

Housing Investment Chronicles

Mozambique

March 2018

Executive Summary

Low-income householders in one of the poorest countries in the world show remarkable tenacity and inventiveness in pursuit of housing, surmounting numerous obstacles, not least of which is a lack of access to formal finance. The Mozambican Housing Investment Chronicles, a collection of data-rich stories on the housing investment journeys of Mozambican households, affords a unique opportunity to listen to the problems they encounter, how they overcame them, and what they desire the authorities to do to help them in future.

Focusing on households earning below US\$ 16 200 a year, who cannot access mortgage finance, and who have therefore used alternative sources of financing to develop and invest in their homes incrementally, the chronicles provide useful information on how households have invested, how they continue to invest, the reason behind these investment decisions and the particular investment tools they use. They show that the poor appreciate the multiple benefits, physical, financial and economic, of the housing asset. Although not clearly articulated, respondents clearly realised that their house provided their family with a sense of citizenship, safety and security.

Household Characteristics

Most households included in this study survive on low incomes of between MZN 3 000 (US\$ 42.35) and MZN 10 000 (US\$ 141) a month.

This report identified four themes:

- (i) The Housing Investment Decision,
- (ii) Securing Land and Ownership Disputes,
- (iii) The Housing Construction Processes, and
- (iv) Financing Tools for Land purchase and Home Building.

(i) The Housing Investment Decision

Marriage was often the deciding reason for entering the housing market, though other incentives were high rentals and inattentive landlords. Most often households put up with a dilapidated existing dwelling, or an informal, perhaps cane, house built on newly acquired land. Renovation or upgrading to more formal premises is delayed until building materials become available. Housing is not viewed as collateral for loans. Land is also used for income generation as rooms are often built, or houses extended, to house informal businesses.

(ii) Securing Land and Ownership Disputes

It may be imagined that State ownership of land would be an impediment to housing. The State owns all land, and confers land use rights through the “Direito de Uso e Aproveitamento de Terra” or “DUAT”. Many respondents complained they had little knowledge of the DUAT process, and few households had a DUAT. More important for poor householders was a construction licence, the

absence of which could entail a hefty fine. Even when they had no construction licence, householders ensured they had some means of proving land-use rights.

(iii) The Housing Construction Process

Most, if not all respondents, reported building incrementally, as money or materials became available, often over protracted periods. Interestingly, none reported buying a completed, permanent house. Incremental building is common, though it lays occupants open to theft. Theft of building material, particularly zinc roofing, is also common. The construction process can be unpredictable, affected by unforeseen events in the lives of respondents, and natural disasters. All respondents described their dream house as being built of concrete blocks, plastered, with a mosaic tile floor finish, a veranda, and connected to electricity and water.

(iv) Financing Tools for Land purchase and Home Building

Some respondents had accessed formal financing, though none in the form of a home loan. Their low incomes and lack of knowledge of how to access formal finance are formidable barriers. However, some had used personal bank loans, though more expensive, to buy building materials. Pension-backed home loans are also evident, although these depend on long-term formal employment, and many respondents relied on informal business for income.

Without much if any access to formal home loans or bank loans, households have mostly used a combination of windfalls, savings, salaries, Xitiques (informal savings groups), and other innovative strategies to finance their housing needs. Donations of money and in kind from family, friends and others, accessing social capital, is also evident in the chronicles.

Accumulated savings was by far the most common financing mechanism. Cash is saved at home and when enough cash has been accumulated, land and or a house are bought. The purchase price is often paid in instalments with a larger upfront payment. Also common is an “in-kind” savings mechanism whereby the household converts cash into building materials for use later on to protect the cash from household emergencies and consumption.

The only option for most respondents is incremental building: houses are constructed as funds become available and the structure itself becomes a savings mechanism. This arguably makes it a perfect fit for microfinancing. The chronicles present a mixed picture of this form of finance, though there is at least one microfinancier active in Africa and this is a promising route for investigation. Widely used are the Xitiques, the rotating savings and credit associations, some of which buy building material directly from suppliers and distribute the material directly to members instead of cash.

Recommendations

Arising from analysis of the chronicles and from the actual requests of respondents, several recommendations can be made:

- Incremental construction offers room for further innovation, including microfinance loans. A specific study of how the Xitiques operate, with a view to how they could be improved and whether an electronic payment mechanism using a co-branded pre-paid card tied to one of the building material suppliers in Beira and Maputo could be introduced is recommended. The creation of a Mozambique-specific incremental building loan, also linked to the purchase of building materials from specified merchants, may also answer the request of more than one respondent for easier access to housing finance.

- Simplification of the overly complicated processes of acquiring a DUAT and a construction licence is a recommendation that comes directly from the respondents. This would help households, along with public relations and education campaigns about the legal process.
- Another complaint by several HIC respondents was about the price of cement and other building materials, and a study of the drivers of prices and what can be done about them would be useful.
- Research into the financial aspects of housing policy, together with financial inclusion objectives and innovative approaches to providing finance to low income and informally employed households.
- Investigating whether the marriage-incentivised decision to move to own housing offers a target market for financiers to consider, or whether the State might consider some form of subsidisation (given sufficient fiscal resources). One respondent asked for a subsidised loan for youth or government-built houses that could be paid off over a long period.
- Education programmes to increase financial literacy among the poor so they can better cope with what is now confusing and off-putting and financially endangering.
- More nuanced research on various income brackets within the population to allow for various finance packages serving people in those brackets to be developed.

Conclusion

The Housing Investment Chronicles contain a wealth of detail about the housing construction and investment decisions of a representative sample of poor people in Mozambique's two main urban areas. Some of this will provide pointers to further research, and some may lead to action either by the authorities or the private sector. The research has identified a potential business model for micro-lenders willing and able to profit from the erratic incomes from informal businesses.

Most importantly, the study reflects the commitment of respondents to realising their housing aspirations, and their intuition that the value of the land lies not only in shelter, but in it being a financial and economic asset. In doing so they have exhibited remarkable commitment.

They understand too that housing is an investment that needs adaptations over time as circumstances change. Though they would appreciate some form of financial aid, they clearly appreciate that they need to finance the investment themselves. This is important as investors look for innovative ways to invest in housing, especially for those with low incomes.

Finally, the chronicles give a voice to people who are not often heard and an opportunity to express their wishes to the authorities and others about this important area of their lives.

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FSD Mozambique

Financial Sector Deepening Mozambique is an entity dedicated to the development of the financial sector with a focus on financial expansion and inclusion. We direct our investments and knowledge to solve constraints in the financial market, helping the diversification of the Mozambican economy and bringing prosperity and economic resilience to the Mozambicans. At the heart of our strategy is the woman, the youth and the rural poor, as well as small traders with limited access to appropriate financial services. We provide support to our key partners for innovation and expansion of financial services, using technical expertise to boost their capacity and the people they serve.

Centre for Affordable Housing Finance in Africa

The Centre for Affordable Housing Finance in Africa (CAHF) has been operating as an independent think tank in South Africa since May 2014, pursuing its mission of making Africa’s housing finance markets work. It grew out of the housing finance theme of the FinMark Trust, where its research and advocacy programme began in 2003. CAHF’s work extends across the continent, and it is supported by and collaborates with a range of funders and partners.

CAHF brings information to the market place to enable stakeholders in the public and private sector to make policy and investment decisions in favour of improved access to affordable housing. Our emphasis is on the role that finance plays in realising this, and we champion market intelligence—data, market analytics and research—to stimulate investor interest and to support better policy. We are highly networked and engage with stakeholders at the local, national, regional, continental and global levels to support the realisation of investment towards affordable housing in Africa.

1 Introduction

The financial lives of the poor have been documented using tools such as the *Financial Diaries*¹, but to date, there has been little primary research on how people with low incomes manage to finance their homes.

The dearth of research makes it difficult to come up with ideas to encourage home ownership and improvement through affordable housing finance in the context of poverty eradication. This is not to say that poorer households are entirely at the mercy of fortune. The level of inventiveness in how households respond to policy, process and institutional challenges must be commended. Housing financing strategies are often developed under complete exclusion from the formal market.

In examining through the Housing Investment Chronicles how poor households rise to the many challenges of home finance in circumstances made difficult by among others underdevelopment, bureaucracy and financial exclusion, we find common themes and recommend specific policies and proposals that we hope go some way to solving the problems of affordable housing where regulatory and financial systems are limited.

This report provides deep insight into how poor people in Mozambique manage to construct their homes from the ground up without necessarily having access to formal loans from banks and MFIs.

Four themes are identified:

- (i) The Housing Investment Decision,
- (ii) Securing Land and Ownership Disputes,
- (iii) The Housing Construction Processes, and
- (iv) Financing Tools for Land purchase and Home Building

2 Methodology

Detailed chronicles of 219 households in Mozambique who have invested in their housing over time is the core of this qualitative research. The chronicles relate how households have invested, and still plan to invest, the financial tools they have used, and the reasons for their particular housing investment decisions. Based on those chronicles, this report offers insights into how the market is working for or against poor households, and how their experiences might be improved.

The focus on the stories of poor people is in line with the established Sustainable Livelihoods Approach (SLA). "Sustainable livelihoods refer to people's capacity to generate and maintain their means of living, and enhance their own well-being as well as that of future generations."²

The research focus on the narratives of poor people, how they describe their own experience of acquiring the physical and financial capital that housing represents, is in line with the SLA's people-centred and participatory methodology.³ In a nutshell, this approach is people-centred, holistic, dynamic, sustainable, builds on strengths, and bridges the macro and micro rather than focusing solely on one aspect.

¹ <http://www.saldru.uct.ac.za/project/financial-diaries-project/>

² <http://www.livelihoodscentre.org/what-are-lh>

³ Norton, A., Foster, M., 2001. The Potential of Using Sustainable Livelihoods Approaches in Poverty Reduction Strategy Papers. Overseas Development Institute, London.

In the SLA framework, housing is key in the urban environment. "... Sustainable Livelihood approaches place a heavy stress on the assets of poor men and women, rather than, as with previous development approaches, focusing on their needs or deficiencies".⁴

Crucially, the lessons embodied in the stories of how poor people actually tackle the accumulation of physical and financial asset that is housing can lead to recommendations for policy.

"There are powerful arguments for bringing the 'bottom up' insights obtained by SL approaches to bear on macro-level policy change and public investment decisions."⁵ The SLA does not confine itself to what the State can do or offer, however, but recognises "... partnership between public, private and community sectors".⁶

In the light of the approach, then, the overall research question could be framed as, "What are the strategies householders in urban areas of Mozambique use to acquire and improve their homes, and how can government and other actors intervene to help them, particularly through listening to what they say they want?"

The research looked at both financial and non-financial investments.

Financial investments include:

- Formal credit, from registered financial institutions);
- Informal credit, from friends, family or informal moneylenders;
- Savings, equity, windfalls (for example from an insurance pay-out), or
- Cash.

Non-financial investments include labour (also known, in some cases, as sweat equity), found materials, and so on.

The research looks at different segments of the market, with a focus on households earning below US\$ 16 200 a year, who cannot afford to buy a new, developer-built house with a mortgage, and who have therefore used alternative sources of financing to develop and invest in their houses incrementally.

Data was drawn from the 219 households interviewed, some of which are included in report. Households were surveyed in various neighbourhoods in Maputo and Beira, providing an indicative, if not necessarily representative, understanding of common practice, challenges, and approaches taken. The research aims to build an investment profile of each respondent by answering key questions around time, financing, housing typology, land and title, investment priorities and key barriers to accessing housing finance. These questions are outlined below:

- Time: How long it takes to build a house that the homeowner would define as "adequate", and how would this be improved upon? What are the consequences of the time taken — for example, slow enough to enable affordability, too long to ensure quality?
- Financing: What are the various instruments — both formal and informal, credit and other — that households use, and when, to finance their housing process?

⁴ Farrington, J., Ramasut, T., Walker, J., Overseas Development Institute, 2002. P5. Sustainable livelihoods approaches in urban areas: general lessons. with illustrations from Indian cases. ODI, London.

⁵ Ibid. Pvi

⁶ Ibid P1

- Housing typology: Which building materials are used? Where are they purchased? Are building materials saved up before building? Is construction undertaken by the household or a contractor? Do households construct and manage rental accommodation on their properties?
- Land and title: Do households have formal or informal title? How did they access the land? Are they able to sell the property?
- Investment Priorities: Is there a typical housing delivery process that households follow or is each construction pathway unique? Why were certain investments made? Did households focus on expansion in terms of size or improvements in terms of quality, or both, and in what order? What trade-offs do households make and why: Are they juggling choices because of their affordability, cash flows, the time it takes, or other factors?
- Key barriers to access: Is the household's investment process encumbered by anything—regulatory restrictions, political or settlement dynamics, and so on?

3 Household characteristics

Fifty-two percent of households in the study acquire an income from a salary, 36% from activities in the informal sector; five percent reported that they derive their monthly income from pension or retirement pay-out; and four percent from owning formal businesses. Most households included in this study survive on between MZN 3 000 (US\$ 42.35) and MZN 10 000 (US\$ 141) a month. Few households interviewed earn between MZN 10 500 (US\$ 148) and MZN 20 000 (US\$ 282) per month. Even though poverty is acknowledged to be a multifaceted phenomenon and the less-than-\$2-a-day poverty line contentious, these incomes at the very least constrain choice.

We found that 60.56% of our respondents in Maputo and 64.94% in Beira have a bank account but only about 20% of those surveyed were banked at the time. Respondents reported not having access to any form of formal or informal financial product; they emphasised that their lives and informal businesses were highly dependent upon physical cash and that they saw no reason to open an account.

Interestingly, but not surprisingly, given the fact that a large percentage of the respondents derive their incomes from informal businesses, cash is still the predominant means of payment in Maputo (60.59%). This is not the case in Beira, where 50.65% of the HIC respondents reported being paid by direct deposit into a bank account (either their own or another family member's) and only 44.16% reported being paid with cash, indicative of the higher incomes reported for the area.

Overall, the level of saving is relatively high for about 63% of all HIC respondents. The most common reason for saving among the respondents was to make provision for emergencies, followed by saving for food. Only about 9.59% of respondents mentioned that they were saving to make improvements to their homes, and 5.94% were saving to buy materials for their homes. The data indicates that more households located in Maputo (13.38%) than those in Beira (2.6%) were saving to make improvements to their homes.

4 Theme 1: Housing Investment Decisions

Under this theme, we explore housing as a social, financial and economic or productive asset.⁷ We consider the decisions that led respondents to begin their housing investment journey. We study the decision-making processes involved in using the home as a financial, social and economic asset.

We found that respondents were highly aware of the social, financial and economic value of land and the important function it played in carrying out their broader livelihood strategies.

One of the main motivations for respondents to begin the housing investment journey was marriage, the start of a new family, a growing family that could not be accommodated in their current home, or their current house falling apart structurally. Subsidized loans for newlyweds to buy a home - essentially buying a land use right, formally or informally, to land along with buildings, would be one way of encouraging home ownership. Such subsidies have been available in other countries but would seem to depend crucially on the health of State finances. Perhaps the timing of the home investment decision allows potential private sector lenders to identify a target group and accordingly tailor a suitable microfinance product.

Other, unmarried, respondents mentioned growing tired of living with relatives and wanting the independence that came with renting their own home. And, for other respondents, the security of formal employment or an increase in earnings gained from their informal business was the nudge they needed to set out on their individual housing investment journey.

Most of the respondents started their journey in a rental unit, but struggled immensely with rent raised seemingly at random, or landlords seemingly unconcerned with the upkeep or maintenance of the property. Generally, this pushed HIC respondents to begin saving up to buy land and then go on to build their own house. In some cases, respondents would not mind buying a dilapidated or a temporary house as long as it was on a good piece of land. Respondents would then live in that house while incrementally building their dream house.

Although not clearly articulated or learnt through formal means, in practice, respondents clearly realised that their house provided their family with a sense of citizenship, safety and security. Most often respondents started off with a smaller, more informal house that they improved over time as both their income and household size grew. Many respondents used their land to build a smaller unit which was used for a small business, and in other cases they would build additional smaller rooms which they themselves rented out. The earnings gained allowed them to save up for further improvements to their homes or towards other household goals.

In several countries, housing can be leveraged⁸ to access finance for other purposes such as setting up a business or to pay school and medical expenses. None of the HIC respondents, however, had used or intended to use their houses as collateral to secure a loan for another purpose. One reason may be that some of the houses were constructed without a construction licence.

⁷ Rust, K. (2007). *Housing Finance and Residential Property Markets*. Pp.10.

⁸ *Ibid.* 10.

Chronicle 4: Maria

The house as a financial and economic asset

Head of HH: No
Gender: Female
Age Bracket: 40 - 44
Marital Status: Married
Education: Some primary
HH Income: Grocery store in Estoril and works from home.
HH Income: MZM 23 000 (USD 323)
HH Members: 8
Formal Financial Product: No
Paid: Cash
Saving: Not disclosed
Province: Sofala Province
District: Beira
Neighbourhood: Vasco da Gama
Paid: Deposit into a bank account
Saving: Yes – education expenses
Province: Sofala Province
District: Beira
Neighbourhood: Goto
Province: Sofala Province
District: Beira
Neighbourhood: Inhamizua

Maria moved into her husband’s house in Chipangara after they married in 1989. Maria described this house as being old, and constructed out of cement blocks. Her husband had bought this house several years prior to their marriage and had paid for it with the proceeds of his small informal business selling flour and rice.

They lived in this house for three years, then, using savings and proceeds from his informal business, they bought a small plot in the Estoril. The couple built a small house and grocery store on that land. It only took the bricklayer they had hired one month to build the store. They bought most of the materials needed to build the store from a local shop but the sand Maria told us, was collected directly from the beach and transported by the bricklayer to the plot as the plot was close to the beach.

Once the store was complete (1991), Maria’s husband stocked it for her and she began to sell goods from “home”. One year later, the couple decided to buy another house as their house was too small and they were unable to extend it any further given the limited plot size. They bought an old and

dilapidated *Administração do Parque Imobiliário do Estado* (APIE) States Housing Administration house.

Maria informed us that the person who sold the house to them left the house papers with the couple. As the papers listed the former tenant as the rightful occupant, her husband went to the APIE office and had the papers changed to reflect his name as the new owner. He paid for the house and two days later had all the papers in order and became the owner of the house. The couple began to buy building materials with the money that they had saved. They thought of selling their old house and investing the money into the new house but decided instead to renovate the old house and rent it out. They hired three bricklayers to work on the new house as they wanted it finished as quickly as possible. Within one month the bricklayers had completed the foundations and raised the walls.

Maria confirmed that they went to municipal council to get a construction licence before they started to build as they wanted to do things the proper way and did not want to be fined for not having the licence. She cannot remember how much it cost to get the construction licence but as far as she can remember, it was not expensive. During the first month of the construction process, the couple stopped selling goods, but soon realised that they would have to continue with their business and build the house at the same time.

They therefore stopped work on the house until they had made enough money to buy windows, doors, zinc and connect the house to the municipal water supply and electricity. All of the materials that were left over after building their new house they used to renovate their old house so that it could be rented out for a good rental to tenants. They only used one bricklayer for this work and it took him

approximately seven months to finish the work. The house was ready for tenants in 1994 and the couple managed to rent it out at MZN 1 200 (US\$ 18) per month. At this time, business at their grocery store was good and the couple decided to use the profits from the business to build several adjoining rooms in the backyard of their new home. One of the rooms was to be the new grocery store and one was reserved for their children. The other rooms are now rented out. With the rental money which the couple saved, they bought two large freezers and started to sell chicken and fish in 2003. Maria and her husband plan to continue saving as much as they can and to buy more land and build additional houses to rent out.

5 Theme 2: Acquiring Land

In Mozambique, all land is the property of the State. However, land use rights are conferred by the State through the “*Direito de Uso e Aproveitamento de Terra*” or “DUAT”. A DUAT is important both for the State and for its holder because it guarantees legal right to the use of a tract of land, and where documented, provides formal proof of this possession and enables the State to organise its land cadastre.⁹

In Maputo City Municipal Council, the current process of registering land and the improvements made on it can be broken down into three fundamental procedures: (i) the registration of the land; (ii) the request for a topographic plan, and (iii) the registration of the building/ request for a building licence.

An interim stage (and a prerequisite) in the DUAT application process is a *declaração*. This is an affidavit issued by the secretario de bairro (secretary of the neighbourhood) that offers an official means for recognising a land occupant. For households without a DUAT the *declaração* is a means of gaining a degree of tenure security. This security does not equal title, and legally a household with a *declaração* could be evicted.¹⁰

For many households, including several interviewed, the *declaração* is the only document that links their name to a particular space in the city. Several respondents told us that the “land had been legalised”. While they were unable to explain to us what this actually means, it is our assumption that the respondents were referring to *declaração* and not a DUAT. Although the *declaração* is not a title deed, it is recognised by banks, the municipality and employers as a valid form of proof of residence, which verifies that an individual is bona fide.¹¹

Despite this, many respondents mentioned not having much knowledge about the DUAT and being uncertain about the processes to follow when registering land or acquiring a construction licence. Other respondents, who knew about the DUAT, mentioned that their land had not been registered as it was in an informal area which had not yet been formally zoned by the municipality. Despite this,

⁹ ACIS. (2007). *Legal Framework for Recognising and Acquiring Rights to Rural Land in Mozambique*. Pp. 11.

¹⁰ Urban LandMark. (Undated). *Case Study: Maputo and Informal Land Tenure Arrangements*. This case study case study is based on findings from a research study that investigated how the poor access, hold and trade land in two peri-urban settlements in Maputo – Luis Cabral and Hulene B. The study uses both qualitative and quantitative data sources. Quantitative data consists of survey material collected from 568 randomly selected households, 311 in Hulene B and 257 in Luis Cabral. The sample size in both sites is 27%.

¹¹ To issue a *declaração*, the secretario de bairro works with a local leadership structure. Typically, a bairro (neighbourhood or suburb) is divided into areas comprising 50 households that are registered and managed by the chefe de quarteirão (the block boss). The chefe de quarteirão is responsible for managing the households in his/her area, ensuring that they are accurately registered, and for providing the secretario de bairro with information on land occupancy. Below the chefe de quarteirão is the chefe de bloco who is responsible for 25 households. These are further subdivided into areas of 10 households known as dez casas (literally ‘10 houses’), managed by the chefe de dez casas. At each of these levels, local data on household occupancy, plot and house numbers are collected and verified. These are reported to the chefe de quarteirão who captures them manually in a register. All the data collected by the chefes de quarteirão is consolidated in another register held by the secretario de bairro. The secretario de bairro is a local leader officially appointed by the municipality.

they ensured that they acquired a construction licence before starting to build. Even where respondents did not have a construction licence, most, if not all respondents ensured that they had a way to prove their land-use rights.

Many others reported acquiring their land through allocation by the secretario de bairro, but this transaction is apparently not recorded in any way and no documents are exchanged. Others reported receiving land from a relative, while others have bought land directly from someone who claimed ownership over the tract of land.

Most respondents suggested that the municipality host workshops teaching community members about the importance of acquiring a DUAT and a construction licence. This would include remedial action that can be taken when they have constructed their house without a construction licence, steps to follow when two individuals claim ownership over the same tract of land, and their rights as land and housing owners.

Apart from the above municipal requirements, other respondents reported being evicted from their marital homes once their spouse had passed away. One respondent reported that his wife had been coerced into transferring the right to their land to someone else while he was working elsewhere. These respondents felt they had nowhere to go for assistance and support, and lacked knowledge about their rights to the marital home and how this right might be proven.

Chronicle 14: Francisco

In this neighbourhood nobody has a DUAT or construction licence

Head of HH: Yes
Gender: Male
Marital Status: Married
Education: Secondary completed
Source of HH Income: Home business and masonry work in the city of Maputo and Xitique
HH Income: MZN 4 000 (US\$ 59)
HH Members: 9
Financial Product: Savings account
Paid: Cash
Saving: Yes - to make improvements to the house; medical expenses; for my family; for food and for a holiday
Province: Maputo Province
District: Municipal KaMaxaquene
Neighbourhood: Polana Canico A

Francisco was born in Maputo City. When he was still young he married and acquired land in the Polana Canico A neighbourhood. At first he built a house out of local materials but later, as he started having children, he felt it was necessary to construct a permanent structure out of cement blocks.

He told us that the cement blocks he used to construct the house were a mixture of blocks he had manufactured himself and those he had bought from a local yard. He built his house incrementally, one room at a time.

He used his savings to buy all the materials needed for the construction of his house and has never approached a bank for a loan. He and his family members have little education and in his opinion, would not be able to understand the bank policies.

It is important to note that Francisco built his house many years ago and to date has never had a DUAT nor did he find it necessary to apply for a construction licence. In his words, *“I still do not have the building licence and DUAT. This is because of lack of knowledge. My family members have poor education and anyway, here in my neighbourhood nobody has these documents.”*

Except for a lack of money at times, Francisco did not experience too many problems during the construction process. He told us that he bought the materials in the local market and that the doors were carried by children on their heads as the distance from the market to his home is not far.

When he ran out of money, Francisco decided to block the windows in as this was cheaper than buying window frames and glass. Francisco has electricity. He told us that he was lucky to acquire a connection when a project in the Polana Canico A neighbourhood financed the installation and as such he did not have to pay anything for this. Francisco and his wife are retired and find that the cost of building materials is prohibitive.

He told us that a few years ago one bag of cement cost MZN 250 (US\$ 4). Today, the same bag of cement costs MZN 450 (US\$ 7) and that the family does not have the money to pay these prices.

On the subject of how he financed the building of his house, he informed us that he initially used a combination of savings and a portion of his wages. Now, as he has a small informal business and takes on the occasional masonry job, he and his family have set up their own family Xitique. The Xitique has 10 family members and is used to support the family members. This Xitique is used to buy expensive consumer items such as furniture and homeware.

He tells us that the proceeds from the Xitique have also been used to buy building material for those family members currently building a house. Each month, each family member contributes MZN 1 000 (US\$ 15) to the Xitique. If a family member is a little short of cash, another member of the family will make the contribution on his/her behalf. This is then reciprocated the following month.

In the future, Francisco plans to plaster his house and build an improved bathroom, a good wall around the property and to buy new zinc sheets for the roof.

6 Theme 3: The Construction Process

By law in Mozambique, no one can begin building a house without a construction licence. However, most HIC respondents told us that they did not have a construction licence before starting their building projects and some were somewhat dismissive of the construction licence requirement.

Of the few who did have one, some managed received construction licences within a week of applying, while others only received the construction licence three months after submitting their application.

Most respondents followed fairly similar housing construction processes and the reasons for that are much the same. Where the land had an existing structure, most moved in, however dilapidated or unsound it might have been, after they had acquired their tract of land. Many mentioned that they were better able to save towards the construction of a permanent house without the added burden of paying rent to a landlord. Where there was no habitable structure on the land, respondents opted to build a temporary reed or wood house to live in while they built the permanent concrete block house.

Unfortunately, sometimes this temporary house proved not so temporary and was the primary house for as long as 10 years. And, in heavy rain, this temporary house would flood or the roof would cave in, so that households would have to balance the little money they had between continuing building a new house and fixing the house they occupied.

Most, if not all respondents, reported building incrementally. Interestingly, none reported buying a completed, permanent house. All indicated that their dream house was one made of concrete blocks, plastered, with a mosaic tile floor finish, a veranda, and connected to electricity and water.

Respondents would begin by buying the materials required for making concrete blocks, including a block-making machine. Some respondents asked builders for the final cost of building their houses, then started saving towards those amounts. Generally, respondents paid for construction of their houses out of their own pockets, the duration and ultimate completion of the house largely dependent on how much they had saved up or how much of their monthly earnings they could spare for construction. Most intentionally built over several phases. They would have the foundations constructed, then stop and save up more money, then have the walls built, then stop again and save, and this process would continue for several years until eventually construction was complete.

Respondents said they would move into the house once they felt it was habitable — be it with or without doors, windows or complete roof. This proved to be problematic as they were much more susceptible and vulnerable to break-ins and theft.

The construction process can be unpredictable and several HIC respondents told of unforeseen events and natural disasters that had set their construction process back by months if not years. One respondent relayed how a builder had been struck by lightning while working on her house and how she had to use her savings, meant for the construction of the house, to pay for his funeral. One respondent spoke of how the construction of his house was delayed by a year as he had to save up to replace stolen building materials. Many reported that the death of a loved one, usually a breadwinner, resulted in reduced household income which led to a halt in construction.

Several respondents complained about the rising cost of building materials, and some had to stop construction altogether because they could not afford them. Others described how builders took advantage of their lack of knowledge about the building processes and the cost of labour.

It is recommended that a study be commissioned to look at whether commercial banks in Mozambique would have an appetite for an incremental building loan linked to the purchase of building materials from specified merchants. This could be a co-branded prepaid closed loop card - a card issued by a single corporate entity which can only be redeemed within that entity¹². An interesting commercial model which is being successfully used in South Africa in several sectors is the so-called alliance banking/channel partnership. Examples of the successful application of this model include the Woolworths Black Credit Card (issued by ABSA) and the Discovery Platinum Hybrid Card (issued by FNB). In this model, the retailer makes use of the prudentially regulated financial service provider's banking license to participate in the payments industry. Essentially, the two parties agree that one will use the channel/system/license of the other to achieve mutual goals.

In this model it is usually the alliance partner (Woolworths for example) that has the dominant brand, but cards such as the Cashbuild/Nedbank card may be co-branded. Under this model there is usually some form of revenue share which is often based on a fee per new customer / per transaction. Parties usually carry their own costs and may explicitly agree to share common costs such as marketing. This product could be tailored to the Mozambican market to include several small-scale building material suppliers such as Ndunda Hardware in Beira and André Tivane Cement Block Business (Maputo).

¹² Walker, Lisa (2013). International Glossary of Terms, Prepaid and Emerging Payments p10

The Nedbank-Cashbuild and Home Account Prepaid card is an example of such a product. This card is co-branded prepaid card, issued by Nedbank (the lender). As it is VISA branded, it is an open-loop product with the distinctive feature of being subject to selective authorisation if required for a particular purpose. What this means is that the card can only be used at participating retailers. Cardholders can only spend at Cashbuild and cannot use the card at any other retailers or to draw money from an ATM or use it for cashback at Point of Sale (POS). This is an ideal solution in Mozambique for housing loans that are intended to be used to buy building materials. Monthly repayments are deducted through a payroll deduction solution or through a debit order if the cardholder is banked.

Chronicle 31: Victor

The importance of friendship, the instalment sale and recycling unwanted materials

Head of HH: Yes
Gender: Male
Age Bracket: 50 - 64
Marital Status: Single
Education: Some primary
Source of HH Income: Works as a bricklayer at CETA
HH Income: MZN 19 500 (US\$ 287)
HH Members: 7
Financial Product: Bank account
Paid: Deposit into account
Saving: Yes – in case of emergency
Province: Sofala Province
District: Beira
Neighbourhood: Munhava-12
 9bairro

Victor was born and raised in Marromeu and when he was old enough, got a job in the local sugar factory. Unfortunately, he lost his job when the factory was destroyed during Mozambique's 16-year war. It was at this time (1987) that he decided to leave Marromeu and he and his family hitched a ride with a military truck to Beira city.

When they arrived in Beira city, they had nowhere to live but they were told to go to the railway station as there were several people living there. All of these families had arrived in Beira city after fleeing the war which was raging in the districts in which they had lived.

Food, blankets and basic medical supplies were provided by the Red Cross and the UNHCR (UN Refugee Agency).

Time passed and then the families were visited by a contractor who needed men to work on the rehabilitation of several warehouses in the Beira Port.

Victor immediately took this opportunity and while working he met a man who was moved by his story and told Victor that he would help him to find somewhere better to live. The next day over their tea break, his new friend told him that he had a farm in the Munhava and was prepared to sell him a part of the farm on an instalment sale basis. He only had to make the first payment when their salary was received at the end of the month. That Sunday Victor went to see the farm with his friend. His friend marked out a plot and said that the land was now Victor's. He also offered Victor some old, unwanted zinc sheets and several old zinc sheets that their employer was throwing away as a contribution of materials that Victor would need to build a house for his family.

Victor's friend also lent him a hoe and rake so that he could clear the plot. When Victor went to fetch the zinc sheets that his employer was about to send to the rubbish dump, his employer asked him what he wanted them for. After explaining to his employer that he wanted to build a little house so that he and his family could move away from the train station, his employer said he could take anything that he wanted before the material was taken to the dump. He told us that he found all sorts of useful things for his construction project, including wire and nails.

The only material that Victor did not have at this point was bamboo. His friend then told him of a place where you could go and cut bamboo. That Sunday he and his friend went to cut the bamboo and carried it on their heads all the way back to the building site. The next day, while Victor was at work, his children started to build the family a bamboo house. Victor is proud that his children could build the family home and he told us that they had acquired these skills back in Marrromeu as this is the first thing that a father must teach his son. Within a week, his three children and wife managed to construct a two-bedroom house. Victor and his family managed to construct the entire house without spending a single Metical.

On the day Victor received his first salary of 500 contos (this is what it was called in those days), he divided it in half and took 250 contos to his friend who had sold him the land on an instalment sale agreement. His friend refused the full amount and only accepted 100 contos. With the remaining 400 contos, Victor bought mats and his wife bought pots, dishes and glasses. Victor also erected a structure which was to serve as the outside bathroom. This was made of plastic and bamboo. Victor told us that after this spending on necessary things, there was nothing left to buy food. Nevertheless, he, his wife and children moved to their new home as living conditions at the station had deteriorated and the family was now sleeping side-by-side with sick people who were arriving every day. The first month in the new house was difficult. Victor's children would walk the streets every day begging for money to buy food. When Victor received his second salary payment, he once again paid his friend 100 contos and this time used the rest of the money to buy food and other household necessities.

Victor remained with his first employer for three years and during this time learnt the skills required to be a mason. When the rehabilitation project at the Beira Port came to an end, Victor's boss asked anyone who wanted to work for CETA¹³ to put their names on a list. Victor decided to take this opportunity and in 1991, he started to work on road rehabilitation projects. It was at this time that he started to save so that he could build a house constructed from cement blocks.

He told us that more and more people had started to move into his neighbourhood and they were all building these types of houses. This motivated Victor even more than the fact that his house had deteriorated over the years. He started to buy sand and cement and to make his own cement blocks. These were heaped up around the bamboo house. It took Victor a long time to manufacture all of the blocks that he needed, but eventually, he started to dig the foundations of the new house.

The friend who had sold him the land several years before once again helped Victor to build his house. They finished the first room in 1992. Victor and his wife moved into this room while the children continued to live in the bamboo house. Eventually, he was able to build a second room. His children moved into this room and the family used part of the old bamboo house as their kitchen. When Victor had leave due to him, he took this leave and constructed a third room. Up to this point, the house did not have a proper floor and Victor described the floor as having been made from "pebbles". In 1993, he started laying concrete floors and plastered the whole house. In 1994, he connected to the electricity grid. Victor "legalised" his house in 1998.

7 Theme 4: Financing houses – alternative approaches

Accessing formal finance for housing is not common for the poor in Mozambique, the research confirms.

¹³ CETA is a civil construction company based in Beira.

In general, home loans are not major business for the banks. Though most banks offer mortgages, the loan-to-GDP ratio is low at less than 1% and mortgage loans represent less than 3% of total outstanding loans. More importantly, "... although the minimum wage was revised to MZN3 298 (US\$55) a month in April 2016 as the metical has depreciated, the majority of population earns less than US\$50 a month. Banks offering mortgages have a minimum loan amount of MZN300 000 (about US\$5 000), which is far out of reach of the majority and far from the cost of a house. At the current rate of 25 percent, the minimum loan would be affordable only to a household with a monthly income of about MZN20 000 (about US\$330). The family would also need to save a further third of the purchase price to cover the deposit requirements, registration costs and taxes, and valuation and origination fees."¹⁴

Buying land, materials such as sand and cement to make concrete blocks and other essential materials, paying a mason or bricklayer, and connecting to utilities seems near impossible for a household that earns between MZN 3 000 (US\$ 44) and MZN 12 000 (US\$ 177) per month, and yet, somehow, most of the HIC respondents have managed just that.

In most cases, households have used a combination of savings, salaries, earnings from Xitiques (informal savings groups), and donations in kind and other innovative strategies to either build their own homes or buy an already existing house. Windfalls, from insurance payouts or one-off payments from retrenchment are obvious boosters of housing. Less obvious but as important is accessing social capital, in other words donations of money or materials from friends and family and even employers. These fillips to the finances of poor households are also evident in the chronicles.

By far the most prevalent means of financing the purchase of land and or the construction of a house cited by HIC respondents was through accumulated savings. Money (physical cash) is more often than not saved at home and when enough cash has been accumulated, land and or a house are bought. The purchase price is often paid in instalments with a larger upfront payment.

However, HIC respondents spoke of an "in-kind" savings mechanisms whereby the household would either buy already made concrete blocks or purchase the inputs required (cement, sand and stone) to manufacture such blocks as a mechanism to protect cash from household emergencies and consumption by converting it into building materials to be used later on.

Without access to a large amount of money, either money saved or through accessing credit or a loan, most HIC respondents told us that their only option was to save for a period, buy building materials with the money saved and construct as much as they could with those materials. Most HIC respondents built their houses incrementally. Houses are constructed as funds become available and the structure itself becomes a savings mechanism. Here the comments of microfinance expert Scott Metzler apply:

"Housing microfinance fits perfectly with incremental building. It fills a real finance gap and adds value to the housing process of low income households. Small home improvement or home construction loans can easily be applied various incremental building activities, such as roofing, finishing units, extending and other tasks. For housing microfinance to be effective, it must be able to achieve a level of scale that allows it to be implemented sustainably. This can be done where there is a vibrant informal housing sector and people are already building incrementally. This seems almost self-evident, but in practice it is not always the case.

¹⁴ Centre for Affordable Housing Finance. (2016) Housing Finance Yearbook. Pp. 180

I have seen and personally been involved in housing microfinance initiatives that did not follow the lead of local housing activity and could not achieve scale and sustainability as a result.”¹⁵

At present, only five micro financiers offer housing microfinance as a product in Mozambique. There have been significant changes in this industry over the past few years and the depth of financial intermediation remains low. Socremo, at a very small scale, offers housing loans for home improvements and rehabilitation.¹⁶ The chronicles present a mixed picture of the microfinance lending business in Mozambique.

A good example elsewhere in Africa of a micro-lender that has managed to support households along their housing construction process is Select Africa.¹⁷ This financial services group has, for example, partnered with Habitat for Humanity Malawi, which provides technical assistance services to ensure that the house is constructed according to the correct quality standards. Households are given financing in tranche payments. For instance, householders would receive a tranche payment for the foundation, and once that has been constructed to an approved quality standard, householders would then receive the financing for the superstructure and once that has been completed they would then receive the financing for the next phase. This would continue until they have completed the entire structure, and this ensures that the loan amount is always guaranteed by an immovable structure.

It is not surprising that few HIC respondents mentioned having either applied for, or been successful in their application for formal financing through Mozambique’s commercial banks. Those that have received a loan through a formal lending institution indicated that they had applied for a personal loan instead of a formal mortgage / home loan and used their personal loans to buy building materials and build their homes.

Exceptional is the use of pension-backed loans, which elegantly solve the problem of banks being unable for whatever reason to access the land as collateral in the case of default, though it has its limitations, and is not accessible to the householders surveyed whose only income was informal business.

“Pension-backed loans are loans where the collateral or security is the withdrawal benefit of the borrower’s pension fund. Only borrowers who have saved for some time in their pension fund are eligible for this kind of loan, and the loan value is dependent on the amount that they have already saved. This kind of loan works well in areas where there are limitations to formal property title: a pension-backed loan can be used on a property that isn’t legally registered because it doesn’t depend on the property as collateral. However, it is only relevant for formally employed borrowers who are members of a pension fund. This reduces substantially the number of people who can access the pension-backed loan.”¹⁸

One respondent João, a carpenter in Maputo, for instance, felt this was the best option for him to acquire land to build a cement block house — and it was the only assistance his employer could offer.

¹⁵ Metzel, S. (2009). *Incremental Building and Housing Microfinance: Building on Informal Housing Finance*. Online: <http://housingandmicrofinance.blogspot.co.za/2009/08/incrementalism-part-i.html>

¹⁶ See: <http://housingfinanceafrica.org/countries/mozambique>

¹⁷ <https://www.selectafrica.net/#>

¹⁸ United Nations Human Settlements Programme (UN HABITAT). (2011). *Quick Guide 5 Housing the Poor in African Cities – Housing Finance: Ways to Help the Poor Pay for Housing*. Pp. 27

Employment is key, offering at least the prospect of loans from the employer, who can deduct the agreed loan instalment from the employee's salary before depositing the balance into his bank account, as was the case with one respondent, Marcos, for example.

What are Xitiques?

Xitiques are the Mozambican version of Rotating Savings and Credit Associations (ROSCAs). They are informal savings groups found mainly in the Southern parts of Mozambique, in urban and peri-urban areas.

Xitique members are composed of individuals who share a common interest e.g. they could be employed at the same place, attend the same church or all be in the process of building a house. Often, the primary objective of *xitique* is to save for the purchase of household assets or business stock and to fund house improvements.

The regularity of contributions is often monthly, and the amounts vary depending on the members' financial ability. On a monthly basis, members meet to present their monthly contribution as well as a small fee (often 100 MTs), which goes towards a small celebration for the pay-out recipient that month.

There is a wide variation in *xitique* arrangements. Some *xitiques* buy building material directly from suppliers and distribute the material directly to members instead of cash. This is a very useful mechanism as it prevents participants from using the money for other reasons than they planned for.¹⁹

Where respondents received bank loans, the chronicles present a positive picture and show that banks in Mozambique are prepared to provide loans to individuals to build or renovate their homes. The reasons cited by respondents for not going the formal bank-loan route ranged from, "The bank guarantees and all the documents required are too much for me and my business is still weak," to, "I do not know the banking policies and neither does my family."

In support of this policy initiative, it is recommended that a study looking at the financial aspects of housing policy, together with financial inclusion objectives and innovative approaches to providing finance to low income and informally employed households be considered.

Several chronicles included in this report highlighted the importance of the *Xitique*, or informal savings association, as a means of saving and investing in housing – including savings in kind. Célia, for instance, joined a *Xitique* and, by 2013 had made enough to start building a cement block house.

The Intacumana Group was interviewed as part of this research study. This group is a Maputo-based *Xitique* of with six participants, namely: Xavito, Aurélio, Moisés, Narciso, António and Rachide. This *Xitique* was specifically set up for the purposes of saving for and buying construction material. Each month, each member of the group contributes five ferros (pieces of iron) and surrenders these to the group. In addition to the material, there is also a cash contribution of MZN 300 (US\$ 4) each.

For delivery of the value (building materials), the group meets in one of the houses of the members of the group. When the members of the group see that they all have enough of one type of material, they change and choose another type of construction material, such as: cement or zinc sheets. The money contributed into the *Xitique* by each member is delivered by hand (physical cash). The *Xitique* do not use MPesa, bank transfers or mobile money accounts.

¹⁹ De Vletter, F. (2006). *Microfinance in Mozambique Achievements, Prospects & Challenges*. Pp. 34.

It is recommended that a specific study and possibly a pilot be commissioned to look at ways that these groups operate, how they could be improved and whether an electronic payment mechanism (potentially a closed loop prepaid card) could aid these groups in directly linking their savings to the purchase of construction materials at specific suppliers.

The principles of personal finance and the economic context are bewildering mysteries to many of the HIC respondents. The ability of an individual to deftly navigate their personal financial landscape and housing finance choices and options ultimately affects their lives and long-term well-being. High rates of illiteracy present major challenges for HIC respondents in accessing formal loan and finance products. It is highly recommended that a financial literacy and product awareness campaign be considered. This should be specifically focused on housing finance, the budgeting process and possibly, how to manage debt.

Since most of the population cannot access formal housing through mortgage finance, further, more nuanced, research needs to be conducted on the various income brackets within the Mozambican population. Such a nuanced understanding of the investment decisions within different income brackets would allow development of finance packages that are responsive to each household's financial and non-financial resources.

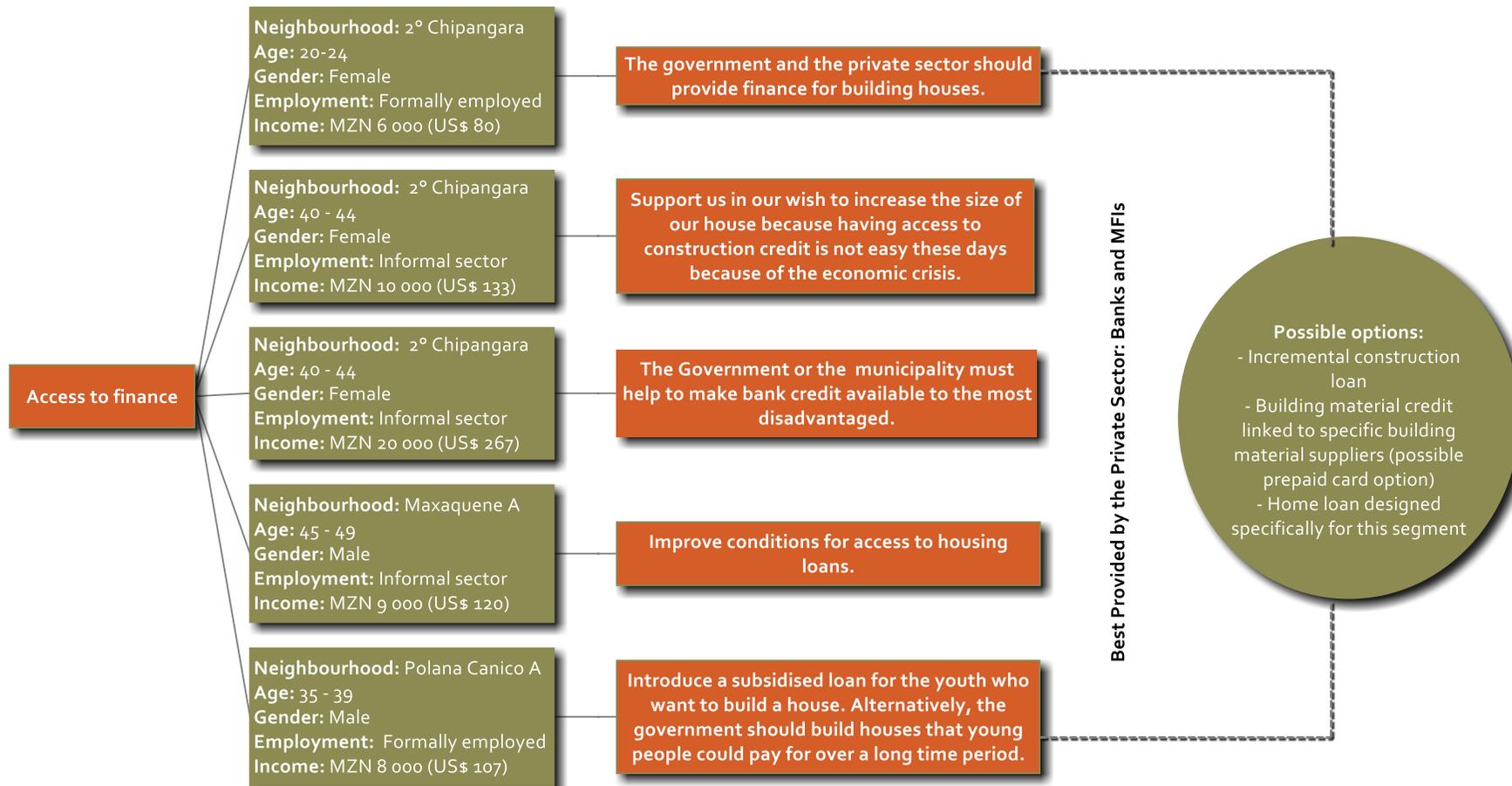
8 Recommendations and requests made directly by HIC respondents

The HIC respondents were, on the most part, vocal about what they would like the Government of Mozambique to do. Eighty six out of 219 HIC respondents had either

- 1) a comment,
- 2) a suggestion;
- 3) a request or;
- 4) a complaint for the government.

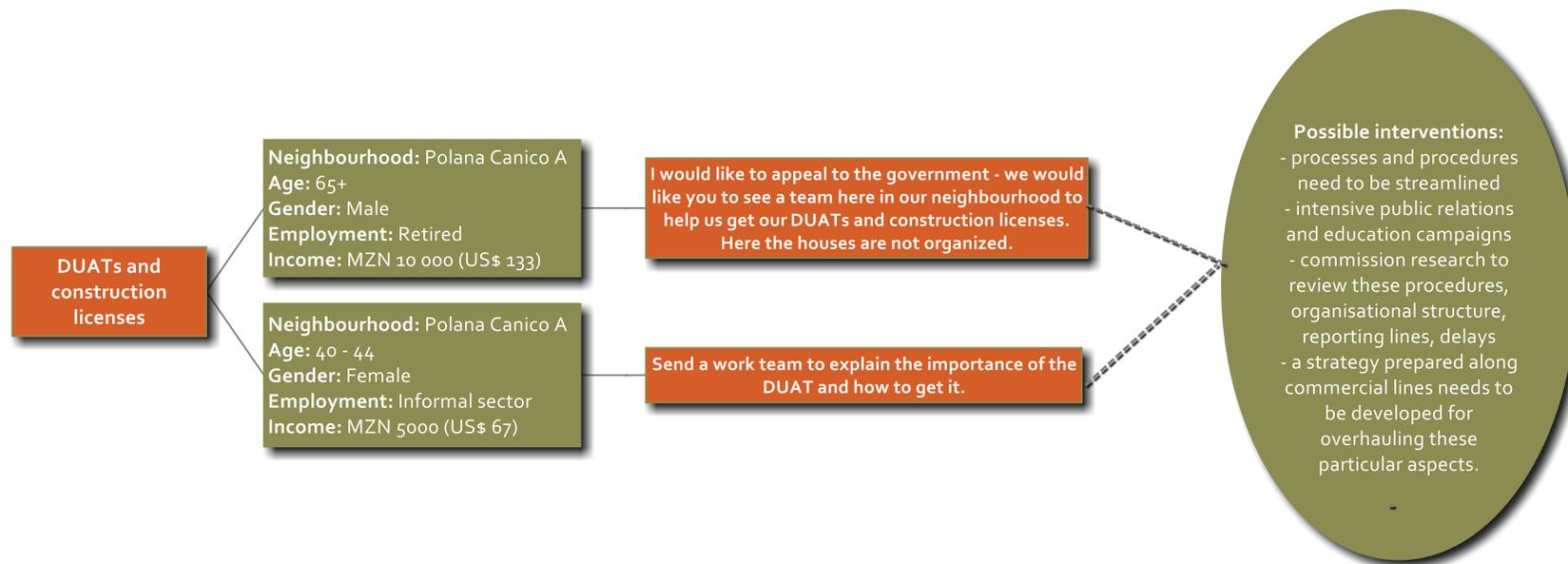
These are discussed below together with possible interventions that could be considered.

8.1 Access to finance and an incremental construction loan



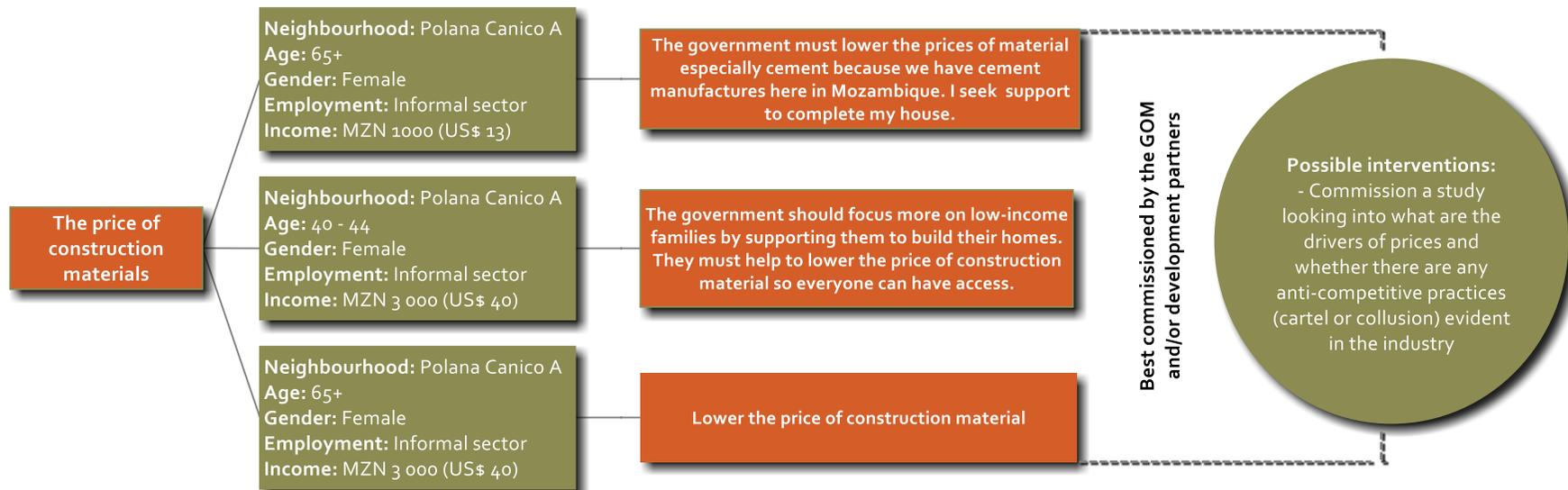
Several HIC respondents wanted to access credit from banks and or MFI's to continue building their homes. An area of further exploration is the creation of a Mozambique-specific incremental building loan which might be linked to the purchase of building materials from specified merchants using a co-branded, prepaid closed loop card This is detailed earlier in this document.

8.2 DUATs and construction licenses



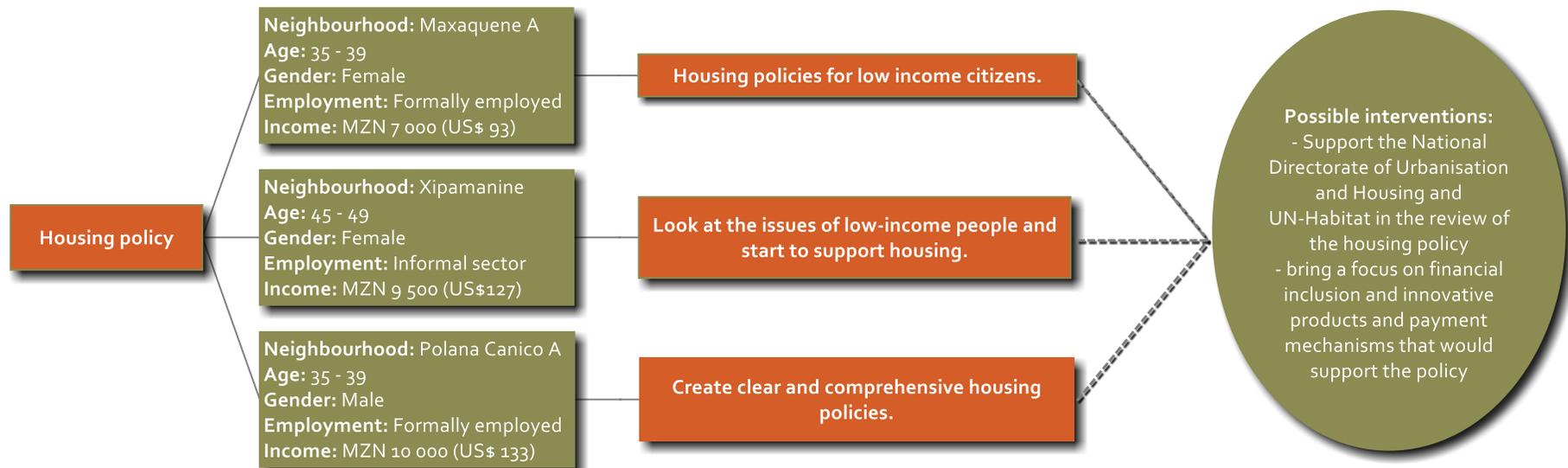
The processes to acquire a DUAT and a construction licence seem vague and overly complicated for households. These processes and procedures need to be streamlined and the relevant municipal and neighbourhood bodies need to engage with the population more. An intensive public relations and education campaign is needed. It is recommended research be commissioned to review these procedures, organisational structure, reporting lines, delays etc. Additionally, a strategy prepared along commercial lines needs to be developed for overhauling these particular aspects.

8.3 Investigate the price of construction materials



Several HIC respondents complained of the fluctuating and ever-increasing price of cement and other building materials. A study looking into the drivers of prices would be useful. cement was mentioned as the primary input subject to high price hikes.

8.4 Focus on the access to finance issues as they pertain to housing policy



The right to housing is an issue of concern in Mozambique. While the Constitution recognises the right to housing, the quantity and quality of housing remains inadequate. The number of deaths caused annually due to insufficient water, sanitation and hygiene is high. Mozambique’s housing policy is being refined by the National Directorate of Urbanisation and Housing and UN-Habitat.

In support of this initiative, it is recommended that a study looking at the financial aspects of housing policy, together with financial inclusion objectives and innovative approaches to providing finance to low income and informally employed households be considered. The HIC respondents are unaware of this and as such believe that Mozambique does not have a housing policy and that this is not being consider.

9 Conclusion

The study set out to provide an understanding of how, why, when and by what means poor households in Mozambique invest in housing; towards the realisation of their housing needs; to create accessible case studies of households that demonstrate these understandings, drawing attention to the issue of housing and housing finance by stakeholders in Mozambique; to contribute to the literature on how households invest in, and finance, their housing in Mozambique; and to identify particular areas for intervention, or further research, by organisations such as the (FSDMoç), or others, to promote access to housing finance that is appropriate for low income households and how they invest in their housing in Mozambique.

For the most part, the households surveyed in the HIC Mozambique study initiated the construction and upgrades of their own homes. They concluded in themselves and by themselves which housing situation might be most suitable and attainable for them, and then decided on the best way to go about fulfilling this aspiration mostly led by their respective financial circumstances.

Typically, difficult living circumstances steered respondents towards either building their own houses or investing in the improvement of their houses. Respondents appear to have had an intuitive knowledge of the most logical steps to follow in financing each of their construction projects. Several respondents perceived that due to their financial circumstance they could not receive formal financial assistance and in turn they would have to raise their own capital. Usually, respondents decided to start a small, informal business and through the earnings from this pay for their living expenses and save for their housing construction plans.

In one way or another, regardless of the duration, households are personally committed to investing in the construction and improvement of their homes despite the challenges they face along the way. Households have found many ways to raise the money needed for their housing construction needs, from starting informal businesses, saving money through Xitiques, and using various kinds of formal lending.

Most importantly, this report reflects each respondent's commitment to realising their housing aspirations. The ways in which each household engaged with the land they have rights over is reflective of the intuitive knowing that the land is indeed valuable and, not only does it provide benefits as shelter, but as a financial and economic asset, the basis for a sustainable livelihood. Many households intentionally constructed a "retail space" on their land because they realised they could use the income gained from that to improve both their financial circumstances as households and the quality of their houses.

The findings from this report highlight a potential area of investment for micro-lenders who might be able to build a business model around erratic incomes from informal businesses. Although most of these respondents do not have formal employment, they can generate their own income through informal businesses. Also, they have realised the importance and benefits of investment, as the way households use Xitiques shows.

The households in this study have a clear understanding that land and housing are investments that can be improved and adapted over time as their needs and life circumstances change. They also appreciate that this investment needs to be financed by the households themselves. This relationship

between households and housing finance is especially important to engage with as investors look for innovative ways to invest in housing, especially for those with low, erratic incomes.

Finally, it is to be hoped that the entire exercise of seeking out the genuine, unfiltered voices of poor people can serve as true empowerment in the sense that those in positions of power will hear the concerns and desires raised in the Housing Investment Chronicles and respond with action.