

A demand-driven microfinance service: Rebuilding Afghan homes and lives

Housing is an acute problem in Afghanistan. After two decades of war, many homes across the country have been damaged. Returning refugees, who looked forward to coming back, found their homes in a state of disrepair. Overcrowding is fairly common, whereby household members sleep in the same room where they cook, eat, wash and, at times, house their animals at night.

Listening to the demands of its clients, First Microfinance Bank (FMFB) piloted a housing loan program called, Housing Microfinance Initiative, in 2007. The vision for this project is to provide credit to poor families in Afghanistan, in order to help them restore and upgrade their homes, and contribute to improvements in their quality of life.

“There was such high demand from clients that it became imperative to provide such a service,” said Mr. Karim Haidar, FMFB’s Head of Microfinance Department, who clarified that this housing loan is not for purchasing homes and land. “They are specifically used for housing improvements — reconstruction, refurbishment and completion”.

Since its pilot phase, more than 1,000 housing microfinance loans have been disbursed in four provinces, Kabul, Herat, Balkh and Kunduz, amounting to around US\$1.5 million. The loans have helped families complete the construction of their homes, repair roofs, plaster and paint walls, or dig water wells. Some loans were used to add additional rooms to reduce congestion, or to use for business.

Helping families construct additional rooms allows their residential activities to be spread out. Moreover, the added vents and windows can help increase ventilation and reduce the prevalence of

illnesses caused by the fumes from cooking inside the house.

Documented work by Aga Khan Development Network (AKDN) institutions has shown that such housing improvements reduce the levels of asthma and other respiratory infections particularly harmful to children.

Other improvements, such as new roofs, improved insulation and better water and sanitation facilities can also have an enormous positive impact on a family’s health and wellbeing. In many cases, an added room can also become a place of business and help the family to generate much-needed income by operating a small store or workshop. This is especially beneficial to women as it allows them to work and generate income while still being able to remain in the home to look after their families.

This demand-driven microfinance product is the first of its kind in size and scope in Afghanistan. It receives support from the International Finance

Housing Microfinance Loans Fast Facts

- For home repair or improvements, water well digging, add-on rooms
- Not for home purchase
- Maximum maturity: **24 months**
- Average loan size: **US \$1,500**
- But could be as small as **US\$200**

FMFB Housing Microfinance Initiative

- Since 2007 pilot, more than **1,000** loans disbursed worth **US\$1.5 million**
- Current areas of operation: Kabul, Herat, Balkh and Kunduz
- Expansion plans for 2009: disburse **1,500** loans worth **US\$1.2 million**

Corporation (IFC), which hired ShoreBank International Ltd (SBI)¹ to build the capacity of FMFB.

SBI provides capacity building to FMFB and has so far improved loan documentation, developed marketing materials and strategy as well as financial and technical assessment training materials for a housing product initiative such as this one. SBI also facilitated the refinement of the product which is being rolled out and will, within this year, develop a housing microfinance toolkit that will be used to replicate similar housing initiatives in other countries.

How it works

“Housing Microfinance” is radically different from the mortgage-based housing finance common in Western countries. Yet, it is also quite a departure from the traditional microfinance, which is focused more on entrepreneurial and productive pursuits.

Given that land titles are often difficult to establish in Afghanistan, as a result of the many years of conflict and

changing governments, mortgage instruments remain unsuitable in this context.

- Housing Microfinance projects typically require longer maturities than other types of lending. This is also true in the case of Afghanistan. FMFB Afghanistan issues loans for a maximum of 24 months.
- The current average loan size is US\$1,500, although there have been loans as small as US\$200. These amounts directly relate to the cost of construction materials and labor, as well as the customer’s contribution towards the project.
- The borrower’s income and expenses are assessed to determine net income and his/her ability to repay the loan. Each prospective borrower is also required to provide a guarantor, who is in good social and financial standing, and who can guarantee the credit worthiness of the prospective borrower.

Challenges

The ambiguities surrounding land titles are the biggest issue that requires a flexible approach. Land titles are unclear or non-existent in some parts of Afghanistan. Clients without a land title typically have a difficult time accessing loans. However, this should not be viewed as a total barrier to access housing finance.

As long as the client has some form of proof of ownership and sufficient land security (such as when the client has been residing on the land for several

¹ SBI is a US-registered organization that offers a broad range of advisory and financial services in its core market segments of small business finance, microfinance and housing finance.

years; or is not living on “high value land”, i.e., land immediately adjacent to industrial parks or airports that are slated for expansion), his/her loan application will be considered.

Another challenge is the burgeoning informal settlements, which are limiting expansion in certain parts of the country, particularly those in areas where there is no local government approval in terms of housing planning.

Security is yet another issue that limits expansion, specifically in the Southern and Eastern parts of the country. At the moment the housing microfinance initiative is concentrated mainly in Northern and Western Afghanistan.

Future plans for expansion

When the pilot was first launched, the design of the program was such that it was restricted to issuing loans for the renovation of an existing home. Following the success of the pilot program, there was a clear demand from clients for a lending product that

Loans for housing improvements have resulted in better insulation, better water and sanitation facilities, having a significant impact on a family's health and wellbeing.

could help them complete unfinished construction on their homes.

FMFB has incorporated this need in the product design. Expansion plans for 2009 includes disbursing 1,500 loans worth US\$1.2 million. This figure is expected to increase substantially in 2010 and beyond.

Given the lack of mortgage facilities available to Afghan citizens, FMFB believes that its housing microfinance initiative is a huge opportunity and a very critical component to rebuilding Afghanistan's housing infrastructure. ◆



Obaidullah and his daughter outside his newly renovated house. He runs a family business in Gul Bagh, Zone 7 in Kabul. Concerned that his children might be exposed to some health issues, he took a housing loan from FMFB to do some renovation in his home, including plastering and pavement of the yard. His first loan was in the amount of 60,000 Afs (US\$1,200). He plans to further improve on his home once he pays off his first loan.