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**N 01**

**PRACTICE AND  
INNOVATION**  
IN MICROFINANCE

**PRACTICE AND**  
HOUSING CREDIT | MICROINSURANCE | MICROCREDIT  
**INNOVATION**  
IN MICROFINANCE

'Practice and Innovation in Microfinance' is a periodical published by ADA.

ADA (Appui au Développement Autonome) is a nongovernmental organization (NGO) that specializes in microfinance. Over the last 15 years, ADA has provided technical and financial support to microfinance institutions.

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GRAND-DUCHÉ DE LUXEMBOURG  
Ministère des Affaires étrangères

Direction de la coopération au développement

*“Investment capacity of MFIs, capacity-building and technical advice are exactly the three tools that ADA has been using for 15 years to reach the same goals. It is why I would like to thank them in a very special way for their commitment and I am very proud to have given them my Haut Patronage”.*

Her Royal Highness the Grand Duchess



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In 1994, ADA launched its first journal called 'DIALOGUE'. The journal had the objective to give information about its activities and different partners, and to analyse and document certain themes retained to be of interest to the microfinance industry. As a result of the astounding development in the microfinance sector that has been seen to some extent globally since the end of the 1990's, the second objective took the upper hand very quickly.

Thus, in just 15 years, 36 editions of the 'DIALOGUE' have been published containing experiences, case studies, the opinion of researchers, experts and microfinance practitioners, on subjects that range from Islamic finance, the evaluation of how some institutions have performed, credit access for the young, first experiences in micro-insurance etc.

In 2009, ADA decided to change this format and also to give a new name to the publication. 'DIALOGUE' became 'Practice and Innovation in Microfinance' retaining its purpose to concentrate on activities and practical experiences in microfinance. The contributions and articles are mainly targeted at microfinance practitioners and for the most part, deal with a particular theme chosen according to current events.

This new journal will be published in three languages, French, English and Spanish. In order to receive copies free of charge, please subscribe by sending an email to [adainfo@microfinance.lu](mailto:adainfo@microfinance.lu)

The first edition of 'Practice and Innovation in Microfinance' deals with housing credit. Contributions on microinsurance and microcredit in West Africa complete this new publication by ADA.

Financing housing for populations with low-income presents a growing economic and social challenge as much for developing countries as for wealthy countries. At a national level, the solution is often subsidised State intervention. In Europe, for example, some States have built subsidised local authority housing.

In developing countries, on the other hand, public bodies are generally more limited in their action. Also, most towns are subject to rapid and disorganised expansion because of strong demographic growth and a significant rural exodus. The result of this phenomenon is a tendency for poverty line popular neighbourhoods to form; these develop without any urbanisation programme and, often, with deplorable sanitary conditions.

The specific nature of housing credit lies in the ability to finance the works or infrastructures needed to improve existing housing and, less often, to buy a new home. Housing credit differs from other microfinance products in that the MFIs tend to relate a loan to a non-financial service to the client, for example, a technical follow-through for the entire period of the credit.



LUC VANDEWEERD,  
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## ARTICULATING MICROFINANCE WITH A PUBLIC SOCIAL HOUSING PROGRAMME: THE EXAMPLE OF BEIT EL MAL IN MAURITANIA

Anne-Claude Creusot, GRET

Housing financing generally covers two very distinct spheres: subsidised housing financing and unsubsidised housing financing<sup>1</sup>. Financing housing without subsidies means offering relatively classic savings and loan products through methods similar to those used to finance income-generating activities. The issue of supporting housing projects is sometimes given special treatment. MFIs such as the Sewa Bank (India) and Grameen Bank (Bangladesh) have diversified their credit products by branching out into housing loans with conditions similar to those applied to their classic products: small credits for progressive renovation or construction of basic housing, relatively short-term recovery, little or no subsidies, suitable guarantees (alternative forms of property deeds), very progressive mobilisation of savings. This approach reaches its limits when the situation requires, for instance, working on access to new housing as opposed to renovation of existing housing, since it would then exclude de facto all those who lack the ability to fully finance even basic housing within a term acceptable to microfinance institutions. This is notably the case of operations aimed at restructuring slum neighbourhoods, which oblige displaced populations to start afresh and build decent housing.

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<sup>1</sup> Cf. Center for Urban Development Studies/DAI/USAID "Housing Microfinance Initiatives: synthesis and regional summary". May 2000, 121 p.

Also, the need for housing subsidies in order to reach the lowest-income deciles is now generally acknowledged, even within Multilateral Development Agencies<sup>2</sup>. However, once a subsidy component is introduced, the management of this type of financing becomes much more complicated and numerous questions are raised as to articulation with social housing policy. Can a public interest mission be placed in the hands of a private microfinance institution, and under what conditions? How can a microfinance institution manage the risk of business fluctuations linked to potential State withdrawal of housing subsidies? How can the financial product be articulated with the provision of support for the completion of a real estate project?

This research question can be illustrated through a presentation of Beit el Mal (BEM), a Mauritanian microfinance institution that offers housing loans in the framework of an urban development programme known as the Twize programme. This study will also provide the beginnings of answers to the questions raised by articulation with public subsidies.

## THE TWIZE PROGRAMME

Mauritania has experienced spectacular urban growth over the last three decades, probably among the strongest in sub-Saharan Africa. The population of the city of Nouakchott has increased thirty-fold in 30 years (from 20.000 inhabitants in 1960, to some 600.000 today). This recent and rapid urbanisation raises issues of access to decent housing<sup>3</sup> for newly urbanised populations.

It was against this backdrop that the Twize<sup>4</sup> urban development programme began, on an experimental basis, in 1998, in the outlying parcel neighbourhoods of Nouakchott, near Nouadhibou. It has been granted financing from 2003 to 2008 by the Mauritanian government and the World Bank in the framework of the UDP<sup>5</sup>. GRET<sup>6</sup> is the operator. Twize is particularly aimed at helping impoverished families gain access to the sort of housing unit they would have built if they had the means to do so. It provides these families with the financing necessary for construction and also provides technical support.

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<sup>2</sup> IADB (Inter-American Development Bank) in MAYO, Stephen K. "Subsidies in housing". July 99, 46 p.

<sup>3</sup> Households living in precarious housing still represent 18,5% of all households in Nouakchott and 14% in the other cities.

<sup>4</sup> "Twize" means solidarity in the Hassanya language.

<sup>5</sup> UDP: Urban Development Programme

<sup>6</sup> GRET: Groupe de Recherche et d'Echanges Technologiques (Technological Research and Exchange Group)

**As poverty takes different forms, the Twize programme is made up of four complementary components:**

**“Social” housing**, which is in charge of housing construction support: development of a supply of standardised modules, organisation and supervision of construction sites, management of material and equipment supplies, etc.

**Microfinance, through Beit el Mal**, an MFI in the process of being formed which offers two types of financial services: housing credit in the framework of the social housing access operation and more classic microfinance products: joint microcredit and individual economic credit.

**Support for community activities and neighbourhood projects**, which deals with the territorial dimension of neighbourhoods: knowing neighbourhoods, implementing neighbourhood projects in close collaboration with the inhabitants, collective work, relations with the administration.

## THE WORKINGS OF THE MECHANISM FOR ACCESS TO SOCIAL HOUSING

The Twize programme operates in under-equipped neighbourhoods divided into deeded parcels<sup>7</sup> or in the framework of relocating families following neighbourhood restructuring<sup>8</sup>. In both cases, the families hold permits to occupy the land and the programme acts on the sidelines to resolve land tenure issues. Also in both cases, the problem is access to new housing, since either the people do not have decent housing to start with (they live in makeshift tents or wooden shacks) or the programme works in the framework of slum restructuring operations with displaced people to whom the State has granted land, as a rule improved land, as compensation.

<sup>7</sup> These are neighbourhoods that present the advantage of being in order in terms of land tenure (the majority of the inhabitants hold permits to occupy their land) but which do not necessarily have access to essential services such as water and electricity or are located in outlying areas of the cities.

<sup>8</sup> Neighbourhood restructuring: these operations take place in illegally occupied neighbourhoods and are aimed at putting the land tenure situation of the occupants in order. They lead to displacements of the population to reduce the population density in the neighbourhoods and free land located on public right-of-ways (roads, schools, markets). The displaced populations are generally relocated in under-equipped neighbourhoods divided into deeded parcels.

Under this housing mechanism, Beit el Mal, the microfinance institution created by the Twize programme, selects beneficiaries based on a combination of criteria, and grants and manages credits. The Housing Component organises the building sites and supplies them with materials and equipment, and awards the work to small local contracting companies and supervises the conduct of the work, ensuring delivery. The Community Activities component acts as a facilitator in the neighbourhood and ensures the promotion of the housing product to the population. Finally, the Training Component provides training for the contractors and workers working on the construction sites.

The target clientele of the programme is principally made up of people working in the informal sector (tradespersons, labourers, artisans) whose monthly family income is lower than 40.000 RMO<sup>9</sup>, or just above the poverty line estimated at 33.600 RMO per month, per household, in 2004. Over half of the budget of these households is spent on food and approximately 10% on housing.

## HOUSING PRODUCTS OFFERED

Currently, two new-housing products are offered to the population<sup>10</sup>: a room measuring 20 m<sup>2</sup> or a package including a latrine and a wall around the land.

The cost of the room module was estimated at 400.000 RMO in 2007 (materials and labour), or approximately Euros 1.175. It is divided into three parts: a direct subsidy from the Mauritanian government, a credit with an interest rate of 12%/year over three years, and an initial contribution by the habitants.

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<sup>9</sup> The official currency is the ouguiya (RMO). 1 Euro = 340 RMO.

<sup>10</sup> A third product 'latrines' was supposed to be offered, but it has been delayed due to technical reasons.

## Housing module financing model

ROOM MODULE THE MOST COMMON	RMO	EUROS	%
TOTAL COST	400.000	1.175	100%
STATE SUBSIDY	240.000	705	60%
<b>CREDIT</b>	<b>110.000</b>	<b>323</b>	<b>27,5%</b>
PERSONAL CONTRIBUTION	50.000	147	12,5%

The cost is distributed based on the ability to pay of the target populations. According to studies conducted by Beit el Mal, the monthly ability to pay of the households is around 3.500-4.000 RMO per month. For comparison's sake, if the total cost of the housing module were financed on credit, the term of the loan would have been in the area of 10 years (not counting the cost of credit), a term that is much too long and too risky for a microfinance institution if it intends to be sustainable. Experience has shown that repayment over 3 years is the longest acceptable term for low-income populations living off the informal economy. Based on that reasoning, the amount of the credit was set at 110.000 RMO (monthly ability to pay including the cost of credit - 36 months), or 27,5% of the cost of the housing. The personal contribution of the inhabitants was set at about half of the amount of the credit (12,5%), and the subsidy represents 60% of the total cost.

## HOUSING MICROFINANCE PRODUCT CHARACTERISTICS

- Term of the credit: 36 months with monthly reimbursements of capital and interest; no grace period
- Interest rate: 12% annually on the initial capital
- Guarantee: includes two forms:
  - \* Joint guarantee groups (Twize): the credit is granted to a Twize, made up of 5-10 people who stand surety for each other.
  - \* Savings collateral: granting of the credit is subject to prior deposit of savings collateral in the amount of 10.000 RMO reimbursable upon the payment of the final instalment of the credit.

Since mid 2006, an individual guarantee has been tested, as an alternative to joint guarantee. The idea of pledging the occupation permit to guarantee the housing credit is being explored.

For Beit el Mal, the interest lies in the transition towards tangible collateral, even if the psychological value of the collateral takes precedence over its degree of execution from a legal standpoint. For the inhabitants, the transition to individual credits removes the constraint of forming a joint surety group, which is difficult over a period of 3 years, without making the conditions more difficult to meet, since all of the beneficiaries of social housing hold occupation permits.

The transition to individual credits may also remove the constraint of homogeneous loan amounts, and pave the way for innovative housing modules with different loan amounts.

The establishment of housing credits is linked to the improvement of the incomes of the inhabitants. One of the conditions for recovery of the credits is a simultaneous increase in the income of the beneficiaries. With that in mind, Beit el Mal also offers more classic microfinance products, in an environment where microfinance competition is scarce.

## **FINANCIAL RESULTS**

Between mid 2003 and the end of 2008, 5.100 houses were built and 34.000 microcredits for housing and other activities were disbursed for the value of 1,2 billion RMO (Euros 3,7 million).

By the end of June 2008, 19.000 people of which 70% are women are creditors for a total value of 451 million RMO (Euros 1,4 million).

As of 31 december 2006, the financial results are as follows:

DECEMBER 2006	NOUAKCHOTT		
	CMC	HOUSING	CONSOLIDATED
<b>OUTSTANDING CREDIT</b>	<b>joint</b>	<b>joint</b>	
NUMBER OF CREDITS OUTSTANDING	<b>4.516</b>	<b>2.289</b>	<b>6.805</b>
- INCLUDING WOMEN AS A %	95,5%	41,4%	77,3%
CREDIT OUTSTANDING	<b>60.383.480</b>	<b>164.859.600</b>	<b>225.243.080</b>

DECEMBER 2006	NOUADHIBOU		
	CMC	HOUSING	CONSOLIDATED
<b>OUTSTANDING CREDIT</b>	<b>joint</b>	<b>joint</b>	
NUMBER OF CREDITS OUTSTANDING	<b>884</b>	<b>355</b>	<b>1.239</b>
- INCLUDING WOMEN AS A %	68,9%	19,4%	54,7%
CREDIT OUTSTANDING	<b>10.929.500</b>	<b>27.966.100</b>	<b>38.895.600</b>

DECEMBER 2006	BEM		
	CMC	HOUSING	CONSOLIDATED
<b>OUTSTANDING CREDIT</b>	<b>joint</b>	<b>joint</b>	
NUMBER OF CREDITS OUTSTANDING	<b>5.400</b>	<b>2.644</b>	<b>8.044</b>
- INCLUDING WOMEN AS A %	91,9%	38,5%	73,8%
CREDIT OUTSTANDING	<b>71.312.980</b>	<b>192.825.700</b>	<b>264.138.680</b>

- The portfolio at risk (PAR90) as of 30 June 2008 is 2,9%.
- The BEM staff number as of 30 June 2008 is 43 people.
- Operational self-sufficiency has been achieved in 2007.

## ARTICULATION WITH SOCIAL HOUSING POLICY

Beit el Mal is an emanation of the Twize social housing programme. Initially a programme component, it gradually gained in independence and will soon be legally recognised as a company by the Mauritanian Central Bank in the framework of the new law on microfinance, adopted in December 2006. In a context where the supply of microfinance is insufficiently structured, the institution's development prospects are strong and should enable it to achieve financial self-sufficiency by the middle of 2009.

While the option of turning Beit el Mal into a private microfinance company is now well established, it originally gave rise to considerable debate between project partners, including a debate about whether to entrust the management of a "public interest service" to a private operator, a debate about whether it was appropriate for the same organisation to combine two activities of a totally different nature (social housing and classic microfinance), and finally about whether a private organisation should have to bear the risks of a withdrawal of public financing.

## THE PLACE OF THE STATE IN THE FUTURE INSTITUTION

In relation to the central question of whether to place a public interest mission in the hands of a private operator, the position finally adopted by all of the actors involved, including the Mauritanian government was as follows: the fact that it is a "public interest service" does not necessarily mean that it must be directly delivered by the State. Increasingly, various sectors are moving towards the idea that it is possible (including for services directly involving what the government views as its "mission") for such services to be handled by private organisations, whatever their status, sometimes through certification systems (for instance for the running of primary healthcare centres). In such cases, the government simply recognises that these services can be provided more efficiently and at a lower cost by specialised private organisations, and that the acquisition of skills by the State should be chiefly focused on efficient supervision of such services.

The place of the State in the future MFI should therefore be seen as a link between the future clients of the Mauritanian social housing policy and the MFI, with a view to stabilising the activities of the future MFI and ensuring that its actions in the area of social housing financing respect the principles established in the social housing policy: this right of supervision is all the more legitimate in that it is admitted that the loan decision shall take precedence over the subsidy decision in the relationship with beneficiaries (priority is given to the expertise of the future MFI in evaluating the beneficiaries' ability to pay).

## **MANAGEMENT OF THE UNCERTAINTY OVER THE CONTINUATION OF THE STATE COMMITMENT TO HOUSING**

Today, more than 50% of the activities of Beit el Mal currently involve financing of social housing. To the extent that it is the contribution of the subsidy that creates the demand for social housing, a change in the position of the Mauritanian government, making social housing no longer a priority, could considerably destabilise Beit el Mal by bringing an important branch of its business to a halt.

**In order to deal with this uncertainty, Beit el Mal uses a twofold strategy:**

1. Advocating the transformation of the social housing programme that is limited in time and without institutional anchoring, into a genuine social housing policy, guaranteeing a lasting State commitment to this issue. In this sense, Beit el Mal and GRET are stakeholders in the ongoing reflection on how to make such a policy sustainable.

2. Increasing the weight of activities other than subsidised housing, so that the structural financial equilibrium of Beit el Mal does not depend on social housing. Using the same target, within 4 years, social housing should represent less than 10% of the total business of Beit el Mal. In order to increase the share of non-subsidised activities, it was decided in 2007 to diversify products. The products being tested include individual economic credit (guaranteed by pledging a land deed) which meets with strong demand in the neighbourhoods, non-subsidised individual housing credit, particularly aimed at financing the renovation/maintenance/extension of housing built through Twize but also in response to a demand from older neighbourhoods built in masonry long ago. Finally, to facilitate access

to housing products (subsidised or not) and increase credit leverage, Beit el Mal is counting on the development of housing savings products.

### **ARTICULATION BETWEEN BEIT EL MAL AND AN INSTITUTIONALISED MECHANISM FOR ACCESS TO SOCIAL HOUSING**

#### **- Separation of the management of social housing and other microfinance activities:**

To take account of the various constraints mentioned (management of uncertainties for BEM, concern for the respect of the public service mission for the State), arrangements have been made to separate the processing of classic microcredit activities and social housing credit activities. Beit el Mal will act on its own behalf in classic microcredit (and other non-subsidised microfinance products) and will act as a housing credit provider linking a Social Housing Fund, managed and moneyed by the State, and the customers gaining access to property through social housing.

#### **- Establishing a function of social housing promotion, articulated with but external to Beit el Mal:**

This institutionalisation plan for the Mauritanian social housing policy would be incomplete without reflection on the future of the "housing promotion" function, which is currently fulfilled by the Housing Component of the Twize programme (and marginally by the Community Activities Component). This function currently includes the development of "housing products", the promotion of such products and technical dialogue with the inhabitants, selection of building contractors, organisation, monitoring and inspection of construction work, purchasing and supplying the building sites with materials and equipment, contractualisation of the sale of housing, and sometimes upstream resolution of land tenure issues. According to current thinking, a promoter, such as Beit el Mal, would provide services for the Social Housing Fund and would receive subsidies from the latter in order to fulfil its mission. It would further manage the direct subsidies to the inhabitants on the cost of housing. From the standpoint of Beit el Mal, the quality of the service provided by the real estate promoter would be decisive, since any fault or failing in the completion of the people's housing project could be directly sanctioned by problems with payments.

**- Definition of a service-delivery contract between Beit el Mal and the State:**

A service-delivery contract between the State and Beit el Mal should guarantee that the activities of the MFI in the area of social housing respect the principles established in the framework of the social housing policy, particularly in terms of credit application selection. The contract should include strict supervisory provisions to ensure adherence. No relationship of exclusivity should be negotiated between the two actors.

From the standpoint of Beit el Mal, the externalisation of financing of social housing should make it possible to reduce capital requirements and limit the impact of a potential withdrawal of subsidies on social housing. Synergy between housing and other microfinance services remains highly desirable both in terms of impact on the population and business opportunities for the organisation. 🗨️

## FRAMING THE DEBATE: USE OF FAMILY REMITTANCES FOR HOUSING FINANCE

María R. Sáenz, Habitat for Humanity International

In 2005, developing countries received at least US\$167 billion in remittances, an increase of 73% from 2001. Over 50% of this increase went to China, India, and Mexico. Although most of these flows originate in developed countries, South-South remittances represent between 30 and 45% of the flows reaching developing countries.

The impact of remittances on regional and national economies is enormous. Worldwide, in 2004 official estimates placed remittances at nearly the same level as foreign direct investment; moreover, remittances have grown faster than either private capital flows or official development assistance during the past decade. The top 19 remittance-recipient countries receive at least 10% of their GDP in remittances. In many small developing economies, remittances are greater than total exports.

Furthermore, their countercyclical nature can provide economic stability in times of hardship. At the household level, remittances can not only increase but smooth consumption, thus providing social insurance. These flows can also increase savings and investments in education, health, and small businesses. In developing countries, remittances have been associated with decreased poverty levels.

However, the benefits from migration and remittances come at a cost: families suffer from disintegration; economically active people leave their home countries; governments postpone key decisions on poverty reduction because of dependence on remittances; and countries may suffer from inflation. The net impact is hard to estimate.

Finally, remittance flows cannot become engines of development without an enabling environment fostered by appropriate policies, which improve access to social services and financial institutions, among other issues.

## REMITTANCES AND HOUSING

In developing countries, increasing the investment in housing by poor households has the potential to leverage the positive impacts of remittances by increasing family assets and overall quality of life. Nevertheless, remittances alone cannot solve endemic problems in the housing sector; they must be seen mainly as an alternative means of payment.

The current impact of remittances on housing for low-income households is unclear. Field observations suggest that these households have higher quality homes and home ownership rates than those not receiving remittances. On the other hand, remittances received by these households seem to have a limited impact on housing investment in Latin America.

Better data are needed to draw a clearer picture on the use of remittances for the financing of housing by poor households. Current data do not appear disaggregated by income level, for example. Aggregated data suggest that 10% of the remittance-receiving families invest a portion of their total income in savings and investments, through mechanisms that include mortgages.

Regarding potential demand in Latin America and the Caribbean, research suggests that housing investment products are among the most attractive financial products for receivers and senders of remittances originating in the U.S. and likely from other parts of the world too.

## LESSONS LEARNED

The number of mortgages backed by remittances is still low. Remittances are more likely to be used for home improvements than for home purchases, and they are likely to be carried out without the involvement of formal financial institutions.

Emphasizing the use of remittances for investment in progressive building, as opposed to the purchase of complete homes, has greater potential for reaching poor transnational families and may encounter fewer implementation barriers. Furthermore, given that the likelihood of sending remittances drops over time, at least among Latino immigrants residing in the U.S., products that require shorter periods of payment may make greater sense.

**In order to increase investment of remittances in housing, the following barriers need to be addressed:**

**Related to target families:** Low financial literacy among transnational families and low capacity “to make ‘smart’ housing investments”; distrust of formal financial institutions; remittances intended for housing are used for other purposes; in the case of home purchases, deciding in whose name to register the property; lack of collateral or a guarantor needed to apply for a loan.

**Products offered:** Shortage of appropriate financial products for poor transnational families; poor quality control of construction financed with remittances. In addition, providers perceive risk in offering financial products to transnational families.

**Loan application process:** Gathering information renders this process complicated, requiring extensive paperwork and involving prerequisites that vary by country of origin.

**Coordination among players:** Insufficient coordination among governments, private sector and civil society organizations involved in housing finance and remittance transfer at the national and transnational levels.

## 23 CURRENT PROGRAMMES LINKING REMITTANCES AND HOUSING FINANCE

Relatively few initiatives have specifically tackled the use of remittances for housing finance. Most involve mortgages and are concentrated in Latin America. Among them:

**Sociedad Hipotecaria Federal:** With financial support from the Inter-American Development Bank, this Mexican government agency has created a mortgage program to help Mexican immigrants in the U.S. and Canada to invest in new or used houses in Mexico. The program provides long-term funding to three financial intermediaries and offers mortgage insurance, among other services.

**Mi Vivienda (a government program in Peru) and Banco Solidario (a private bank in Ecuador)** also have mortgage programs targeting middle-income transnational families. Several banks in India also offer housing loans for improvements and purchase to non-resident Indians (NRI).

**Construmex:** Offers credit to Mexicans living in the U.S. for buying, building, and improving homes. Monthly payments can be made at Mexican consular offices and 800 access points of a money transfer operator. In addition, Construmex offers a list of certified distributors of building materials in Mexico.

**Housing fairs:** Government agencies in alliance with private businesses from El Salvador, Colombia, and Peru have organized fairs in the U.S. to promote housing solutions among immigrants.

On a small scale, local organizations (such as **Habitat for Humanity in El Salvador**) are accepting proof of remittances as an income source in qualifying for home mortgages.

**Microfinance institutions are also offering products to transnational families, mainly linked to home improvements:**

**International Remittance Network (IRNet®)**, developed by the World Council of Credit Unions (WOCCU), distributed remittances through their members in eight LAC countries and Kenya. A portion of their clients have remittance-backed credits for home improvements and purchase.

**ACCION International** is currently running small pilot projects, through local partners, in seven LAC countries, which among other financial products provide microcredits for home improvements.

## **OPEN QUESTIONS AND AREAS OF RESEARCH**

**In the area of housing finance related to remittances, some of these questions and areas of research should be considered:**

### **Demand**

What amount of remittances are poor transnational families investing in housing and in what types of solutions (e.g., home purchase and improvements)? How do preferences for financial products and housing solutions vary by demographic characteristics? What segments of the demand are not being satisfied? What is the size of each segment?

### **Supply**

Only a few initiatives have intentionally channelled remittances into housing solutions. Are their efforts reaching the poor? What lessons have been learned by these initiatives? How transferable are these lessons? How should suppliers design their products in order to reach additional segments of poor transnational families?

**Delivery channels**

What strategies and institutions are appropriate to promote and deliver housing solutions and financial products to transnational families? How can micro-finance institutions based in countries of origin offer their services in those countries as well as in countries of destiny? How can immigrants pay for housing products in their countries of destiny?

**Scale and sustainability**

What kinds of financial products directed to poor transnational families are cost-effective and can reach scale?

**Community remittances**

Associations of migrants send donations to their countries of origin. How can these collective remittances be used more effectively to improve the infrastructure in poor neighbourhoods?

**Policies and alliances**

What national policies are needed to build a housing market that serves poor transnational families? What types of national and international alliances are needed to offer these products? What intersectoral alliances are necessary?

**CONCLUSION**

Collecting information and generating knowledge will help in three areas. First, it will help suppliers design adequate products and promotion strategies for different market segments. Financial products must increase access to housing solutions, emphasizing home improvements over purchase of complete homes. Second, new information and knowledge will help low-income transnational families to choose among products. Finally, governments will be better equipped to devise policies that improve market efficiency and support these families in their efforts to secure decent homes. ■

## **CONSTRUMEX: OFFERING HOUSING CREDIT TAILORED TO THE SITUATION OF MEXICAN EMIGRANTS IN THE UNITED STATES<sup>11</sup>**

Loreta Serrano et Consuelo Garcia, consultants

According to the Pew Hispanic Center, six out of ten Hispanic immigrants in the United States are of Mexican origin, representing a population of nearly 20 million. Amongst them, some 10 million are first or second generation, that is, they or their parents were born in Mexico.

Lack of job opportunities and comparatively low wages in Mexico, coupled with increasing demand for low wage labour in the U.S., induce one in three young Mexicans to cross the border in search of employment. Historically, in addition to the abuse and commercial scams to which they have fallen prey, Mexican immigrants have faced a series of challenges to endure and adapt to the changes associated with emigration. Against this backdrop, developing trust is the key to developing a relationship with the Mexican immigrant market in the U.S.

### **CONSTRUMEX: A SOCIAL ENTERPRISE IN THE UNITED STATES**

Construmex was launched in 2001, backed by a million-dollar capital investment from CEMEX Mexico, the Mexican subsidiary of the multinational CEMEX. This flagship social enterprise aims to create both economic value for the company and social value for the community.

In Mexico, remittance transfers represent the second-largest source of income from abroad, exceeded only by petroleum exports. This reality has facilitated the development of this new commercial activity, aimed specifically at Mexican emigrants residing in the U.S.

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<sup>11</sup> Source: <http://drclas.fas.harvard.edu/revista/articles/view/897>

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The “Patrimonio Hoy” (Assets Today) programme encourages low-income families to form savings cells, which subsequently receive microcredits and technical assistance enabling them to build homes in disadvantaged areas. Through this programme, Construmex capitalises on remittances to enable U.S.-based Mexicans to build homes for themselves or their relatives in Mexico, by paying in the U.S. for construction materials that are then purchased and delivered in Mexico.

So far, over 60.000 Mexicans have expressed an interest in this initiative, with its catchy Spanish slogan “Házla paisano” (You can do it, compatriot!). Construmex has already helped over 7.000 clients buy, build or improve homes in Mexico, for themselves or their relatives.

### **“CASH TO ASSET” STRATEGY**

The initial strategy implemented by Construmex was to use a portion of remittances to fund construction projects in Mexico through a model known as “cash to asset.” However, the company soon revised its policy and sought instead to channel funds Mexican immigrants spent directly in the United States, since the money they sent to Mexico was often used to cover day-to-day basic needs.

Construmex plans to set up operations in all American cities with a population of over 100.000 first-generation Mexicans. It offers a wide range of housing options in Mexico, such as self-construction, renovation or purchase of existing homes. Payment terms are attractive, and Construmex takes steps to facilitate the use of a cross-subsidy mechanism. A common practice by nonprofit organisations, this type of mechanism enables people with higher purchasing power to pay for construction materials that are then delivered to disadvantaged regions in Mexico.

### **PRODUCT PORTFOLIO**

From the outset, Construmex has offered its clients construction materials, with the choice of paying in cash or on credit. Delivery of the materials in

Mexico is ensured by small or medium-sized distributors operating in the building site area.

Construmex issues coupons that can be exchanged against a wide range of construction goods from designated distributors. Since 2005, Construmex has diversified its portfolio of services by offering credit for housing sold by real estate firms in Mexico, as well as optional technical assistance delivered by experienced Mexican architects who tailor their advice to their clients' construction needs.

## PRICE STRUCTURE

Initially, Construmex charged no commissions in order to build up a client base. The purchases were small, ranging from USD \$20 to \$50, and were therefore easily authorised. The client could also ask the architect for as many blueprints as he or she wanted, free of cost, and reject them if they did not meet expectations. As the business began to grow, the company established a USD \$300 order minimum and also began to charge small commissions. Construmex executives initially feared that decreased demand would result, but their fears proved to be unfounded.

In the U.S., where almost every human activity has a cost, a free service inspires doubts and mistrust. Certain clients have effectively decided to leave the programme, but those who have remained have been even more appreciative of the services offered. The company receives USD \$150 per credit application and USD \$5 per order of materials paid in cash. Construction materials are sold at the Mexican market price and distributors have to pay a commission of 1,5% per transaction.

Loans for the purchase of materials are granted for a 6-, 12- or 29-month term. Interest on the loans ranges between 18 and 23%. Home purchase loans are offered at a rate of between 9,9 and 14% over a term of 10 to 15 years. The only guarantee required is two family references (one relative in Mexico and one who is a U.S. resident) and proof of the income and expenditures of the future borrower.

## 29 KEY FACTORS TO HELP CREATE AND PENETRATE A NEW MARKET

### BUILDING A CLIMATE OF TRUST

At the outset, the people in charge of the project thought that operations would be facilitated by the reputation of CEMEX and the large number of Mexicans living and earning money in the U.S. However, this hypothesis was not confirmed.

The idea was to take advantage of a business opportunity as quickly as possible, but the market in Mexico is viewed from a completely different perspective than in the U.S. In time, the Construmex team realised that the company's core business was not so much a matter of acting as a middleman in the sale of materials and buildings (homes), but rather of establishing a relationship of trust with immigrants who had been victims of abuse and fraud.

Construmex also faced an additional challenge, in that the beneficiaries often preferred to receive cash rather than construction materials. To create and develop a climate of trust, strong relationships were built through the provision of high quality service tailored to the clients' needs.

### COLLABORATION

Collaboration with various actors, such as associations of Mexican immigrants and Mexican consulates in the United States, went a long way to help penetrate this new and unknown market.

Working directly with the communities through immigrants' groups has not delivered substantial commercial results, but it has helped build credibility and trust. These associations have received assistance in the implementation of community projects and, as many Construmex staff members have been through immigration themselves, they understand their clients' situation and needs.

Market research studies involving focus group studies, surveys and interviews are conducted in collaboration with Mexican consulates in every city where Construmex is present. In exchange, Construmex provides customer service training for consulate staff or helps renovate consular headquarters. The company also works with professional networks in Mexico (over 2.000 small- and medium-sized local construction material distributors) and some of the most prestigious real estate firms.

Although Construmex has fostered the enthusiasm and dreams of over 7.000 Mexicans, this commercial initiative continues to be subsidised. Its major challenge is to reach its equilibrium point and financial sustainability, in order to become profitable. There is no doubt, however, that this innovative enterprise is creating social value, and also seems to have an enormous potential for generating economic value. 🗨️

## TO KNOW MORE

### ARTICLES AND PUBLICATIONS

Center for Urban Development Studies, Harvard University Graduate School of Design, 2000: **Housing Microfinance Initiatives: Synthesis and Regional Summary: Asia, Latin America, and Sub-Saharan Africa with Selected Case Studies**. Bethesda, Md.: Development Alternatives, Inc.

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Daphnis, Franck and Ferguson, Bruce and al., 2004: **Housing Microfinance – A Guide to Practice**. Kumarian.

USAID, 2008: **Going to Scale with Housing Microfinance: The Role of Commercial Banks**. microREPORT Nr. 92

**REFERENCE WEBSITES**

**CHF International** helps people throughout the world to improve their lives through development of community, habitat, and finance. Historically focused on housing, CHF now addresses concerns in the areas of environment, infrastructure, income-generation, civil society, health, and emergency management.

<http://www.chfinternational.org>

**The CGAP Working Group on Housing Finance for the Poor** is a group of donors and practitioners collaborating to exchange lessons learned, best practices, ideas and innovations in the sector and, where possible, to collaborate and partner. With their several publications, the working group provides also technical support for the poor in developing countries.

[http://www.habitat.org/hfhu/programs/cgap\\_working\\_group/default.aspx](http://www.habitat.org/hfhu/programs/cgap_working_group/default.aspx)

**The Cities Alliance** presents a profile of a city in action. This shows Alliance members and partners working together to improve the lives of the urban poor, and promoting a coherent effort of all city stakeholders to ensure sustainable urban development.

<http://www.citiesalliance.org>

**Gujarat Mahila Housing SEWA Trust (MHT)** was officially registered in 1994 with the overall objectives of improving the housing and infrastructure conditions of poor women in the informal sector.

<http://www.sewahousing.org>

**Habitat for Humanity (HFH)** is a non-denominational Christian charity dedicated to eliminating poverty housing worldwide. It builds and renovates simple, decent homes with the help of homeowner families, through volunteer labour and donations of money and materials. Moreover, it publishes a series of News Releases.

<http://www.habitat.org> 🏠

## THE MICROINSURANCE DEVELOPMENT IN WEST AFRICA

Luc Vandeweerd, ADA Strategic Director

This project is the next step following on from a CIF/ADA<sup>12</sup> activity initiated in 2003, which aimed to provide institutional capacity building for CIF partner networks by setting up a sustainable, diversified range of financial services for the poor. This activity, which was designed in the form of a research and development programme, included the configuration of an initial microinsurance product: the (Credit Benefits Plan) or RPC. RPC offers a death benefits product for borrowers from microfinance institutions combining twofold protection: extinguishment of the debt in the event of the death of the borrower and a lump sum payment of benefits of 100.000 F CFA (152 Euros) to the family to provide support to assist with the funeral and help the family through that difficult time.

**CIF\*** is a cooperatively-owned stock company governed by a board of directors with a capital of 120 million F CFA (182.939 Euros). It was formed at the initiative of six partner networks, which are mutual financial institutions. The networks joined together to provide poor populations on a wide scale with access to a financial surface created by a variety of adapted and accessible financial products and services. The mission of CIF is to provide its partner networks with technical and financial leverage through financial and organisational innovation. This will enable the networks to develop their respective markets by offering diversified and profitable financial products and services, which would have been impossible individually. This mission is carried out through research and development, trials and introduction of financial products and services tailored to local conditions.

\*Source: CIF 2002.

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<sup>12</sup> Centre d'Innovation Financière, Ouagadougou, Burkina Faso

In the late 1990s, two observations were made regarding the networks: firstly, there were a growing number of unpaid loans due to the death of the borrowers, and secondly, there were a growing number of special reserve funds on the records of the networks linked to various protective measures taken to hedge that risk<sup>13</sup>.

In 2000, based on these observations, market research was conducted on insurance practices in three networks: RCPB (Burkina Faso), NYESIGISO (Mali) and PAMECAS (Senegal) in order to identify the market and its needs. The findings confirmed the existence of simple life insurance products linked to savings and loan schemes, underscored the financial worries of customers regarding death, confirmed that death-related costs were covered by the family and demonstrated the existence of a potential for making this practice profitable within the networks.

The research findings were shared with ADA<sup>14</sup>, an NGO based in Luxembourg, specialising in microfinance, which is interested in the development of microinsurance products as a complement to the financial products generally developed by microfinance institutions (MFIs), and with which CIF has a relationship of partnership and mutual exchanges.

In 2002, CIF and ADA agreed to identify and implement<sup>15</sup> as of 2003 a joint experimental or applied research project aimed at providing CIF and its member networks with expertise in sustainable and professional life insurance products to better manage the risks of unpaid loans and losses due to death, and facilitating access to these new products for poor populations. From the outset, due to the specific nature of the area, international insurance expertise was mobilised for support/advice – particularly for the definition of product scenarios, technical monitoring tools and the actuarial reserves that needed to be set up. This expertise was provided for ADA by BRS and for CIF by DFS (Desjardins Financial Security), the insurance company of the Desjardins movement (Quebec) through DID<sup>16</sup>, the international development component of the Group. A Project Steering Committee, comprising CIF, the six network CEOs, the ADA/BRS and the DID/DFS group, was formed to provide guidance for project activities and validate all technical and strategic decisions.

<sup>13</sup> These measures most often consisted of deducting a specific amount (generally 1%) from the credit at source when the loan is issued as life insurance on the borrower.

<sup>14</sup> Appui au Développement Autonome – [www.microfinance.lu](http://www.microfinance.lu)

<sup>15</sup> From MFA resources from the Grand Duchy of Luxembourg, which has signed a cooperation agreement with ADA to provide 240.000 Euros over 2 years.

<sup>16</sup> Développement international Desjardins – [www.did.qc.ca](http://www.did.qc.ca)

In 2003, additional research was conducted<sup>17</sup> and an initial product entitled “Régime Prévoyance Crédit” (Credit Benefits Plan) or RPC was configured and validated by the pool of experts.

**In February 2004, the Steering Committee adopted the following seven strategic recommendations for conducting applied research:**

1. Professionalise existing benefit plan practices within the CIF networks;
2. Pursue credit benefits plan service offers only;
3. Maintain product distribution and management through the network organisations;
4. Standardise the product's configuration across all networks and innovate in its design;
5. Harmonise administrative processes and practices and set up a management information system (MIS) tailored to the activity within the networks;
6. Develop a pool of expertise within the unions/federations and the grassroots organisations in order to ensure the professional management of the benefits plan;
7. Form business partnerships with private companies:
  - to fulfil reinsurance needs,
  - to add to the product range over the medium term,
  - to receive training and technical and institutional support,
  - to develop negotiation skills with these partners.

Two trials of the new product were conducted in two networks in Togo (FUCEC) and Burkina Faso (RCPB) for a period of six months each. The trials consisted essentially of testing RPC and its method of introduction in one pilot institution: setting up management processes and tools, reviewing staff and customer reactions, and of course interpreting the quantitative results (collection of premiums, payment of claims, and creation of reserves). While these trials were being conducted, studies were also done on member perceptions, analysis of the competition and the institutionalisation of RPC. On this last point, a particularly thorough analysis was made of the legislation regulating insurance activities in the CIMA<sup>18</sup> zone.

<sup>17</sup> Including a detailed inventory of “informal” insurance practices in all 6 networks.

<sup>18</sup> Inter-African Conference on Insurance Markets

In April 2005, based on the evaluations of these two trials, the Steering Committee decided to make certain adjustments in the product. For example, the age of coverage was extended from 65 to 70, product pricing was reviewed and a system of profit-sharing between the individual institutions and the network was also adopted to provide the institutions with greater incentive and remuneration for the sale and management of the product. The Committee also decided to entrust CIF with the overall planning of the activities for at least three years, with the objective of deploying a reconfigured RPC product on a wide scale across all six networks and to carry out additional experimentation on the possibility of introducing the RPC product into group loan schemes (especially women's groups, village savings and loan institutions and joint credits).

By the end of September 2006, deployment was practically completed in FUCEC Togo and RCPB Burkina Faso and also begun in PAMECAS Senegal and FECECAM Benin, and was expected to begin in early 2007 in the two Malian networks (NYESIGISO and KAFO JIGINEW).

## **OVERVIEW - RPC PRODUCT TERMS AND CONDITIONS**

### **1. MEMBERSHIP REQUIREMENTS**

- Mandatory
- Age 18 - 70
- Able to work for at least the last three months.
- Has not been advised to undergo medical treatments or surgery or hospitalisation for health problems that could prevent working regularly and normally for over one month.
- Has never received benefits for total and permanent invalidity and has never been rejected by an insurance company for health reasons or due to dangerous activities.
- Not currently receiving a pension for Total Invalidity.
- Term of the credit.
- 5 years.

## 2. COVERAGE GRANTED ON THE LOAN

- Basic coverage: 100.000 F CFA or 152 Euros in the event of death, or Total and Permanent Invalidity throughout the term of the credit as support for the family.
- Credit protection coverage: The balance of the credit, notwithstanding any contributions or pledged savings.
- Minimum and maximum amounts.  
   nominimum  
   Maximum 10 million F CFA or 15.245 Euros
- Amounts euros 10 million F CFA or 15.245 Euros  
   Coverage is equal to a percentage of the maximum amount (15.245 Euros) of the initial total of the credit

## 3. EXCLUSIONS AND LIMITATIONS

- Salary advances
- All joint or group credits
- All credits of over 5 years as well as credits to groups, associations and enterprises with composite liability.
- Deaths due to war, rioting, insurrection, natural disaster, participation in a crime or attempted crime, or suicide occurring during the first two years of the credit.

## 4. TYPES OF CREDITS COVERED

- All individual credits for private individuals with the exception of those whose term exceeds 5 years.
- All credits to business persons who are the sole registered owner recorded in the Trade Register, with the exception of those whose term exceeds 5 years.

## 5. PREMIUMS

- A single premium is charged to the member:  
   Rate of 0,075% per month  
   Fixed fees of 1.500 F CFA or 2,3 Euros for basic protection and registration costs  
   For lump sum repayment credits, the rate of 0,075% is multiplied by 1,5

## 6. EARLY REPAYMENT OF A CREDIT, REFINANCING OR FAILURE TO PAY A CREDIT FOR OVER 90 DAYS

- Reimbursement of borrower premiums equal to the balance X 0,075% X the number of months remaining
- For lump sum repayment credits, the rate of 0,075% is multiplied by 1,5
- In all cases, the refund shall be equal to at least **2,3 Euros**

## 7. EXPIRY OF COVERAGE

- 70th birthday
- Date scheduled for the complete repayment of the credit
- Actual date of repayment of the credit
- On failure to make payments on the credit for over 90 days

## 8. REVIVAL

- Within 90 days following the expiry of coverage, if all amounts due are fully paid.

(Source: RPC trial kit, ADA/CIF/DID project, April 2005)

**RPC** offers two forms of protection: **basic protection** benefits of 152 Euros (100.000 F CFA) in the event of death or total and permanent invalidity during the term of the credit and **protection of the credit** for the balance of the credit<sup>19</sup>, notwithstanding any contributions or pledged savings. The basic protection is the original aspect of the product. Its purpose is to assist the member or his or her entitled beneficiaries in the event of a claim, i.e. the death of the borrower who is, in many cases, the family's principal source of income. This additional protection arose from a study of customer needs and an inventory of practices carried out during the applied research project. The initial satisfaction surveys of the families concerned – families having experienced a death – demonstrate the cogency of this additional protection.

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<sup>19</sup> The remaining balance due

## CLIENT PERCEPTIONS OF THE NEW RPC PRODUCT\*

In credit institutions, insurance is generally viewed as something subsidiary or secondary to the credit contract.

Under the RPC plan in particular and in microfinance/microinsurance in general, this perception is even more accentuated, since what matters above all for the loan applicant is that the requested loan is granted quickly and direct access is obtained to the cash provided for under the loan contract. Indeed, they may even pay little heed to the loan conditions, such as, in this case, the signing of an RPC insurance contract.

According to the credit agents surveyed on the subject, it is not unusual for Borrowers to come back a few days after the loan is granted and ask about the amount of the premium backed on the amount of the loan and why it is mandatory to pay for basic coverage. But once the explanations are provided, the product is generally accepted and its protective measures are appreciated. The premium is then viewed as an investment: "I pay a little money to save my family trouble in case of problems".

\*Source: Sémirath Fagbemi, DID/DFS trainee, Benin and Togo mission report, November 2006

The product has been configured, priced and successfully tested in Togo and Burkina Faso. According to insurance product categories, RPC can be viewed as a mandatory group insurance product for all individual borrowers with automatic deduction of premiums at the time the loan is granted. The wide-scale deployment of the product in all six CIF networks is ongoing and should be completed by the end of 2007 with support from Luxembourg's cooperation agency, Lux-Development. In terms of applied research, the product will also be adapted to and tested on certain types of credits: group credits, lump sum repayment credits, credits exceeding ten million F CFA (15.244 Euros), including reinsurance issues. Finally, the project is also working on the identification and configuration of new microinsurance products, such as complementary salary deduction/old age pension insurance. The ultimate goal of the project

is the emergence of a pool of microinsurance expertise in the subregion; the standardisation and harmonisation of microinsurance practices across all six CIF<sup>20</sup> networks and the securing of a combined microfinance and insurance industry. Finally, in terms of the financial profitability of the operations, the project anticipates cumulative net profits of approximately 3,5 million Euros over three years, which should enable CIF to envisage the creation of its own subregional insurance company, thereby guaranteeing a certain institutional sustainability for this new type of financial service.

## INITIAL LESSONS

### **Strong coordination between the different players**

The activity followed from an applied research project implemented by CIF and ADA, and funded by Lux-Development with the technical and financial support of other partners (BRS/DID/DFS). The applied research project enabled preliminary studies to be conducted, technical partners to be found, a product prototype to be configured and initial trials to be carried out. Thus, the project developed quite rapidly from a CIF/ADA project to a CIF/ADA/DID project, with CIF asking its two partners to also provide technical expertise through the insurance industry in light of the specialised nature of its new business it was learning. A pool of experts from major insurance companies (DFS Canada and BRS Belgium) was formed, enabling CIF to compare technical opinions and recommendations. This two-fold expertise was particularly effective, not only in terms of pricing and methods chosen for the creation of actuarial reserves, but also in terms of the development of replication tools, which were also validated by national insurance experts (trial and replication kit, research and trial agreement and protocol, management charts, training modules, performance indicators, calculation of mathematical reserves, etc.). The methodological approach chosen, which consisted of using and comparing two-fold expertise from the North made it possible not only to configure and price the product according to industry standards but also to provide support and advice in terms of the operating method chosen by the networks for the sale of the product.

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<sup>20</sup> Which represented, as at the end of 2005, 509 sales outlets, 1.632.012 customers and 60% of the microfinance market in the WAEMU zone (West African Economic and Monetary Union, which includes Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo).

Based on the initial results of the trial project and upon request by CIF, a broader project aimed at replicating the product within a reasonable time in all 500 financial service sales outlets in all six networks was designed and is currently in the execution phase. The target audience now totals 1.630.000 people, i.e. all of the customers or subscribers of the CIF networks throughout five countries in West Africa. Considering that, in insurance, the law of large numbers is a necessary prerequisite for all activities, the choice of CIF as the project manager revealed itself to be particularly apt as soon as operations began. Indeed, CIF has demonstrated real know-how in terms of the introduction of new financial products and the configuration of the organisation enabled it to introduce the products on a wide scale.

## **OVERVIEW - CIF METHODOLOGY FOR INTRODUCING NEW FINANCIAL PRODUCTS**

### **1. DEVELOPING A PROJECT IDEA DATA SHEET**

This is the first product or input in the process of research and development or replication of an existing product or service. It briefly outlines the Credit Benefits Plan trial project through a contextual analysis; a summary project description; a preliminary draft configuration; a description of the necessary human and financial resources and an earnings forecast detailing the market and profitability.

### **2. MARKET ANALYSIS**

During the market analysis phase, MARP and Focus Group tools are used and a market study guide developed by CIF is applied to collect and analyse data on credit protection practices; to analyse similar products or services offered by the competition as well as the conditions proposed (market-product combination); to segment the market and seek fits with the segments defined. In other words, customer needs and market opportunities are analysed.

### 3. CONFIGURATION OF THE RPC CREDIT BENEFITS PLAN

During this phase, product features are defined (method of delivery, associated services, term, pricing, etc.), a method of distribution is identified, the roles and responsibilities of the various actors are specified, promotion and marketing methods are established, RPC management tools are developed, financial and human resource implications are defined and trials are planned and prepared.

### 4. TRIALS DURING THE PILOT PHASE

During this phase, a research and trial agreement and protocol are signed between CIF and the network. These two documents will make it possible to select and define the trial unit, location and sample, to set targets and define data to be collected, and to establish the trial period and the composition of the trial team. In addition, the following aspects of the trial are monitored and evaluated (organisational and financial aspects, customer perceptions, agents' mastery of procedures and tools, impact on products or services already in place), the configuration is adjusted in light of evaluation results and a draft introduction guide is produced. In this phase, the product is adjusted to the conditions in the field and adapted to customer needs.

### 5. WIDE-SCALE INTRODUCTION

Based on the trial results, this phase includes the development of an introduction plan specifying the locations selected, the formation of the product team, the revision of the configuration, procedures and management tools, the development of final documentation, the elaboration of a communication strategy, the hiring and training of the necessary human resources and regular monitoring and evaluation of results.

(Source: CIF, 2002)

### **Enabling an NGO to achieve significant a multiplier effect**

A total of 240.000 Euros were provided by Luxembourg Cooperation through ADA for the applied research project. These funds were principally used to help CIF implement the first four steps in its methodology: project data sheet, market analysis, initial product configuration and tests in two countries and in

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a restricted area in each of the two networks involved in the initial process. The funds also enabled additional research to be conducted that was used to prepare for a wide-scale programme of product replication in the subregion and to conduct the research inherent in the process of institutionalising the new activity.

The replication programme, which is currently ongoing, was financed by Lux-Development, Luxembourg's Cooperation Agency, in the amount of 260.000 Euros. Thus, a financial contribution by an NGO to start up an activity on a trial basis and funding was subsequently taken over by a cooperation agency for replication on a larger scale. In this case, the budget required for replication was relatively small since the product itself is quite profitable<sup>21</sup> and the pricing established allows it to generate a decent profit margin, thereby enabling the networks to directly support the bulk of replication start-up costs after the trial phase. Indeed, the premiums paid by the insured cover the cost of the guarantee provided under the contract as well as the acquisition costs and operating expenses that the Specialised Administrative Unit will have to support throughout the lifetime of the contract. The rate, which was configured jointly with the pool of experts, can be broken down as follows:

#### BREAKDOWN OF THE RPC COMMERCIAL RATE\*

ITEM	PURPOSE	RATE	PERCENTAGE
PURE RATE	Represents the cost of the guarantee provided by the contract	0,0531%	70%
+OPERATING EXPENSES	Coverage of management costs throughout the contract period	0,0073%	10%
+ACQUISITION COSTS	Coverage of acquisition costs (remuneration of the institution and contract creation cost)	0,0146%	20%
<b>=COMMERCIAL RATE</b>	Premium paid by the insured	<b>0,075%</b>	<b>100%</b>

\*Source: ADA/BRS, 2005

<sup>21</sup>Which also gives the networks incentive to invest in this new product.

This level of contributions allows the specialised administrative unit to fulfil all of its commitments towards the insured and fund its institutions, thereby accomplishing both objectives.

The financial support provided by Lux-Development is focused on capacity building (50% of the programme to train 1.500 product managers), the setting up of an Administrative Unit specialising in insurance within each network (50% of set-up costs and remuneration<sup>22</sup> of the unit head over six months) and CIF monitoring expenses.

According to the forecasts and perspective studies based on the current volume of business of the networks, **for a joint investment of 500.000 Euros** including 240.000 for applied research and 260.000 for the replication programme, **the project can be expected to deliver cumulative net earnings of 3.478.000. Euros over three years, or 7 times the amount of the external investment**, which is an excellent ratio for a development activity. These are high projections, but they have been backed up by the initial results recorded in 2006 following the deployment of the product in two networks in late September 2006.

See the statistics of the main indicators for RCP on the next page (table) →

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<sup>22</sup> The idea is to incite networks to hire skilled executives from the outset, externally if necessary, to quickly take in hand all of the insurance activities, since initially, this person's remuneration would not be a handicap.

**45** PRINCIPAL STATISTICAL INDICATORS FOR RPC AS AT THE END OF SEPTEMBER 2006 (FUCEC AND RCPB)\*

INDICATORS	RCPB	FUCEC	CIF*
<b>GROWTH INDICATORS</b>			
NUMBER OF CURRENT INSURED	29.096	19.694	48.790
OUTSTANDING CREDITS INSURED (EUROS)	21.008.974	20.750.646	41.759.620
PREMIUMS OBTAINED (EUROS)	106.353	153.960	260.313
<b>EFFICIENCY INDICATORS</b>			
CLAIM PERIOD (TARGET <30 DAYS)	6	53	29,5
TRANSMISSION PERIOD (TARGET <15 DAYS)	39	3	21
PAYMENT PERIOD (TARGET <15 DAYS)	13	16	14,5
<b>ACTUARIAL RESERVES (EUROS)</b>			
TOTAL ACTUARY RESERVES	288.924	296.639	585.563
- RESERVES FOR CLAIMS	153.402	158.462	311.864
- RESERVES FOR EARLY REPAYMENT	18.901	20.910	39.811
- RESERVES FOR MANAGEMENT EXPENSES	116.621	117.267	233.888
SOLVENCY MARGIN <sup>23</sup>	14.446	14.446	29.278
<b>LOSS INDICATORS</b>			
NUMBER OF DEATH CLAIMS	12	32	44
AMOUNT OF DEATH CLAIMS (EUROS)	15.392	31.928	47.320

\*Source: CIF, October 2006

\*The CIF figures were updated with data from the end of June 2008.

<sup>23</sup>Regulatory margin required by insurance company life insurance branches

In terms of the target audience penetration or coverage rate, RPC will be able to insure 472,500 customers out of an estimated 1,916,000 members by the end of 2008, for a penetration rate of 25% and train 1,500 agents over the same period. The rate of coverage is also expected to grow, especially in terms of women customers, if the planned trials on group credits lead to the development of a credit benefits product that can also be applied to collective credits, which mostly involve women in rural areas. It should be noted that 38% of network members<sup>24</sup> are women and that their lack of coverage causes problems for this target audience and difficulties for the institutions when deaths occur.

### **A DOMINO EFFECT EXPECTED AT THE SUBREGIONAL LEVEL WOULD HELP DEVELOP AND SECURE MICROFINANCE ACTIVITIES**

As we have already pointed out, CIF and its partner networks represent 50% of the microfinance market in the subregion. In terms of reach or market, broadening the range of financial services it provides by including microinsurance products will help it contribute to the economic and social self-advancement of a significant share of the low-income population in the subregion. In this sense, the impact of the activity will have positive repercussions not only for the customers of CIF's partner networks but also for the sector as a whole in light of the expected domino effect. It can be reasonably expected that RPC, initially, – and subsequently other microinsurance products – will be replicated by other microfinance institutions in the subregion. This domino effect will be accelerated if CIF creates its own insurance company. This would bring about an evolution of the microinsurance industry as a whole at the subregion level towards standardised practices and thereby enable the principal microfinance institutions to extend their range of products in addition to the usual savings and loan products, without exceeding the bounds of the law.

The activity will also create a bridge between MFIs and the insurance industry through bankinsurance products and, as a result, ties between the microfinance sector and the insurance industry. Over the short term we intend to extend and complement the microfinance market through the introduction of microinsurance products, and over the medium term we intend to consolidate

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<sup>24</sup> In the RCPB network, for instance, 67,000 women are now members of village savings and loan institutions.

that market through greater diversification and greater volumes of business. Finally, we can also expect that the development of the insurance activity will have considerable impact on the resource structure of microfinance institutions. Indeed, like the banks of the subregion, microfinance institutions generally have short-term resources, a situation that prevents them from financing their customers' medium-term investments due to a lack of suitable resources. With the introduction of diversified insurance products, this gap could be partially filled, which would considerably extend the range of action of microfinance in West Africa. ■

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## CONSERVING CULTURAL HERITAGE WITH MICROCREDIT: THE CULTUREBANK IN FOMBORI, MALI<sup>25</sup>

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The importance of material and non-material culture to development has long been underestimated. The role of material culture is especially important in many African societies that base their cultural memory on oral traditions and stories embodied in symbolic art forms rather than written sources. In Mali, the ongoing loss of cultural artefacts and art objects has greatly diminished the material cultural resources of the country. This loss is a result of a long history of looting archaeological sites and the large-scale exportation of Malian art objects and antiquities by African and foreign art dealers and tourists. Despite international laws and conventions to curb rampant art trafficking, the practice continues to endanger the integrity of Malian cultural heritage.

The CultureBank in the Dogon village of Fombori, Mali is an innovative institution that employs a microfinance model to conserve cultural heritage. In its combined role as a museum, microfinance institution, and educational centre, the CultureBank has contributed to local development and helped to ensure that precious artefacts remain in the community.

In the CultureBank model, community members obtain small loans using artefacts as loan collateral and all objects are displayed in a local museum exhibition. In this way, community members retain ownership of valuable cultural objects while accruing financial benefits through renewable loan assistance. The CultureBank has also evolved into an vital community centre that sponsors activities including literacy classes, artisan workshops, and community festivals.

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<sup>25</sup> This article is based on a study of the social, economic and cultural impacts of the CultureBank in Fombori, Mali funded by the West African Research Association in 2002. See also Deubel, Tara, 2006: "Banking on Culture": Microcredit as an Incentive for Cultural Conservation in Mali". In: Fernando, Jude L. (ed.), *Microfinance: Perils and Prospects*. Routledge Studies in Development Economics, p. 133-153.

Originally conceived by the Women's Association of Fombori, the CultureBank was formally inaugurated in 1997 by a general assembly of community members and began providing loans with a small start-up fund obtained from the United States Agency for International Development (USAID) in Mali. Additional funding was contributed by the West African Museums Project (WAMP) in Dakar, Senegal and private donors through the Peace Corps Partnership in the United States.

Since 1999 the CultureBank has operated as a financially sustainable local institution by generating loan funds exclusively from loan interest and revenues from tourism without any outside donor assistance. A board of directors from Fombori meets on a monthly basis to oversee all management activities. The CultureBank is staffed by a coordinator who manages the collection and leads guided tours and a loan manager.

## CONSERVATION AND CULTURAL ARTEFACTS

What makes the CultureBank unique among microfinance institutions is using cultural artefacts as loan collateral. In exchange for every artefact, individuals gain eligibility for a small business loan for a four to six month period at three percent interest per month. The loan amount is determined by the verifiable historical value of the piece that is assessed by the loan manager and verified by a board of village elders.

Upon timely loan repayment, borrowers may opt to renew their loan for an equal or greater amount, and thereby gain access to a steady stream of additional income over time. Individuals maintain ownership of the objects throughout the process; they are neither sold nor exchanged at any time. Owners are encouraged to use the items in the Bank whenever the need arises, as long as they return the items to the CultureBank when not in use. The CultureBank microcredit system provides individuals with continual access to increasingly large business loans in contrast with the finite, short-term profits gained by selling objects to art dealers and tourists.

According to data collected in 2002, the CultureBank provided 451 total loans between 1997-2002 with objects as collateral to seventy total borrowers (60% women and 40% men). The average loan amount has steadily increased every year. Loans are used for small enterprise development, mainly in the weekly market in Douentza, a larger nearby town. Women commonly use funds to buy and resell millet and other grains while the most common activity for men is livestock trade. The study shows that the average annual profits from these activities has increased respectively for community members in the sample who have taken loans.

By applying microcredit to the field of cultural conservation, the CultureBank provides capital for villagers to invest in non-agricultural activities, which diversifies the local economy and stimulates the growth of small enterprise in the informal sector. Another benefit is an increase in social capital by promoting contact between villagers and joint involvement in income-generating activities.

## COMMUNITY MUSEUM AND CULTURAL HERITAGE

The CultureBank of Fombori houses a diverse collection of over 500 objects displayed in three main galleries. Each gallery is organized around a common theme: objects of general historical significance that reflect information on the culture and history of the Dogon and Tellem peoples (including archaeological artefacts and ritual statues); objects related to women's roles in Dogon culture (e.g., pots, household objects, jewellery, cloth, and decorative items), and objects related to men's roles (e.g., weaponry, musical instruments, horse equipment, and masks). Pieces in the CultureBank come from thirteen surrounding villages. One way in which objects from other villages enter Fombori is through marital ties since men from Fombori often marry women from other villages and bring them to settle in the husband's home village. The most common item in the CultureBank is jewellery, which comprises 44% of the total collection.

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Some objects in the collection belong to multiple individuals in the community and have been used to obtain collective group loans. Several members of the women's association obtained a collective loan using a large statue as collateral. The women take turns using the credit from their loan in much the same way that traditional tontines, or rotating credit associations operate. Collectively owned objects are eligible for loans of greater value.

According to the CultureBank Coordinator, most people leave their objects in the CultureBank after reimbursing loans for safekeeping even if they do not opt to renew their loan. The collection operates as a "living museum", which means that people who lend their objects are welcome and encouraged to temporarily remove them for personal use in ceremonies and festivals. In this way, the pieces do not become static entities in the CultureBank but retain their currency in the cultural life of the community.

The CultureBank has sponsored a variety of community activities, such as literacy classes, festivals, and artisan workshops, that extend its outreach beyond the provision of loans. Through these activities, the CultureBank has established a vital presence as a community centre where people can benefit from activities that further the goal of building knowledge and local capacity, increasing social capital and fostering awareness and pride in Dogon culture.

## THE ROLE OF TOURISM

As of 2002, the CultureBank had received over 2.000 visitors from countries throughout the world since its opening in 1997. Visitors provide additional income for the CultureBank by paying a small admission fee of 1,50 USD, which includes a guided tour of the CultureBank and the nearby Tellem cliff dwellings. The CultureBank Coordinator normally leads these tours. Several male youths in Fombori are also trained to lead tours of the cliff dwellings and Tellem burial sites. Another important source of tourist income comes from the sale of items in the CultureBank boutique where visitors can purchase artisan goods at fixed prices.

Items include cloth, Dogon masks, statues, stools, pottery, and bronze figures that were recently produced by local artisans. The CultureBank sells these items on a consignment basis and retains a 10% commission. The proceeds of these sales are used to fund community activities. None of the antique pieces can be purchased from the collection under any circumstances.

## IMPACT AND SOCIAL CAPITAL

In addition to the economic benefits offered by the CultureBank, the project has also had positive social and cultural impacts on the community of Fombori and the surrounding region in three main areas: (1) fostering awareness of Dogon history and cultural heritage, (2) promoting the conservation of cultural resources in the local community, and (3) increasing social capital among participants.

By establishing a community CultureBank where people can view cultural objects and learn about the history, significance, and utility of the objects, the CultureBank has sparked interest in local history and intergenerational dialogue as village elders share their knowledge with younger members of the community who will be responsible for passing on the stories in the future. Many elders have commented that members of the younger generation have less appreciation for history and that they are often the ones who sell Dogon objects to antique dealers as a means to generate income.

Therefore, elders saw the CultureBank as a positive step in teaching young people more about their history and encouraging them to value their cultural heritage. As an Islamic leader commented, "The CultureBank is a good way for visitors and especially children in the village to learn about Dogon culture."

Secondly, through efforts to educate the community about the importance of conserving archaeological sites and cultural objects, the CultureBank staff has promoted the goals of cultural conservation and discouraged the sale of material culture and artefacts. An elder man explained his views on conservation and the

role of the CultureBank: “By making cultural heritage a visible and celebrated part of community life, the Dogon CultureBank of Fombori has reinforced its value as a local resource.” Community members have identified the need to protect their objects along with the cultural information and stories they contain.

A third important outcome of the project is an increase in social capital among participants. Social capital refers to relationships and networks developed among groups of people that comprise a vital part of livelihood strategies in both urban and rural settings. Although hard to measure in quantifiable terms, social capital has expanded in Fombori due to the increased contact among community members through CultureBank activities. In terms of income-generating activities, participants have collaborated to expand business enterprises and to initiate new ones.

Through literacy classes, workshops and other community-wide activities, the CultureBank serves as a community centre where individuals benefit from frequent contact with residents of Fombori and its environs, as well as the multitude of visitors that pass through Fombori each year to tour the CultureBank and cliff dwellings. Due to the geographic isolation of Dogon villages, it is common that residents of villages in close proximity may rarely see one another. The CultureBank has brought people from surrounding villages to Fombori and helped establish new social networks among inhabitants of Fombori and other towns.

In short, the CultureBank has contributed to a renewed sense of cultural pride among community members, a commitment to safeguarding cultural resources, and a growing sense of social solidarity to accomplish these goals. ■

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