Financing of rural housing: the Malawi experience

By G. Woldeyesus

Experience has shown that it has always been painful for decision-makers in Africa to allocate funds for housing development in general and rural housing in particular, where the affordability in quantified terms does not appear attractive. However, in most cases of the developing countries, the majority of the population (over 80%) constitutes the rural people who contribute not less than 45% to the GDP. This traditional fear of tackling the rural housing problem has been dramatically overcome by the Government and people of Malawi with the successful launching and implementation of the Rural Low-Cost Housing Project (RHP).

As reflected by its title, this paper tries to highlight the major features of Malawi’s experience in the rural housing finance component — policy and operational strategies. The credit system is still in its development phase — a process of refinement and strengthening based on the necessary feedback being received from the beneficiaries as well as the RHP field officers, particularly the Community Development Assistants (CDAs).

Project background and objectives

The Rural Housing Project (RHP) initially started operations on an experimental basis with its immediate objectives being to improve indigenous building materials, and introduce simple house designs and construction methods, providing demonstration/model houses so that people would view and apply them in the rural areas. The focus was on the development of building technology — building materials and construction techniques including identification and training of artisans. The financing system was introduced at a relatively later stage.

The first (experimental) phase came to a successful completion by the end of 1983, leading to the launching of phase two in 1984, which focused on extending the project services to the rural families to help them improve their housing conditions and sanitary facilities. During this phase, the UNCDF joined the two UN agencies to supplement the Government efforts in the implementation of the project.

The project had to extend its services to the rural people through the establishment of regional (three) and district (24) housing centres in the rural areas, and in order to promote the technology and make it accessible to people, the Government had to introduce a rural housing credit system which also necessitated the creation of a revolving fund.

The credit system and its objectives

One of the major features of the Rural Housing Project is the financing mechanism featured by the introduction of the credit system and creation of a revolving fund to form the basis of self-supporting financing institutional machinery. In order to supplement and strengthen the self-help efforts of the rural people in construction/rehabilitation of their houses, the project extends medium-term credits to households which are recommended and supported by their respective Village Housing Committees, established by the villagers themselves.

The main objectives of the credit scheme are:

(a) to facilitate construction/renovation of houses for the rural household;
(b) to provide material loans at easy terms and conditions for the low-income rural people; and
(c) to encourage and assist through training and short-term credit village entrepreneurs such as building contractors, carpenters and building material producers.

The Project’s target groups constitute in broad terms the low-income farmers and the artisans (small scale business entrepreneurs) operating in the rural areas. Although it has been difficult to define the target groups in quantified terms by way of income range in the rural areas, the Project experience shows that the beneficiaries and artisans so far served appear to be in the annual income range of K300 to K2000 (£75-500).

The cost of houses and the related credits have to be affordable to the target groups. Hence, the policy underlines economical houses which would require the minimum amount of credit. The principal guiding factor
is the concept, "the house that grows"; beneficiaries are encouraged to start with modest house designs (one or two roomed) which can be easily extended later, as and when their economic means improve.

Terms and conditions of the scheme
The Project demonstrates and encourages economical house development through maximum self-help inputs and use of indigenous building materials. Meanwhile, after assessing and evaluating the credit worthiness of the applicant, in consultation with the Village Housing Committee, a material loan worth up to K1,000 (£250) is issued to the approved beneficiary. Normally, this loan covers essential building components such as sise-sand roofing sheets, door and window frames, APC flat sheets, nails, window vents (or glasses) and ant poison.

The beneficiary is expected to arrange for his/her affordability — materials and components such as mud blocks, roofing poles and labour. In all cases, the beneficiary is provided with advice and technical assistance by the RHP Housing Team with a technical training and expertise available at each Project Centre. The loan, at 12% interest, is normally payable annually. Borrowers are given the options to pay quarterly or monthly as they choose over a ten-year period including one year grace.

Artisan loans and independent house developers
In order to expand its impact and popularise the services among the broad section of the rural population, the Project extends small-scale business loans in the form of equipment and tools to materials producers (roofing sheet/tile makers) and house builders including bricklayers, carpenters and tin-smiths. The loan limit extends up to K1800 to be repaid at 12% interest over five years with six months grace period.

The Rural Housing Project also assists independent/private house developers in rural areas who show interest to utilise the RHP materials and construction techniques in their house development and that they are able and ready to meet all other costs for their house development including:
- cost of all materials for their house construction;
- cost of labour;
- cost of transporting their materials from the sources to the building sites;
- reimbursement to the RHP some of the costs for drawings and supervision as may be found necessary by the Project.

Linkage with POSB
The mode of repayment has been facilitated by arranging with the Post Office Savings Bank (POSB) for beneficiaries to make repayments at its postal agency in the village concerned. There is already an effective linkage with POSB whereby throughout its country-wide counter facilities it accepts loan repayments from RHP borrowers. Thus, borrowers can make repayments at their nearest branch of the Post Office, which records details in the loan passbook of the borrower concerned and issues the receipts. Then POSB communicates with RHP, providing it with monthly repayments.
At the end of each quarter, the POSB issues a cheque to the RHP covering loan repayments money for the preceding quarter. The repayment mechanism also provides that each RHP Centre makes repayment follow-ups, to establish “who has paid and who has failed to meet his or her obligation”. Hence, each centre maintains proper payment records on each borrower to determine loan servicing performance. So far, POSB working relations have proved workable; however, there is a need for strengthening the follow-up on the part of the centre’s staff.

Collateral security
Unlike conventional housing loans, the Project credit system does not require the beneficiaries/borrowers to pledge or mortgage the houses financed with the loan proceeds. The main reason is that by law, rural houses in Malawi cannot be sold, and hence cannot be pledged.

However, borrowers are required to declare their assets during the credit screening; the credit system places reliance on the discipline of the borrowers in meeting their repayment obligations as well as the high sense of responsibility demonstrated by the Village Housing Committees and village elders in supporting and recommending the creditworthiness of the beneficiaries. The Committee is also expected to act as a guarantor for them, ensuring proper recovery of the loans.

Meanwhile, the 10% deposit funds, which also serve as savings/capital formation, as well as the chattels consisting of domestic animals, furniture, ox-carts, bicycles and other properties, form an integral part of the collateral securities for the loans made out.

A group loan protection insurance policy is also being set up which would contribute to the strengthening of loan repayments. This insurance scheme was introduced for the mutual benefit of the lender and heir(s) to the borrowers in case of death; the outstanding balance of indebtedness is to be settled by the insurance company (now the life and pensions department of NICO).

In summary, these direct and indirect securities, self-discipline and Village Housing Committee and 10% deposit Trust Funds and Group Insurance Scheme, should serve as sufficient cover/guarantee for the loan repayment in case of default for any reason.

The revolving fund — establishment and performance
It is a well known fact that financial resources in any developing country are scarce and difficult to obtain, especially for housing. In order to overcome this constraint, the Government of Malawi in collaboration with UNDP, UNCDF and UNCHS (Habitat) created the Credit Revolving Fund to serve as a continuous source of funds for the rural housing credits.

The Revolving Fund mechanism constitutes an annual contribution by the Government to the tune of K72,000 through budget allocations. This has been supplemented by funds inputs (grants) from UNCDF, and all loan repayments including principal and interest go into the Revolving fund account for recycling into new credits.

The following summary of data may serve as an indicator of the trend of performance in the financing/credit sector as at 30 June, 1988:

<table>
<thead>
<tr>
<th>Loans advanced</th>
<th>989</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Committed &amp; disbursed)</td>
<td>K537,443</td>
</tr>
<tr>
<td>Deposits received</td>
<td>K51,790</td>
</tr>
<tr>
<td>Repayments made</td>
<td>K9,250</td>
</tr>
<tr>
<td>Government contributions</td>
<td>K328,000</td>
</tr>
<tr>
<td>UNCDF inputs (2 releases)</td>
<td>K208,034,71</td>
</tr>
<tr>
<td>Demand for 1988/89 (1550 applicants)</td>
<td>K1,267,299</td>
</tr>
<tr>
<td>External Funding Required — as per Projection (1988/89 through 1994/5)</td>
<td>K9,038,312</td>
</tr>
</tbody>
</table>

So far, the credit capital mobilised from internal and external sources amounts to nearly K536,000, the major part of which came from Government. The external sources’ funding assistance is expected to reach a level of K9.0 million (£2.5 million) during 1988/89 through to 1994/95, which will enable the Rural Housing Programme to operate on a self-sustaining basis as reflected in the annexed cash flow and credit funds projection exercise.

Although the projection might appear over ambitious when considering the present low implementation capacity, demand for rural house consolidation would justify efforts for its implementation.

The main objective of the exercise is to enable the Government and the donor agency (UNDP) to see the funding resources required and provide the capacity to serve annually a defined number of beneficiaries over a 12 year period to the year 2000 under the Rural Housing Development Programme of Malawi. Some of the major assumptions and conclusions drawn are noted as follows:

(i) A total of 32,000 beneficiaries for home loans and 1,080 artisans for small-scale business are to be served from 1988/89 through 1992/2000. It is anticipated that demand as quantified in the number of loans issued each year, as well as the implementation capacity would be available.

(ii) The credit funds required would be mobilised from internal and external sources including inputs to a tune of £2.25 million to be utilised over a seven-year period from 1988/89 through 1994/95.

(iii) The Government contribution would continue until the break-even point is reached in 1995/96. It is also assumed that the Credit Revolving Fund would have to be reinforced with additional external funds from UNDP/UNCDF or other donor agencies.

(iv) Interestingly, the analysis shows that if the plan is effectively/strictly implemented, the Housing Programme would attain self-sustained operations at the end of 1994/95; in the ensuing period to the year 2000, a total of K8.8 million (£2.2 million) inflow would be realised from the housing investments (credits) and this would be available for further
financing of rural housing development.

(v) It should be noted that the higher the number of beneficiaries, the higher the required funds and the higher the repayments inflow; repayments collection on any given loan is based on 80% recovery, assuming the 20% would cover the contingencies including defaults due to crop failure, sickness, negligence, etc.

(vi) During the projected surplus period from 1995/96 onwards, given a stronger implementation capacity and the anticipated increasing demand, the Housing Programme would intensify its investments employing the surplus funds, thereby serving more beneficiaries annually than the projected figures; or the option would be to make the Credit Institution a self-supporting entity.

**Village Housing Committees — catalysts for housing co-ops**

The RHP deploys Community Development Assistants (CDAs) at each centre and through them carries out extensive community development/education and self-help promotion; they are in constant contact with villagers and conduct orientation/education of borrowers as well as addresses at public gatherings, elaborating on the Project objectives and operations and also on the building technology and credit mechanism.

In each village within the area (about 20 km radius) served by the RHP Centre, residents assisted by the Project staff create a Village Housing Committee comprising 10 to 15 members. The major duties of the committee include:

(a) organising and co-ordinating the village efforts and to liaise with the RHP Housing Team on behalf of the villagers;

(b) grouping together families interested in receiving assistance to construct/improve their houses and arrange meetings between these families and the RHP officers;

(c) assisting the RHP Housing Team in evaluating each family’s ability to repay the amount of credit that is being considered;

(d) ensuring that each borrower pays back regularly and in case of default to arrange settlement of the outstanding loan.

At this initial stage of the credit operations, the Village Housing Committees have great responsibilities and act as “Pre-Housing Co-operatives” which may soon be converted to full-fledged “Housing Groups or Co-operatives” with full power to manage the credits including selection of beneficiaries, determination of loan amounts within the limit and monitoring/control of the recovery of the loans.

In line with the future expansion of rural housing credit services to the rural population of Malawi, studies have shown that there is a pressing need for group lending vis-à-vis individual loans. Hence, the Village Housing Committees can serve as effective catalysts in enhancing the establishment of legally constituted associations or “housing co-operatives” which the Project Management is now seriously pursuing with its field officers to examine and investigate how best these could be speedily achieved.

**Staff development**

As regards the staffing constraints in the Project implementation, the Malawi experience is not much different from most other countries in Africa. The need for trained and high-calibre personnel is crucial to achieve the desired output, especially in the area of loan processing and servicing. Thus staff development is one of the major challenges at present faced.
by management. Efforts have not been spared in initiating and undertaking in-house and outside training for RHP staff, particularly in the construction technology as well as the financing mechanism including the credit policies and operations.

Some useful in-house training courses conducted for field staff include a recent week-long training workshop on “Community Services and Credit Operations” which was carried out in each Regional Centre. All in all, 76 participants - 30 in the south, 27 in the central area and 19 in the north - benefited from the training. The workshop was organised in such a way that the training needs of all stores clerks, Community Development Assistants (CDAs) and the District Officers (DOs) were fully addressed, elaborating on the integrated management of materials delivery, community services (promotion, motivation and education) and the co-ordination role of the District Centre Officers.

One of the major outcomes was that there was a great need for team spirit and co-ordinated action by the incumbents of stores, CDAs and the DOs; the participants further stressed the usefulness of similar workshops on community services promotion strategies and credit operations. It was also the opinion of the course organisers and resource personnel that in-house training was essential for the success of the Project implementation in general and the credit operations in particular.

As the existing staff, especially at the field centres, did not have adequate training and experience, especially in financial activities, the continued training should focus on equipping the field officers with full knowledge of community education, applicants’ screening, credit approvals, processing of loan agreements, materials disbursement and the loan servicing.

Public co-operation

The long-term success of the Credit Scheme greatly depends on the co-operation and understanding of the public, mainly the rural population which is the major beneficiary. The Village Housing Committees have vital roles to play in monitoring the proper usage and regular servicing of the credits by all borrowers who are recommended members of the village community as well as responsible citizens of the country. It is the regular repayments inflow that can reinforce the Revolving Fund from which other Malawians on the waiting list are to obtain loans to build or renovate their houses.

‘Lessons for other countries’

Therefore, a high sense of responsibility and maximum co-operation is expected from the beneficiaries as well as the members of the Housing Committees, so that the Programme can soon become self-sustaining, thereby ensuring continued credit services to as many rural people as possible. It is in this way that the public would demonstrate its readiness and determination to rally behind the Life President, His Excellency Dr H. Kamuzu Banda, in implementing one of his cardinal principles of “decent houses for all — houses that do not leak when it is raining.”

Lessons learnt

The Credit System is still in its development stage. It is being refined and strengthened with the help of the useful feedback being received from the beneficiaries and the community leaders. Despite the visible implementation constraints, the RHP Financing System, including its Revolving Fund and the Credit Scheme, has a great potential for success provided it is properly implemented and monitored. Hence, the need for a well-trained staff, particularly the District Officers and the Community Development Assistants, is of paramount importance. The already tested construction technology as well as the materials credit mechanism can be effected and adopted in any rural setting of a developing country.

Another important housing development policy lesson for other developing countries to underline is the exemplary attention given to the rural housing sector by the Government of Malawi. His Excellency the Life President himself not only initiated the Rural Housing Project, which won the Building and Social Housing Foundation 1986 International Year of Shelter for the Homeless (IYSH) award, but also closely monitors its progress through constant briefing by the Office of the President and Cabinet; such an action-oriented recognition encourages and motivates the planners as well as implementers to give the rural human settlements sector its due share of the financial resource allocations.

Therefore, in conclusion, it is the Malawi Government’s view that, although the Credit System is still gaining momentum, the experience gained in financing rural housing can be usefully replicated in other developing countries. The various lessons learnt from the Project experience and implementation process can help minimise, if not eliminate, the constraints encountered in the process and adopt effective strategies with better and more encouraging results, thereby enhancing accelerated rural housing development, the goal of every rational government.  

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