Housing Finance for the Poor:
Emerging Lessons in Post-Emergency Environments
Summary Concept

I. Overview

Housing finance strategies vary from country to country, and depend on overall levels of internal economic, social, and political development. Natural disasters and human conflicts, however, know no borders. When confronted with either, developed countries assumedly have institutions and resources to deal with short-term relief, mid-term recovery, and long-term solvency and prevention. Developing countries, however, may have neither. The analysis of housing finance in post-emergency contexts (including both natural disasters and conflicts) presented here will seek to fill the gaps posed by these discrepancies. This paper will discuss practitioner experience using different housing finance interventions in post-emergency scenarios, with a focus on housing microfinance. To inform our understanding of the range of experiences in various situations (successes and failures), DIG will prepare a series of diverse case studies analyzing the role of housing finance in emergency recovery efforts in different contexts that will supplement this paper and provide a wide range of opportunities for learning.[1] DIG will also utilize other documented post-disaster and post-conflict examples, drawing on the state of practice of both microfinance and housing microfinance, to provide a wide-range of lessons in the multitude of varying scenarios that occur in post-emergency environments. DIG will also examine post-emergency interventions in different stages of development as points of analysis to derive lessons and formulate recommendations.

Though many questions will be raised throughout the paper, the overarching questions DIG seeks to answer through this action-based research are as follows:

1. If and when should housing microfinance interventions be introduced in post-natural disaster environments?
2. If and when should housing microfinance interventions be introduced in on-going and post-conflict environments?
3. What are best practices in post-emergency HMF regarding target clientele and the design and provision of appropriate housing finance products and services?

This paper is designed to answer the questions above through a rich formula of case study and desk research, and documented lessons learned. We will begin with an outline of our research methodology and provide the rationale for the case studies chosen for analysis. Next, we will provide a working definition for "housing finance for the poor" and introduce our contextual framework for the various stages of post-emergency interventions, identifying the approaches for delivery of housing finance in each stage. We will then provide a detailed analysis of the case studies and other supporting research, highlighting suggested lessons learned for policy makers and practitioners. Subsequently, we will summarize the documented state of practice for

[1] The cases selected include (1) Aceh, Indonesia after the 2004 Indian Ocean Tsunami; (2) Honduras after the 1998 Hurricane Mitch; (3) Angola following four decades of civil war (1975-2002); and (4) Colombia suffering from an on-going internal conflict.

microfinance in post-emergency environments, leading into the emerging lessons learned for if and when to introduce housing microfinance into a post-emergency situation. Finally, the paper will conclude with recommendations for stakeholders when considering different housing finance interventions in a post-emergency environment.

II. Research Methodology

DIG is exploring the topic of housing finance for the poor in post-emergency environments through action research utilizing various methods of data collection. Most prominently, this paper surveys the terrain of current practices through a series of case studies in varying development contexts. This includes high-, middle-, and low-income countries or regions within countries, as well as those with established and thriving housing finance products, services, or programs for the poor, those with nascent activity, and those with virtually no private housing finance at the time of the emergency. The case studies provide examples where housing finance could possibly assist in long-term economic and social recovery from the emergency, and examples where HFP may be hampered by the methods of and phasing for disaster interventions. In all cases, it is critical to examine:

- How the emergency response might create or destroy a housing finance industry for the poor.
- How the existing housing finance for the poor industry (if it exists) responded to the emergency.
- What role additional tools and activities (such as insurance, donor relief, and public prevention and mitigation strategies) play in both scenarios.

The specific cases were selected based on the need for:

- Geographic and historical diversity.
- Representation of armed conflicts (from ongoing latent conflicts to contexts with little to no residual conflict).
- Representation of recovery efforts among natural disasters.
- Range of pre-existing housing finance and microfinance conditions.
- Range of interventions with varying housing finance products and services.

Table 1 lists the four case studies to be reviewed.

Case Study	Location	Region	Emergency Type	Duration	Disaster stage at present time	Existing Housing Finance Market Prior to event
2004 Indian Ocean Tsunami	Aceh, Indonesia	South East Asia	Rapid on-set disaster	Event	Relief to Recovery[2]	Low to none[3]
1998 Hurricane Mitch	Honduras	Central America	Rapid on-set disaster	Event	Full Development	Mid-level
Ongoing; Internal armed conflict	Colombia	South America	Ongoing Conflict	Ongoing Conflict	Reoccurring Conflict	Mid-level
1975 – 2002 Armed conflict	Angola	Sub-Saharan Africa	Post-Conflict	Latent Conflict	Late Stage Transition from Relief to Development	Low to none

DIG will complement the case studies with the following:

Desk Studies

DIG will perform desk study research of the various housing and microfinance interventions used in other post-emergency scenarios in an effort to link the fields of emergency and transitional shelter research with research on microfinance interventions in post emergency contexts. This will include drawing on ongoing research from expert sources. For examining microfinance in post-disaster and post-conflict settings, these sources include the SEEP Network, CGAP, UNHCR, ILO, ODI, USAID and DIG's own internal experts. DIG will also utilize research and existing case studies of microfinance and housing finance in post-and-ongoing emergencies[4]. From the emergency and transitional housing field, DIG will draw from the findings and recommendations of The SPHERE Project, University of Cambridge's Shelter Project, USAID, UN-HABITAT and various international NGOs and private sector companies, as well as DIG's own internal experts.

Market Assessments

DIG will utilize the findings from its own large-scale housing finance market demand studies. The first market assessment we will highlight was carried out in mid-2008 in Central Java, Indonesia, the site of a massive 2006 earthquake, to examine the demand for housing finance in a post-disaster environment with a robust microfinance market. A similar market assessment

[2] Note that this is the stage of the microfinance industry and housing reconstruction sector in Aceh based on the case study research of the DIG team in November 2007. Other sectors may have advanced beyond the relief to recovery stage, but those sectors are not the focus of this policy paper.

[3] While the banks in Indonesia offer a mortgage product, with only 5 – 10% of the land registered prior to the tsunami, mortgage financing for the poor was rare, and housing microfinance products did not exist.

[4] Potential examples include CALPIA in El Salvador, Caja Arequipa in Peru, the Grameen Bank in Bangladesh, and various NGOs in Rwanda.

conducted in Angola in late-2008 will examine the demand for housing finance in a post-conflict environment that currently has little to no microfinance services.

III. Background and Definitions

To adequately address the overarching research questions, DIG must first provide working definitions of the following concepts:

- Housing Finance for the Poor
- Stages of Post-Emergency Intervention

Housing Finance for the Poor

A home is the most important asset most people will ever own. For poor families around the world, it is likely to be the only significant asset they will ever possess. Yet, until recently, access to housing-related finance has remained extremely limited in the developing world. Economically active poor people living in developing countries have few options when it comes to financing their housing needs. Some governments have set up (and a few have even implemented) large-scale housing subsidy programs targeting the poor and the very poor; however, these initiatives have often fallen far short of achieving their objectives. In many places, non-governmental and community-based organizations (NGOs and CBOs) have stepped up and financed small housing loans for economically disadvantaged households; however, these organizations rely on financing that is limited, and their delivery capacity is uneven, at best.

Microfinance Institutions (MFIs) have long observed that approximately 20-25% of their clients use loan funds to improve their housing and living conditions. Microfinance clients make the economically rational choice to use business loans for housing needs in response to the lack of widespread access to housing finance (or more flexible consumer finance, for that matter). A microenterprise loan offers much better repayment terms than informal sources of money lending, and such a loan can be a supplement or alternative to saving towards habitat improvements. This suggests that a fundamental expectation of microfinance—that economically active poor people can finance their needs in a manner that is incremental and affordable and under conditions that allow the financing provider to cover all associated costs—has potential beyond income generating (enterprise) uses and can apply to personal asset building (housing).

Table 1 below provides a comparison of Microenterprise Lending and Housing Microfinance:

Microenterprise Loans	**Housing Microfinance**
Impacts Clients Income	Impacts client's asset base and may impact income
May offer very small loan amounts	Relatively larger incremental loan amounts
May or may not be "fungible"	Loan use is clear
Can be individual or group loans	Usually individual loans
Repayment capacity based on actual or future generation of income	Repayment capacity based on the client's current income

Thus, for the purpose of this paper, 'housing finance for the poor' is primarily defined as *housing microfinance: microfinance best practices applied to housing for home repair, incremental home construction or home improvement, and in rare cases – when affordable – for the construction of a new home.* HFP can also mean micro-mortgages, but for the purposes of this paper we will not explore micro-mortgates as a post-emergency intervention at this time.

Stages of Post-Emergency Recovery: The Role of Housing Finance for the Poor

Through our action research, DIG seeks to our understand the types of housing financing approaches that are most appropriate in post-emergencies and at what stage in a community's recovery efforts these approaches should be introduced. Shelter and housing is never more important than in an emergency. In an emergency and post-emergency setting, access to housing and shelter can be a critical determinant for physical and economic survival. Shelter is necessary to provide security and personal safety, protection from climate and enhanced resistance to ill health and disease.[5] As noted above, housing may often be linked to a person's livelihood as the home is often a source of income generation, serving as main place of business, the location to produce goods, or a facility for inventory storage. The immediate rebuilding or reconstructing of a home can in many cases provide more than a place for shelter – it can also provide an opportunity to immediately supplement incomes and restore livelihoods.

In this section, DIG will provide an overview of the shelter interventions provided in the different post-emergency stages, and examine how they may be linked with medium- to longer-term housing finance opportunities (e.g. immediate shelter in tents in IDP camps tied to short-term, small cash grants for materials for minor home reconstruction; provision of planned land allocation in coordination with incremental housing construction interventions, etc). In this context, we will also detail the various ways this housing is funded to include international donor funding, government grants and/or subsidies, donations from religious organizations, overseas remittances, and personal savings.

As we look at the stages of post-emergencies recovery, it is important to note that emergencies, whether they are a rapid on-set disaster (as in the case of the 2004 Indian Ocean Tsunami) or an on-going internal conflict (such as the case of Colombia), are location specific. Each country or region has its own history, political systems, existing infrastructure, mitigation efforts, funding for recovery, etc prior to and post- event. However, for the sake of the framework, DIG introduces the four stages of post-emergency interventions, with a particular emphasis on shelter financing:

[5] Sphere Project (2004). *Humanitarian Charter and Minimum Standards in Disaster Response*. Oxfam Publishing, Oxford.

Table 2: Phases of Post-Emergency Interventions

Stage	*Description*	*Interventions*
Stage I	***The Relief Phase: Immediate Aftermath***	Measures must be taken to ensure the basic needs of the affected populations are met. Ideally these measures are taken with a medium to long term view of the transition from relief to development, keeping in mind that "temporary" solutions often become permanent. Shelter may include tents and communal structures (such as military barracks). Location of the temporary shelter may include individual plots of land, more communal arrangements, or even a "camp," as may be the case for Internally Displaced Persons (IDPs) or refugees.
Stage II	***From Relief to Recovery (Months 1 – 6)***	Relief measures should focus on rebuilding productive assets for sustainable livelihoods. Interventions may include marketable skills training, cash grants to reestablish inventories or acquire equipment, and microenterprise lending. While shelter may still take the form of immediate relief; grants for shelter construction and materials may be introduced.
Stage III	**From Recovery to Development (Month 6 onwards)**	Measures should focus on improving the quality of life of affected populations once their livelihoods have been re-established. At this point measures may include combinations of directed subsides, and if earlier stage interventions have been well-planned with the use of "smart grants," then housing microfinance can build upon those efforts. For example, a transitional settlement of tents may be established on safe land appropriate for future urbanization with housing lots already divided for future use. "Starter homes" could be provided as part of the relief package and then be improved through housing microfinance.
Stage IV	**Full Development & Reconstruction**	At this point development practices and interventions can follow non-emergency guidelines, although in the case of enduring low-level conflict, risk and feasibility analyses should be carried out prior to introducing housing finance interventions.

This paper will use the stages above as a contextual framework to inform suggested lessons learned in post-emergency housing finance for the poor. We believe the case study and desk study research will illustrate how the phasing of post-emergency interventions can enable or hinder the introduction of housing microfinance, and will allow for us to examine if and when it is appropriate to introduce housing finance for the poor in post-emergency environments. Actual examples in post-emergency interventions where microfinance did or did not exist prior to the event will inform the overall paper. And we will provide a detailed comparative analysis of the similarities and differences between housing finance opportunities and challenges in post-natural disaster versus post-conflict environments. For example, many times a natural disaster may be an unanticipated, yet brief event (e.g. earthquake or hurricane) whereas a conflict is typically dynamic and constantly changing and may be ongoing for months to years, not allowing for permanent resettlement of affected populations (e.g. Angola or the current crisis in Sudan and in Colombia).

IV. Analysis of the Case Studies and Key Findings

This section will provide a detailed analysis of four case studies: Aceh, Indonesia (2004 Indian Ocean tsunami), Honduras (Hurricane Mitch), Angola (1975 – 2002 civil war), and Columbia (ongoing conflict), and additional supporting desk research. From this case study and desk research, we will derive suggested lessons learned for policy makers and practitioners. For the purpose of this concept summary, DIG has provided overviews of the each of the case studies with anticipated learning from each specific scenario that will better inform DIG's understanding of housing finance for the poor's role in post-emergency environments.

Key findings will include:

- Patterns in the ***existing housing finance industry's response*** to an emergency.
- Patterns in ***housing finance in response to donor or relief funded activities*** in all scenarios.
- Difference between ***post-disaster and post-conflict (or both) housing finance interventions.***
- Difference between responses where ***corollary tools*** were available, (such as national disaster prevention and mitigation plans and access to insurance) versus where they were not.

<u>Housing Finance in Post-Natural Disaster Scenarios</u>

A. *Aceh, Indonesia (2004 Tsunami)*

As the most significant natural disaster in recent history in terms of both death toll and aid funding, the tsunami demonstrates how a preponderance of recovery aid and subsidies can shape the environment for and nature of housing finance in a post-disaster environment. In Aceh in particular, the microfinance industry was active, and housing finance had some penetration, prior to the disaster. This case study examines how the volume of direct housing aid (usually in the form of donated homes), government subsidies towards the microfinance industry, and the phasing of relief funding, impeded or enabled the climate for and access to housing finance for the poor.

Nature of the Emergency

On December 26, 2004 a 9.13 magnitude earthquake struck off the coast of western Sumatra, causing a tsunami that devastated several countries along the Indian Ocean. The disaster resulted in 230,000 deaths and the displacement of 1.67 million people. In Indonesia, the country hardest hit by the tsunami, an estimated 167,736 people were killed and more then 500,000 were left homeless. In Aceh alone the destruction included 22% of the infrastructure, 78% of livelihoods based on trade, farming and fisheries, with an overall estimated damage of USD 4.5 billion, equivalent to 97% of the province's GDP.[6] While parts of the capital, Banda Aceh, were unaffected, the areas closest to the coastline – particularly Meuraxa and Kampung Jawa – were completely destroyed. Most of the western coast was severely damaged. This event forever changed Banda Aceh and compounded the effects of the civil conflict that had persisted between the Government of Indonesia and Gerakan Mereka (Free Aceh Movement) for 30 years.

The tsunami disaster was the deadliest in recorded history and the international humanitarian response, in terms of funding, people and supplies mobilized, was unprecedented. In total, more than USD 7.77 billion in funding was committed to Indonesia for post-disaster relief, recovery and development. [7]

Stage of the Disaster

This case study examined a massive disaster with an unprecedented response in terms of international aid three years after the event. Given the fact that the tsunami struck nearly three years prior to the case study mission, Aceh should be somewhere between Stage III (Recovery to Development) and Stage IV (Full Development and Reconstruction). We examine whether Aceh has reached this stage in our development continuum, whether housing microfinance was, or can be, successfully introduced, and if not – why.

How this builds our understanding of HMF in a Post-Emergency Environment

Based on the findings of DIG's case study research, Aceh has multiple phases of development taking place – the housing reconstruction is still largely in Stage II: Relief to Recovery, and microfinance activities also remain in Stage II: Relief to Recovery phase. Housing microfinance was never introduced, and should not have been introduced, because continuing grant and subsidy activities do not allow for healthy housing microfinance activities, as people perceive anything related to housing or international organizations as free money that does not need to be repaid. To introduce a housing microfinance product in this environment would be irresponsible, as there may be a large default rate – and the spillover effect could cause default for existing successful SME programs.

B. Honduras (Hurricane Mitch 1998)

Hurricane Mitch, the third major hurricane of the 1998 Atlantic hurricane season, was one of the deadliest and most powerful hurricanes on record in the Atlantic basin. At the time, the most significant natural disaster in recent history in terms of loss of life, damage to social and economic infrastructure and recovery funds. Hurricane Mitch also demonstrates how a preponderance of recovery aid and subsidies, much of which was programmed on a fast-track to be expended in two years, affected the operations of pre-existing housing finance operations as well as shaped the nature of new housing finance options. In Honduras the microfinance and general housing finance industries were emerging prior to the disaster, and Honduras was a pioneer in specialized forms of housing microfinance such as credit for sanitation. Ten years

[6] Schulze, K.E. (2005) 'Between Conflict and Peace: Tsunami Aid and Reconstruction in Aceh,' Department of International History, London School of Economics.

[7] Aceh Tsunami Reconstruction Expenditure Tracking Update, April 2008. The World Bank. http://siteresources.worldbank.org/INTINDONESIA/Resources/226271-1176706430507/3681211-1194602678235/Aceh.Reconstruction.Finance.Update.Dec2007.pdf

after the event, it is an opportune moment to examine how the volume of direct housing aid (usually in the form of donated homes), impeded or enabled that trend.

Nature of the Emergency& the Response

Hurricane Mitch was one of the deadliest Atlantic storms in history, ranking only below the 1780 "Great Hurricane" in the Lesser Antilles, and comparable to the Galveston hurricane of 1900 and Hurricane Fifi of 1974, which primarily affected Honduras. According to then President Flores, Hurricane Mitch set back the country's development by 50 years, caused an estimated economic loss of USD 5 billion and a GDP loss of 80%. The destruction included 200 bridges, hundreds thousands of living spaces, and hundreds of thousands of kilometers of highways and roads. It is estimated that Honduras, the country most affected by the disaster, lost approximately 70% of its vital infrastructure and 60% of its basic social infrastructure. Loss of life due to catastrophic flooding made it the second deadliest Atlantic hurricane in history; nearly 11,000 people were killed with over 8,000 left missing by the end of 1998.

Donors responded with close to USD 3 billion in assistance. The response was unique, as the Consultative Group to Assist the Poor (CGAP) in May of 1999 directed a new focus to design disaster relief programs with an eye towards long-term solutions directed at the fundamental causes of poverty in the region.

As a result, about two-thirds of USD 293 million in emergency supplemental funds allocated to the reconstruction effort by the U.S. Government was spent on critical social and economic infrastructure for poor people. Rather than service delivery, the reconstruction programs emphasized economic growth. However, this goal was considerably constrained by the two-year horizon on reconstruction projects imposed by the U.S. Congress.

Stage of the Disaster

Ten years after the event, Honduras is clearly in Stage IV (Full Development and Reconstruction).

How this builds our understanding of HMF in a Post-Emergency Environment

In this case study DIG will examine the post-emergency response from the vantage point of 10 years post- Hurricane Mitch. The case study will review the role of housing microfinance through the various post-disaster stages, and the effects of the development strategy on the housing microfinance industry today.

Housing Finance in Post-Conflict Scenarios

C. *Angola (1975-2002 Internal Conflict/Civil War)*

Nature of the Emergency

Angola has roughly 15 million people in a territory nearly twice the size of Texas, and contains offshore oil, fisheries, mineral deposits, and fertile farmland. The country's political history, however, has for the most part prevented these natural benefits from significantly benefitting most of the population as a whole. Angola is recovering from 35 years of civil war between the UNITA (National Union for the Total Independence of Angola) and the national military forces. The 2002 death of the UNITA military leader Jonas Savimbi, a key driver of the conflict, opened up the opportunity for political stability and provided the ability for the country to focus on issues seaparate from internal conflict. From 1975 - 2002, upwards of 1.5 million people were killed —nearly 10% of Angola's total population as a result of the conflict. Land mines maimed approximately 100,000 Angolans. Estimates indicate that 500,000 Angolans fled into neighboring countries and over four million people were internally displaced during the decades of fighting. The conflict has also left the country with a very young population, and a large number of women and children living on their own. Estimates state that over 43% of the population is younger than 15 years of age, and that less than 3% of the population is over 65 years old. Due to the decades of conflict, Angola's population has a median age of less than 18 years, one of the youngest median ages in the world.

Stage of the Disaster

We will examine the post-conflict environment in Angola six years after the end of hostilities. Angola is in the early stages of rebuilding from the years of conflict, transiting from the late phase of Stage II (Relief to Recovery) to the early phase of Stage III (Recovery to Development).

How this builds our understanding of HMF in a Post-Emergency Environment

Angola witnessed a struggle with a much longer duration than any other in our sample, yet with just as devastating of consequences. Angola had no housing microfinance and little to no widely accessed formal housing finance. However, in Angola we see a trend in which the demand for housing finance has been growing significantly over time, and the microfinance industry is only now beginning to respond to this demand. As such, Angola provides an example of a longer-term conflict's effects on housing finance. The case study in Angola will focus on the country's first true non-bank MFI, KixiCredito, which has recently launched a specific housing microfinance product, KixiCasa, in the city of Huambo with plans to expand this product to two additional cities in the coming twelve months. KixiCredito's efforts to deliver this housing microfinance product at scale will provide an opportunity for us to better understand post-conflict housing microfinance in one of the world's poorest and most corrupt countries.[8]

D. Colombia (Ongoing conflict 60 years)

Colombia provides a unique case in that armed conflict has been a feature of its landscape for over 60 years. This latent conflict, which experiences regular periods of active violence and negative peace, has yet to reach a resolution. The conflict has directly affected millions of Colombians. For Columbia's 45 million citizens, the conflict has become "background noise" behind a vibrant economy that has experienced significant growth over the past several years. With universal banking reform, Colombia allows specialized financial institutions that can provide microfinance services, and banks occupy 28% of the microfinance market.

Nature of the Emergency

In 1948, the assassination of liberal leader Jorge Gaitan provoked *"la violencia,"* a political conflict that resulted in 300,000 deaths. Twenty years later, with no progress in tackling the

[8] Transparency International's 2006 Corruption Perceptions Index ranked Angola 142 out of 163 states. Angola is ranked 161 of 177 countries on the UN Development Program's (UNDP) 2006 Human Development Index, and most Angolans face a daily struggle to survive, with two-thirds of the population living on less than $2 per day.

issues and the enduring gulf between rich and poor, Manuel Marulanda founded the Colombian Armed Revolutionary Forces or FARC as it is known by its Spanish acronym. Soon after the National Liberation Army and the M-19 (19 of April Movement)urban guerilla movements were founded. As guerilla groups began demanding "revolutionary taxes" from wealthy landowners, they began employing para-military groups to defend their interests, resulting in the development of the United Self-defense Forces (AUC by the Spanish acronym), a network of 19 armed groups. Efforts to solve the crisis by President Barco in 1988 and continued by President Gaviria in 1990 resulted in successful peace negotiations with the M-19 guerrilla group, Quitín Lame (the armed wing of the indigenous social movement), the Revolutionary Workers Party (PRT), and the Popular Liberation Army (EPL). Meanwhile, similar efforts by the government with the Union Patriotica, the FARC's political party, had disastrous results. Three thousand demobilized guerrillas were murdered by paramilitaries and members of the armed forces. As the guerillas retrenched, both the guerillas and the para-military groups discovered drug trafficking as a way to finance their activities and these new-found economic gains fueled the violence. In 1998, in an effort to find a negotiated solution to the conflict, the Government of Colombia set aside a safe haven the size of Switzerland for the FARC forces. Ultimately negotiations broke down again. Alvaro Uribe was elected President on a "strong hand" platform promising to bring the conflict to an end. Under his administration 31,000 paramilitary combatants put down their arms, but his administration has been less successful with the FARC's estimated 25,000 armed combatants. An estimated three million Colombians have become internally displaced over the last 10 years and UNHCR estimates that half a million civilians have crossed into Ecuador and Venezuela as refugees to avoid the violence.

Stage of the Disaster

It is difficult to apply the contextual framework of crisis recovery to the Colombian situation because on the one hand the economy is vibrant and growing as would be characterized by Stage IV: Full Recovery and Reconstruction, yet the conflict endures and many people, such as refugees and IDPs, live in Stage I: Immediate Aftermath. The case study will endeavor to reconcile this discrepancy as it relates to housing microfinance.

How this builds our understanding of HMF in a Post-Emergency Environment

In 2003, Colombia had a microfinance portfolio of $325.8 million. Although some policy constraints remain, such as interest rate caps, Colombia reformed its banking sector and allowed a variety of regulated institutions to enter the microfinance market. Housing microfinance products have been available for several years. This case study hopes to identify the effects of the ongoing conflict on housing microfinance; how microfinance institutions measure risk associated with the conflict; and the measures MFIs take to mitigate that risk.

V. State of Practice: Microfinance in Post-Emergency Environments

Though this paper will focus on housing finance, specifically housing microfinance, in post-emergency environments, when considering housing microfinance interventions it is important to look at documented best practices post-emergency microfinance. The specific focus on the state of practice of housing microfinance in post-emergency environments will be documented through DIG's case study research, and this paper; however, this section focuses primarily on applying microfinance to post-emergency scenarios.

Since the mid-1990's, many microfinance practioners and donors have focused their attention on studying the provision of microfinance in post-emergency environments - most notably in immediate and on-going post-conflict environments[9]. This 10 plus years of research has resulted in the development and dissemination of best practices and guidelines from several sources - most notably from CGAP, USAID, UNHCR, and the ILO. These lessons are informed by advice and lessons learned from practioners at the field level, as well as donors and policy makers. In addition, many international relief organizations and MFIs have disseminated their experiences through the production of case studies distributed through various microfinance networks such as SEEP, CGAP, and USAID's MicroLinks. Through the documentation of efforts to date it is clear that microfinance in post-emergency environments is not easy nor is it always an appropriate intervention. Lending in a post-emergerncy environment is more risky and typically more costly than traditional environments. This can be further exacerbated by the specific economic, political, or social environment as well as the targeted clientele (which may include IDPs and refugees).

One lesson, however, that is consistent throughout post-emergency research to date is the concept that, no matter the specific scenario, microfinance best practices must be utilized from the onset of any given post-emergency lending program. This is especially important in terms of pricing of the financial service or services, transparency of the credit appraisal process, and strict efforts in loan collection. Research has shown that best practices in post-emergency scenarios, as in traditional microfinance lending, must include:

- Design and offer clients financial serves based on ***market demand***.
- Streamline operations to ***reduce operating costs***.
- Maintain ***strict loan repayment terms,*** resulting in penalties for any delinquency.
- Charge clients ***appropriate interest rates and fees*** to fully recover costs.

However, still keeping in mind best practices, the reality on the ground has shown that there are many differences in microfinance operations in post-emergency scenarios compared to traditional environments that must be considered:

- **Operating costs are typically higher**, especially for start-ups. This is due to higher salaries (due to increased competition for qualified staff) and a potential spike in loan losses immediately following the emergency. It may also include the additional costs of security for assets, infrastructure, staff, and clients as well as in product delivery, especially in post-conflict scenarios. Opportunities for fraud are very common in post-emergencies requiring additional control controls.
- **Human resource are limited.** In post-emergencies, MFI staff themselves may have been killed, injured, or need to relocate which can have a serious effect on the operations of the MFI. Also, due to the potential influx of relief organizations typically offering inflated

[9] Though documentation on post-natural disaster scenarios is also available but to a more limited degree.

salaries, recruiting and retaining qualified staff at all operational levels is typically a challenge.

- **Existed financial products may need to be adapted.** This typically includes, at least initially, short-term or incremental loans that are compatible with the needs of the local market. In post-emergency environments, the need for rapid, yet detailed market research is often more vital than in traditional environments due to the often rapidly changing environment.[10]
- **Competition from relief organizations or government subsidies.** As has often been witnessed in post-emergency environments, populations may quickly become accustomed to quick short term grants or “soft” loans decreasing the population’s perceived incentive repay loans. The MFI must be vigilant in both client education before approving the loan as well as loan repayment collection.

In our specific research focus on housing finance in post-emergencies, DIG will utilize detailed lessons that have been learned from fellow practioners over the past decade. We also hope to expand to the field of knowledge of microfinance in post-emergencies while examining:

- Use of microfinance products other than credit or working capital products in post-emergency settings (specifically housing microfinance products).
- Appropriate sequencing of microfinance in the relief to development spectrum.

DIG will merge the current best practices of microfinance with the current practices from the emergency and transitional housing fields. DIG will draw from the findings and recommendations of The SPHERE Project, University of Cambridge’s Shelter Project, USAID, UN-HABITAT and various international NGOs and private sector companies, including DIG’s own internal experts. This will also include utilizing research and existing case studies of microfinance and housing finance in post-and-ongoing emergencies.

VI. Emerging Lessons and Guidelines

Recognizing that housing finance in post-conflict and post-disaster environments is an evolving field, DIG will provide emerging lessons from the experiences of practitioners in these contexts. We will acknowledge what works and what does not work and provide an initial framework for basic guiding principles to successfully introduce housing finance for the poor in post-emergency environments. This framework will be driven largely by the following ***overarching questions***:

1. If and when should housing microfinance interventions be introduced in post-natural disaster environments?
2. If and when should housing microfinance interventions be introduced in on-going and post-conflict environments?
3. What are best practices in post-emergency HMF regarding target clientele and the design and provision of appropriate housing finance products and services?

[10] Nagarajan, Geetha. 2004. “Microfinance Research in Conflict Environments: State of the Art and the Road Forward.” MicroNOTES Issue 2. Washington, DC: USAID, August.

This paper focuses largely on designing interventions for policy makers and practitioners with an eye towards long-term development in order to set the stage to successfully introduce housing finance products, when appropriate, in post-emergency environments. However, noting that development does not take place in a vacuum, in addition to our examination of phasing of post-emergency interventions, we will also highlight best practices in microfinance and housing microfinance; guidelines for issues corrolary to housing finance interventions; and noted best practices for governments, advocates and donors. Finally, through the context of our framework for phasing post-emergency interventions, identifying best practices, and reviewing examples from DIG case study and desk research, we will provide suggested lessons learned for policy makers and practitioners.

From experience, we know that when designing post-emergency housing finance interventions for the poor it is critical to follow existing ***best practices in microfinance and housing microfinance***. These best practices include:

- Addressing the habitat needs of the economically active poor with ***client demand-driven products***.
- Extending ***relatively small, often incremental, loan amounts based on estimated repayment capacity.***
- Carrying a ***short repayment period*** (especially when compared to mortgage lending).
- Identifying appropriate ***collateral substitutes***, as most microfinance loans are uncollateralized.
- ***Pricing the loan*** product to ensure long-term financial viability of the provider.
- ***Maintaining strict repayment terms.***

In addition to considering microfinance best practices with regards to product design, we will provide specific ***guidelines for corrolary issues*** on the following housing finance related matters:

- The role of construction assistance and incremental housing.
- Proper requirements and guidelines for rapid market assessments to ensure the proper design of demand-driven products that meet the need of the clientele.
- Appropriate uses of housing grants versus loans in the different stages of recovery and how to make an effective transition.
- Appropriate understanding of the relationship between subsidies and financial services, noting when they can complement one another, and when the subsidy can taint the market for financial services for the poor.
- How to address issues of insecure land tenure and land disputes.
- Whether and how to provide housing finance products for specific groups (ex-combatants, child-led households).

As all microfinance and housing finance activities take place in the context of a policy and regulatory framework, DIG will identify some ***noted best practices for governments, advocates and donors***, such as:

- National catastrophe bonds.

- Relief plans and prevention strategies for financial defaults (institutional default programs).
- Regulations governing physical structures (improved construction codes, etc.) that may be relevant in certain contexts.

In addition to Best Practices and Guidelines, DIG will identify ***suggested lessons learned*** for housing finance for the poor in post-emergency environments. As an example below are the initial suggested lessons learned from the 2004 Indian Ocean Tsunami in Aceh, Indonesia case study:

Suggested Lessons Learned

Aceh provides us with several suggested lessons for policy makers and donors. The suggested lessons are the following:

1. In a major disaster, the immediate emphasis is on ensuring the basic needs of the affected population are met. Though the immediate emphasis cannot be on credit, it is critical that policy makers responding to an emergency situation have a long-term vision to establish an environment in which housing microfinance can be phased in as a tool not only to reduce the overall cost of post-emergency reconstruction, but also to reduce the local population's dependency on aid funding.

2. When millions, or in this case billions, of dollars flood into a post-emergency environment the tendency is to spend the money as quickly as possible. When that happens, institutions typically place more emphasis on grants which are quicker and easier to distribute. Furthermore, donor funding is often given in phases – which means that the recipient institution may not have the luxury of making long-term development plans. It is key for policy makers to consider how the immediate response (such as temporary shelters, community planning, starter homes, etc.) will feed into longer-term development planning that will create the space for housing microfinance.

3. Even for institutions that focus on the long-term phasing from relief to development, competition for resources and short timetables may lead those institutions to design products targeted at donor needs, rather than the needs of the local population. The result can be inferior or undesirable products. It is important for institutions to put sufficient oversight mechanisms into place (including using the homeowner herself as a supervisor) to ensure that a high-quality product is provided in the end.

4. In the aftermath of a disaster it is important for donors and NGOs to evaluate the health of the existing MFIs and consider whether they are in a position to take on new product lines. Even good MFIs, pre-disaster, typically need basic support--cash, training, emphasis on loan recovery post-disaster before looking at new products.

5. In the aftermath of a disaster it is important for donors and NGOs to evaluate the current health of the existing MFIs which may be suffering from the impact of the disaster too. Before introducing a housing microfinance product, the MFI focus should be on recovery and capacity building initiatives for those MFIs that are not operating at optimal levels.

6. Housing microfinance products typically have larger average loans sizes that may place additional cash constraints on MFIs. In addition, housing microfinance products can be riskier than microcredit for microenterprise since home improvements don't necessarily produce additional income for the family and loans terms are typically longer. These differences require different loan approval analysis and follow-up, and training on the same.

7. It is critical to plan for the phasing from relief to full development and reconstruction. This means that donor institutions need to consider how the immediate response – such as temporary housing – will link in with long-term development goals, such as housing microfinance.

8. With phasing, it is also important to analyze the donor environment when considering if housing microfinance is viable. If there is significant grant or subsidy activity taking place in the housing or microcredit sector in a post-emergency environment, the introduction of a housing microfinance product could be detrimental to the development process – as individual clients may deem it unnecessary to repay the loan. This situation could have a spillover effect and potentially damage more successful and well established SME lending activities as people establish habits of non-repayment of loans.

9. Any introduction of a home improvement loan product should be driven by the need and demand for the credit product and the capacity of borrowers to pay; not merely a desire of a donor to expand outreach or meet a housing or home improvement need.