malawi. This is a barrier within the current model as the Fund requires a stronger capital base to increase lending and more donor funds are needed for operations. The Fund should review its pricing model and develop an effective resource mobilisation strategy to ensure the sustainability of its operations. Present dependency on donor funds dictates a continuous need to source funds for housing support (for example, for exchanges and training) and operating costs. It will be necessary to improve the Fund's operational sustainability to make it more attractive to potential financiers.

*Resources*

Some of the Fund’s donors have been prescriptive about the way in which the funds are utilised and managed. From time to time this has been in conflict with the intentions of the Fund and sometimes the requirements have posed administrative challenges.

A level of technical specialisation and support is often needed and some partnerships with the universities or technical schools have not worked well (for example, students are not always available).

Increased public awareness is needed to support both the growth of the Federation and the mobilisation of resources for its work since the Fund is dependent on grant funding, especially for growth and the provision of housing support products and services.

*Institutional form*

The decision making authority of the Fund is vested in the members through their elected representatives. This creates a paradox which distorts decision-making when the best interest of the Fund diverges (or is perceived to conflict) with the best interest of members such as building a sustainable financial model for the Fund.
Internal systems and sustainability
The Fund struggled to identify and put in place the systems needed to improve its effectiveness and sustainability. It has adapted its systems over time - for example, initially it had no systems to support repayment and the default rate was high. In 2008 a turn-around-strategy was implemented; management information systems were restructured, staff and Federation capacity was built and new processes put in place to address collections. The default rate reduced steadily during 2009 although more improvement is needed to achieve an acceptable default rate and attract more operational and wholesale finance.

Key lessons arising and potential for replication
Several aspects of the model in this case study are suitable for replication. They should however, always be appropriately customised and adapted for different organisations and contexts.

The case clearly shows how operational expenses, especially relating to the provision of housing support products and services can be reduced through greater use of volunteers while the service nonetheless improves due to the conscious learning culture within the organisation. This is possible in part due since houses in Malawi are commonly built using familiar technology and accessible materials which render the houses affordable to people with low incomes. Houses are typically built using adobe bricks which are prepared on the site and with thatch roofs. The use of volunteers could be adapted and replicated by other membership based microfinance institutions, especially where regulations are relaxed and where self-help housing is popular.

The Fund uses a combination of CCODE staff, volunteers and hired consultants to provide technical support. The case also suggests that such a mix of human resources, if correctly balanced, can help to broaden the range of available support and create more efficiency in the delivery of the service provided the institution has the capacity to properly deploy and manage all these categories of human resources.

The case study shows the limitations of broad MOUs when partnering with tertiary institutions for the provision of technical support and illustrates a need to develop clear, project specific terms of reference to ensure satisfactory performance.

From the Fund’s experience it is evident that affordability levels can negatively influence the quality of workmanship as cost influences the selection of builders or artisans. As in the case of CCODE, it may be necessary to boost in-house capacity to monitor and address this during the planning and construction.

The Federation uses adobe bricks which are more environmentally sustainable than standard burnt bricks. The use of the Ecosan pit latrines contribute to a healthier living environment for residents while also converting the human waste into manure making it an environmentally friendly option. Some researchers have noted however that while the use of adobe bricks is generally preferable over burnt bricks, if used at a large scale to address housing significant land degradation will result.23 Regardless, environmental initiatives such as this one need to gain popularity and efforts should be made to replicate it elsewhere.

The Mchenga Fund demonstrates the capacity that poor people have to drive development processes and manage financial systems if given access to adequate and appropriate support. In so doing, it demonstrates how poor people can become part of the housing market.
The Fund’s experience shows that initiatives like these, need resources to build systems and the capacity of poor people to own and manage these systems. Sound systems are essential for such funds to grow and address housing needs at a greater scale.

This case illustrates the need to carefully consider sustainability in the modelling of housing microfinance schemes if impact at a significant scale is intended. Donor funding does not represent a dependable resource flow and cannot be relied upon for the growth of a fund without realistic plans to achieve sustainability in due course. This has considerable implications for the scope and pricing of housing support services and products.

The success of the Fund in accessing land and developing relationships with the Malawi government shows that although some governments lack the policy, structure and systems to deal with the challenge of urbanisation (leaving the poor to fend for themselves), when poor people are organised they can pressure government into partnerships which open up new possibilities to address housing needs and improve the lives of the poor. In addition, it illustrates the need for housing microfinance role-players to play a stronger advocacy role.

The dynamic learning culture of the Fund has led to the development of more effective systems. The Fund’s learning culture shows how effectiveness can improve when systems are flexible and responsive to trends. This is exemplary and can be replicated elsewhere.

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List of acronyms and abbreviations

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<tr>
<th>Acronym</th>
<th>Definition</th>
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<tr>
<td>CCODE</td>
<td>Centre for Community Organisation and Development etc.</td>
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<tr>
<td>Federation</td>
<td>Malawi Homeless People’s Federation</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>HDI</td>
<td>Human Development Index</td>
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<tr>
<td>HIV/AIDS</td>
<td>Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome</td>
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<tr>
<td>m</td>
<td>Million</td>
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<td>MHC</td>
<td>Malawi Housing Corporation</td>
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<td>MIS</td>
<td>Management information system</td>
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<tr>
<td>MOU</td>
<td>Memorandum of understanding</td>
</tr>
<tr>
<td>MUSCCO</td>
<td>Malawi Union of Savings and Credit Cooperatives</td>
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<tr>
<td>MWK</td>
<td>Malawi Kwacha</td>
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<tr>
<td>NGO</td>
<td>Non-government organisation</td>
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<tr>
<td>pa</td>
<td>Per annum</td>
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<tr>
<td>PAR</td>
<td>Portfolio at risk</td>
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<td>PPP</td>
<td>purchasing power parity</td>
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<td>THAs</td>
<td>Traditional Housing Authorities</td>
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<td>The Mchenga Fund</td>
<td>The Mchenga Urban Poor Fund</td>
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<td>UN-HABITAT</td>
<td>United Nations Human Settlements Programme</td>
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<td>USD</td>
<td>United States Dollar</td>
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Endnotes

6 The Least Developed Countries represent the poorest and weakest segment of the international community. They are recognized as such based on set criterion relating to gross national income (GNI) per capita, human resource constraints and economic vulnerability.
7 United Nations Human Settlements Programme, Malawi Urban Housing Sector Profile: advanced version for World Habitat Day celebration, 2009
8 The Human Development Index (HDI) is a composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, access to knowledge and a decent standard of living. Countries are classified into four categories of achievement in human development: Very high human development (countries with a HDI of 0.900 or more), High human development (countries with a HDI of 0.800–0.899), Medium human development (countries with a HDI of 0.500–0.799) and Low human development (countries with a HDI of less than 0.500).
9 Gross domestic product (GDP) is a measure of the economic activity in a country and is calculated, using one of three formulas, to find the total value of a country's annual output of goods and services.
10 GDP has been converted into purchasing power parity (PPP) terms thus enabling comparisons of living standards across countries.
11 The Gini index measures the extent to which the distribution of income (or consumption) among individuals or households within a country deviates from a perfectly equal distribution. The index lies between 0 and 100: a value of 0 represents absolute equality and 100 absolute inequality.
12 Ibid
13 http://www.rbm.mw/data/index.asp Reserve Bank of Malawi
14 Thompson, Laura and Agar, Jason, Access to Housing Finance in Africa: Exploring the Issues No.8 Malawi, 2009, FinMark Trust
15 Ibid
16 Throughout this case study the word members also denotes savers, borrowers and/or clients of the Fund and vice versa.
17 Centre is the name given to the groups of members organised at a community level typically to save together and in addition some centres also grant loans to their members. Centres are defined by geographic location and purpose. The Federation is organized at the centre, district, regional and national level with leadership structures at each level.
18 An exchange rate of 141 has been used throughout the report based on the average United States Dollar / Malawi Kwacha exchange rate between June and December 2009.
19 Portfolio at risk (PAR) is a measure of loan portfolio quality. PAR is the outstanding principle amount of all loans that have one or more instalments past due by a specified number of days. Microfinance organisations normally use 30 days, PAR 30.
20 Manda, Mtafu, Mchenga urban poor housing fund in Malawi, 2007, Environment and Urbanization 2007
21 Based on a focus group conducted to inform the study with Federation members who benefited from The Mchenga Fund.
22 Members and Federation leaders cited benefits in a focus group which was conducted with Mchenga Fund borrowers to inform the study.
23 Manda, Mtafu, Mchenga urban poor housing fund in Malawi, 2007, Environment and Urbanization 2007