INVESTIGATING THE
FINANCIAL LIVES
OF THE POOR

THE FINANCIAL Diaries

FOCUS NOTE:
Housing and Finances for the Poor[1]

By Daryl Collins

"As understanding of the need for and methods of housing micro finance grows, however, it is becoming clear that knowledge of its use at household level is lacking. There are almost no studies of how poor households 'turn money into house'. This is problematic in two ways. On one hand, those who favour conventional mortgage models for the poor tend to assume that households are incapable of utilising loan funds effectively, leading to a bias in favour of 'developer-driven' construction systems in which households are passive 'beneficiaries' of housing, even though they are expected to repay the loans that finance it. On the other hand, proponents of micro credit for incremental housing development often assume that poor households have the skills and opportunities to use such loans effectively - 'turning money into house'. In both cases, the focus is on finance rather than the end use of that finance" (Kuyasa Fund, 2005: p. 7)[2]

Key Findings:

- Acquiring housing is an important goal for most households, and the poor are no exception. In Bangladesh, Indian and South African Financial Diaries households, housing is a key focus of borrowing and saving. Within the South African Financial Diaries households, 13% of significantly sized[3] borrowed or saved amounts were used for housing.
- Many Financial Diaries households acquired their homes not only through borrowing and saving but also by incrementally buying building supplies bit by bit. Nearly 50% of the South African Financial Diaries respondents said that this was the primary way they acquired their homes.
- Incremental spending on housing was a key feature of spending throughout the year that we tracked Financial Diaries households. In South Africa, the amount spent on housing was 4-6% of monthly income.
- The bottom line is that poor households across different types of housing stock and in three very different countries all have the focus and ability to build housing assets through a variety of ways – borrowing, saving and incremental spending.

The financial lives of the poor are complex. Household membership and resource sharing arrangements are ever changing and often ambiguous; incomes come from a variety of sources; and livelihoods and cash flows are tiny and irregular. The first step to address the challenge of providing appropriate financial products to the poor is understanding the financial arrangements in which a household is already engaged.

This *Focus Note* brings together evidence from the South African Financial Diaries with Bangladesh and Indian Financial Diaries to expand our understanding of how poor families "turn money into house," as the quote above describes. Areas in the South African study include Langa, an urban township; Lugangeni, a rural village; and Diepsloot, a peri-urban township.

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[1] This *Focus Note* is an excerpt from a paper prepared for the KfW Financial Sector Development Symposium, held 9 November 2006 in Berlin.
[2] Kuyasa Fund (2005) "Delft Area Housing Needs Analysis" Research supported by FinMark Trust, available at http://www.finmarktrust.org.za/documents/2005/AUGUST/Delft_report.pdf.
[3] Compared to household income, see footnote 5 on page 4 for more details.

Case study: How a household might save and borrow to acquire a home, South Africa, 2004

JONAS AND MIMIMI[4] are a married couple who run a *shebeen* (township bar) in Langa near Cape Town. As the table below shows, they have an impressive capacity to save money. Mimimi earn profits from the shabeen business of about R2000 ($324) per month, while Jonas works as a gardener and is paid R1200 ($185) per month. Mimimi typically manages to send home about R200 ($31) per month for either building their home in the Eastern Cape or supporting their children living there. She then managed to stretch about R570 ($88) for their living expenses every month. A typical monthly budget is detailed below.

Jonas and Mimimi's most important savings devices are two informal savings clubs. Together, they save about R2400 ($367) with these savings clubs. A total of about R20 000 ($3065) was paid out from one of them savings club during 2004, and it was all used to build the house in the Eastern Cape. The other savings club paid out R4700 ($725) in December 2004. From this payout, they spent the majority on a Christmas feast and Christmas presents when they went to the Eastern Cape for the holidays. But they would still leave behind about R1700 ($260) to buy cement for the floors and to buy doors for the house.

At the end of the day, this young couple built up about R26 000 ($4 000) in savings (not counting the money sent to the Eastern Cape every month) between the two savings clubs and the saving they retained from Jonas' salary in a bank account. Of this savings, 12% was spent on Christmas, 6% was retained in the bank and 82% was used to build the Eastern Cape house. As the evidence below describes, the way they saved to build the house and the proportion of savings that went towards the house is similar to many other households in South Africa, India and Bangladesh.

Table 1: Jonas and Mimimi's typical monthly budget

	South African Rand	U.S. Dollars ($)
Source of funds	R 3,307	$509
Business profits	R 2,107	$324
Regular wages	R 1,200	$185
Uses of funds	R 3,171	$488
Cell phone	R 38	$6
Cigarettes	R 21	$3
Electricity	R 101	$16
Food	R 320	$49
Send money to Eastern Cape	R 200	$31
Transport to shopping	R 9	$1
Transport to work	R 81	$13
Savings clubs	R 2,400	$367
Net savings in bank	R 136	$23

[4] Followers of the Financial Diaries *Focus Notes* will recognise Jonas and Mimimi from past *Focus Notes*, such as Stocks and Flows: Quantifying the Savings Power of the Poor.

How many people own homes?

Home ownership can be an ambiguous concept, as we soon discovered. We initially considered a household as "owning their home" if they reported the house (not counting shacks) in which we found them as their own. According to this definition, rural Lugangeni households mostly owned the home the lived in. Only four of the fifty-eight households lived in the home of a relative. In the urban areas of Langa and Diepsloot, only about 35% of respondents owned their homes, while most of them lived in shacks or rented flats, hostel rooms or backyard shacks.

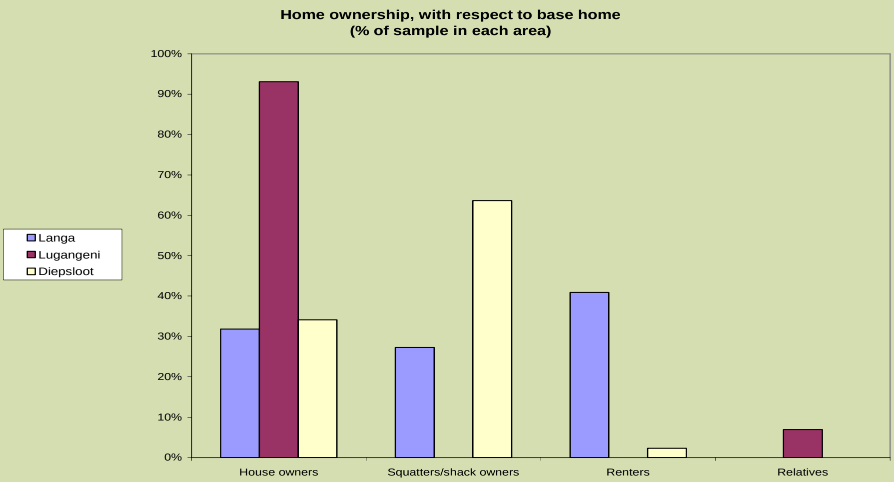

Chart 1: Home ownership, with respect to the home where the household lived

Owning a shack in the urban areas, but a house in the rural areas

As we spoke more to respondents, we soon realised that we could classify more of them as house owners than we thought, based on the ownership of a home back in the rural areas. In order to show this properly, we needed to add two more categories to the data. The numbers don't change at all in rural Lugangeni, but in Langa and Diepsloot, there are fourteen more households that join the ranks of homeowners. They tend to own shacks or rent in the urban areas, but own homes in the rural areas. If we allowed for home ownership in the different area to where we interviewed the households, the percent of households owning a home increases to 49%.

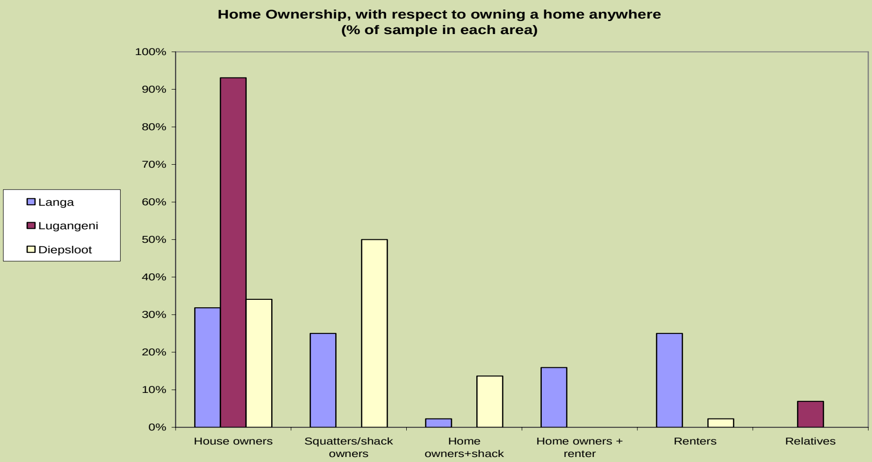

Chart 2: Home ownership, based on owning a home anywhere

What about shack ownership?

If we were to take shack ownership into account when considering home ownership, the percent of homeowners in the sample would shoot up to about 90%. But is this the correct way to view shack ownership? On the one hand, it is important to take note of any assets that poor households may have accumulated. On the other hand, it is true that the estimated values of the houses were clearly more than the shacks, which often were worth only a few hundred dollars. The estimate values in Chart 3 were the home values estimated by the respondent themselves. Sometimes, they would know the estimated value of their home based on the rates they had to pay within the township (this was true in Langa). Usually, however, they would give an estimate of how much they thought it was worth, based partially on the building costs, if it was a new home.

A shack in Langa, South Africa

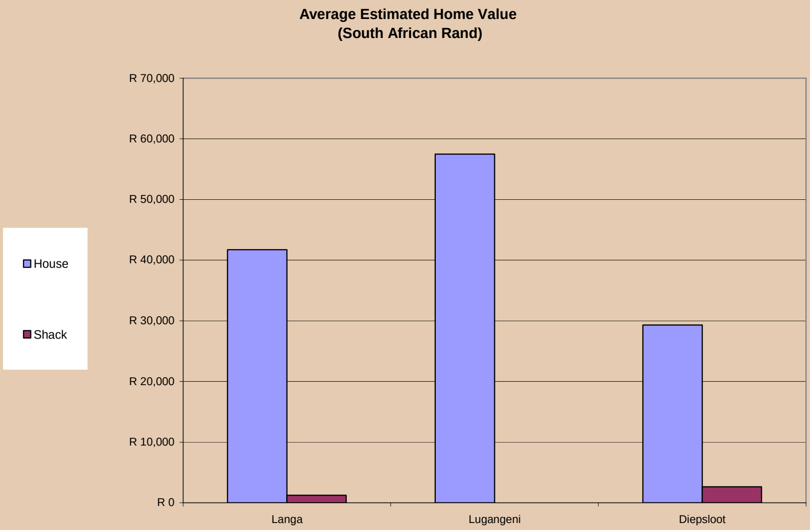

Chart 3: South Africa: Average estimated home value

How did households manage to acquire these homes, if they are so poor?

Home acquisition through raising lump sums

We found that households in all three Financial Diaries countries were able to raise money for housing by borrowing and saving money to acquire a significantly large lump sum of money[5]. We found that over all 250 households in all three Financial Diaries studies, over 300 lump sums were borrowed and saved. Their total value was $80,857 (India = $23,358, SA=$43,949, Bangladesh=$13,550), or an average of $270 per sum.[6]

[5] In Bangladesh and India, the benchmark used to determine a significantly large lump sum of money was about $50. In South Africa, where income distributions are wider, the benchmark was based on each household's average monthly income. The average benchmark across households was $425 per month. The higher average South African income hides a wide distribution of incomes, even within these poorest of areas. Over all three areas in South Africa, roughly two thirds of the sample have incomes that are higher (often well higher) than those in India and Bangladesh, but one third of households have incomes that are as low or lower than $50.

[6] When making comparisons between the three countries, we converted all local currencies figures into dollars at the average market exchanges rates over the times of the studies. These exchanges rates are South African Rand 6.5/US$, Indian Rupees 47/US$ and Bangladesh Takas 50/US$.

How much of this saving and borrowing made its way to housing? We made a three-fold categorisation into "emergencies" (dealing with health or other life or property-threatening sudden-onset occurrences); "life-cycle" uses including consumption as well as births, education, marriages, deaths; and "opportunities" which we defined rather broadly to include not just investments in buying business assets and running or stocking businesses but also **land and housing**, life-enhancing durables like bicycles, fans, fridges and TVs, and lending money to others. Table 2 shows that most of the lump sums raised through saving and borrowing went towards opportunities.

Table 2: How large sums are used (Number of lump sums and % of total)

	Bangladesh		India		South Africa	
Use of sum	Number	% of total	Number	% of total	Number	% of total
Emergency	6	7%	9	6%	11	17%
Life cycle	22	23%	45	28%	17	26%
Opportunity	66	70%	108	67%	37	57%
Total	94	100%	162	100%	65	100%

Table 3 shows that most of the lump sums raised for opportunities were raised for land and buildings, placing the drive for home-ownership at the forefront of most households' savings goals. All together, of the more than 300 lump sums that were raised by the entire sample, 41, or 13%, were used for housing. In all three countries, housing was an important focus of savings.

Table 3: Lump Sums Used for Opportunities (Number formed over the study year)

	Bangladesh	India	South Africa	Total
Personal assets				
Land & building	14	14	13	41
Livestock	3	1	0	4
Business/ farming				
Capital goods	2	4	2	8
Stocks/inputs	29	48	0	77
Other				
On-lending	9	15	1	25
Emigration	1	0	0	5
Savings	0	4	6	10
Repayment	7	1	5	13
Durable goods	1	5	7	13
Education	0	0	3	3

Case study: A disappointing ending to saving efforts, India, 2001

MANSOOR and his two brothers, tailors earning well in Delhi's garment factories, are very focused on saving towards large expenses faced by their joint family in the village. Money is mostly arranged through short-term saving from wages and combined with lump sums raised from a savings club in which they all participate. When we meet him, Mansoor has taken his payout while his brothers still await theirs. Half way through the cycle, they agree that the balance payouts should be sent together to the purchase of land in the village. The plan is briefly delayed when one brother passes his payout to another member in need, but the debt is honoured and returned in a month. Finally, the brothers gather $544 in hand (two savings club payouts plus saved wages) and pass to their mother en route back to the village, but on reaching, she discovers her brother has left for employment in the Gulf leaving large debts behind. She has no choice but to pass this money to his family. Mansoor's hope of village land must await the next opportunity. [7]

[7] This case study comes from the Indian Financial Diaries study which was implemented by Orlanda Ruthven. For details on this study, see Ruthven, O. (2002): "Money Mosaics: Financial Choice & Strategy in a West Delhi Squatter Settlement" *Journal of International Development* 14, 249-271.

Case study: Housing finance and programmes, South Africa, 2004

Eight of the households in the Diepsloot, South Africa sample financed their home by what higher income households would consider a very typical means –a mortgage bond. They were part of a special scheme that was organised through a microfinance institution and backed by one of the large retail banks. These homes were, on average, originally mortgaged for 12 years at an average value of R48 000 ($7 500) each.

Across the street, several of our other respondents received their houses through the Reconstruction and Development Programme (RDP). These homes were arguably smaller than the bonded houses and they had the disadvantage that people could not sell them for a number of years. However, there were two distinct advantages. First, the RDP houses already had electricity when we started the study while the bonded houses only received electricity as we were finishing two years later. Second, bond holders paid an average of R650 ($100) per month towards their mortgage.

Seven other households in the South African sample financed their homes with a formal loan, but for much smaller amounts (on average about R10 000 ($1500)). Moreover, these were not mortgage bonds specifically, but personal loans taken from banks to fund part of the building process.

Building bit by bit to add a room on to an RDP house in Diepsloot, South Africa

Home acquisition through incremental bits

In South Africa, nearly 50% of Financial Diaries homeowners said that they acquired their homes by buying the housing supplies bit by bit over time (Chart 4). Other means of acquisition might be through a lump sum, i.e. saving up through a savings club, or getting paid out from a pension scheme. Households may also use retail credit from a store, usually a local supply store. Rarely would household acquire their home via an informal loan from a money lender or a loan from a family member. Some would have access to a formal loan from a bank. Lastly, about 25%, mostly in the rural areas, would inherit their homes.

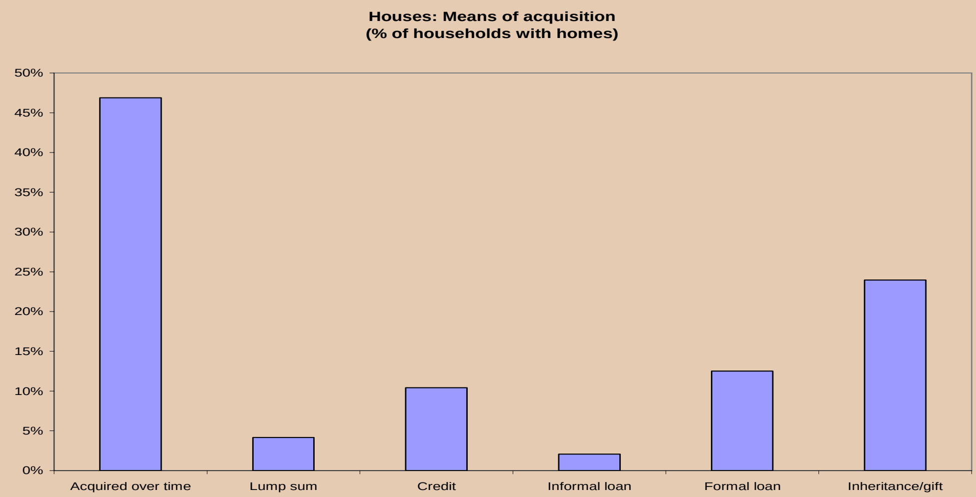

Chart 4: South Africa: Means of acquisition, house-owners

Incremental spending and home extensions

One might think that any households that can get a formal loan to buy a house is likely to build the most expensive homes in the sample. However, Chart 5 below shows that this isn't the case. The most expensive homes were acquired by means of a lump sum savings payout, or by credit with a supply store. One of the reasons for this may be because homes that are acquired by what may seem like fairly modest means continue to be added to over time. Home building would continue with small incremental additions.

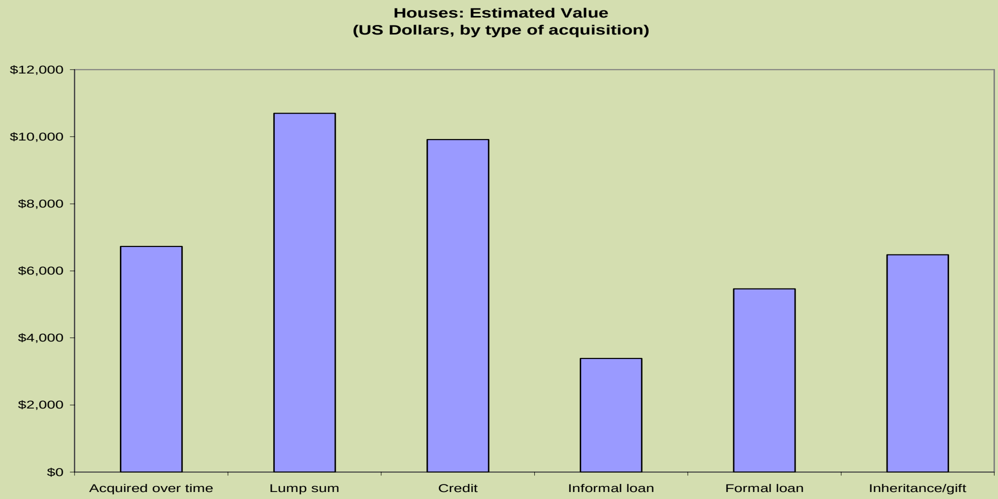

Chart 5: South Africa: Estimated house value, by means of acquisition

We therefore learned to pay careful attention to the incremental amounts that were spent on the home each month. Often these amounts would quickly add up to a new room, or a wall around the property. Many homeowners in different areas and income levels were building up their homes by bits and pieces throughout the year. In the South African Financial Diaries, over 60% of the households made some sort of expenditure on housing during the study year.

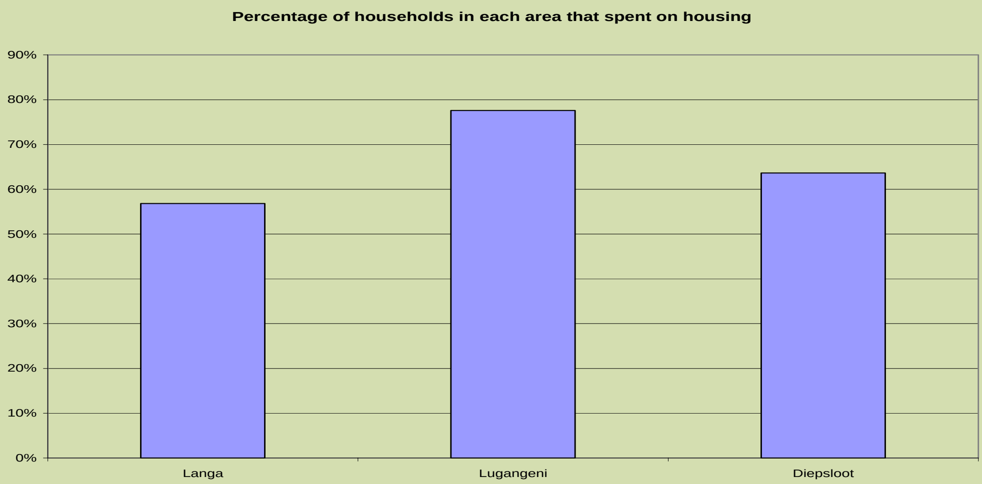

Chart 6: South Africa: Percentage of households that spent on home maintenance

Tenure and home ownership

Not every home in poor neighborhoods comes with a guaranteed tenure. In rural areas, in particular, homes that are invested in and kept for generations are not necessarily backed by a formal title deed. In the South Africa Financial Diaries, we found roughly four types of home ownership tenure. Formal homeowners had a title deed (19% of homeowners). Rural homeowners (50% of homeowners) did not. In urban areas, some homeowners did not have a title deed, but felt their tenure was secure (9% of homeowners). For most of those with shacks (23% of homeowners), it was clear that though the shack material was theirs, their tenure on the property was insecure.

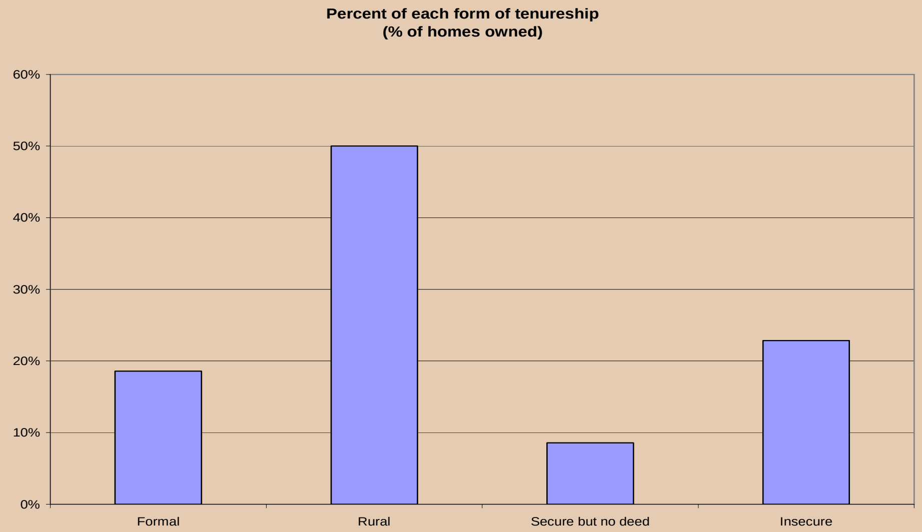

Chart 7: South Africa: Types of tenure among home owners

How does tenure relate to quantity of investments in homes?

The security of tenure had some influence on home much households invested in their homes, but perhaps not as much as one might expect. Formal homeowners spent about 5% of their monthly income on the upkeep of their home, while insecure shack owners spent just over 1%. However, despite written legal security, deedless homeowners in both the urban and rural areas spent about the same – just over 3% of their monthly income – on home maintenance and building.

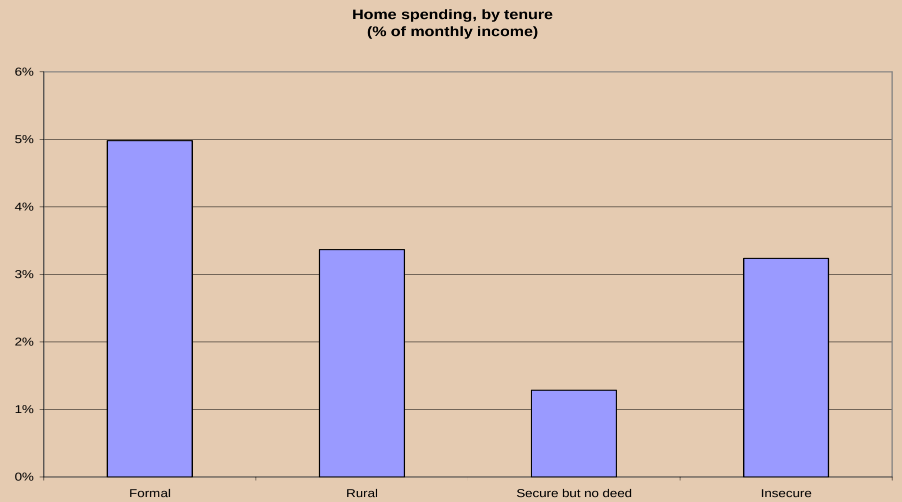

Chart 8: South Africa: Home spending, by types of tenure

The second home phenomenon

During the interviews with Financial Diaries households, we became aware that we shouldn't assume anything from the type of house the respondents lived in. Time and again, we found households living in a shack, but investing in a house in rural areas. This was a phenomenon that South Africa, Bangladesh and India shared.

In the Bangladesh Financial Diaries, 45% of the households (most of them rural) had secure tenure of at least a homestead. In the urban area, 40% of households are either renting or squatting informally. Fifteen percent of the Bangladesh sample were squatting or renting in the city but owned land back in their home villages, as we see in Chart 12.

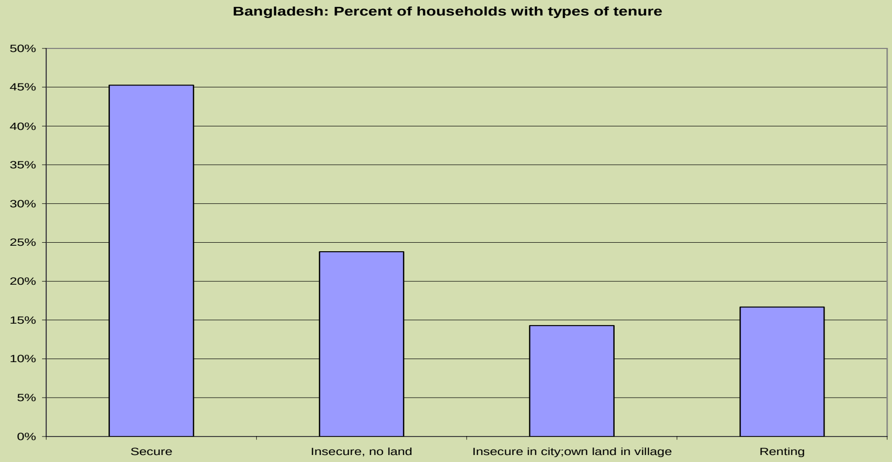

Chart 9: Bangladesh: Percent of households, by types of tenure

In South Africa, we can see a similar trend in Chart 10 by looking at the percentage of households who have second homes in the villages. And the story on the next page describes a similar phenomenon in India. In the urban areas of India, 24% of the households raised lump sums for home construction, mostly in their home villages.

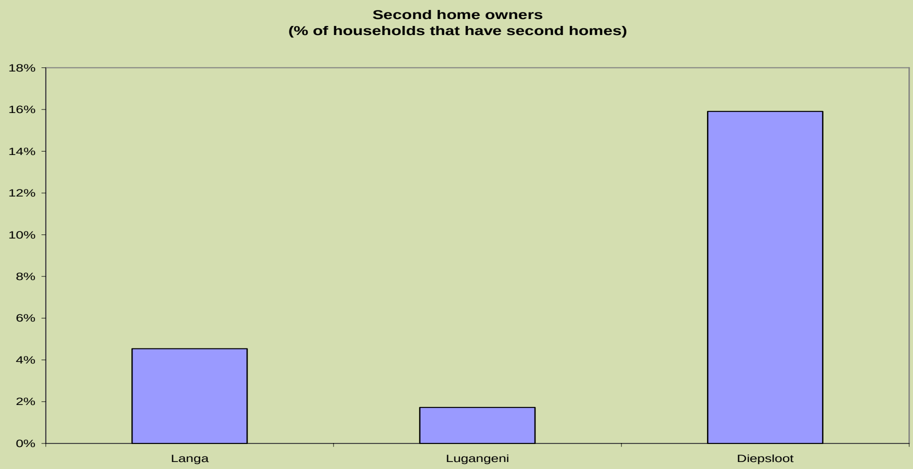

Chart 10: South Africa: Second home ownership

Case study, Urban wages for rural renewal, India, 2001

DILEEP'S long term aspirations are squarely in his Bihari village, but to meet them, he needs to retain his earnings in Delhi and invest in the village, all the while supporting his family's everyday needs. Throughout the Financial Diaries year, Dileep kept his Delhi expenses to a minimum (travelling to the village only 3 times to meet with his wife and kids, sharing his hutment for a small rent with other single men, and sending back wages to the village sending back wages to the village by post office Money Order or a colleague, keeping them out of temptation's way). Dileep saved $276 over the year, stored with a money guard and in his hutment, intermittently sent home towards a major investment: the construction of a family house in the village.[8]

Case study: Paying back loans for home improvements, Bangladesh, 1999

IMAM AND ASIYA, a rural poor household in Bangladesh, got into trouble with a $100 loan they took from a local microfinance institution (MFI). They took the loan to buy roof sheets for the room where their demanding son, Zia, sleeps; he insisted on a better roof when he got married and brought his new wife home, arguing that he brought most of the income into the household from his rickshaw van driving. But Imam and Asiya didn't have the means to repay the loan, and they were very embarrassed when the MFI staff come repeated to their door to demand repayment instalments. The MFI even demanded that Imam sell the roof-sheets to repay the loan. Asiya finally confronted Zia, and shamed him into paying off the arrears – which Zia did from the dowry money he'd just got from his new in-laws.[9]

Acquiring the materials to build a wall around a bonded house in Diepsloot, South Africa

[8] Ruthven, O. (2002): "Money Mosaics: Financial Choice & Strategy in a West Delhi Squatter Settlement" *Journal of International Development* 14, 249-271.
[9] Rutherford, S (2002): "Money Talks: Conversations with Poor Households in Bangladesh about Managing Money" Paper No. 45, Finance and Development Research Programme Working Paper Series, Institute for Development Policy and Management, University of Manchester.

What's in a home?

A rural compound owned by one of the wealthier Financial Diaries households in Lugangeni, South Africa.

In order to understand housing and household finance, we also need to understand something about the breadth of what a home means. In middle class households in high income countries, we're used to thinking of a home as an important investment. This is not usually the primary reason for home ownership in poorer environments. Sometimes housing and land purchases are a means of livelihood. Certainly, the land owners in Bangladesh and India were considerably better off than those without land. Those who did not have land were often trying to secure some.

Other times, homes are a place to be identified with. South Africans who are building homes in the rural areas are often not doing so to increase their financial net worth, but to have somewhere that they call "home" beyond the crowded hostels and shacks where they live in the urban areas. In Jonas and Mimimi's case, we were confused by her strenuous efforts to build a home in the Eastern Cape. Does that mean that they'll be returning soon? *Not at all*, she replied. *Cape Town is good for working, but you must have a family home near your relatives – to hold family feasts, to retire to and to be buried from. If you have a family of your own, 'you can't be buried from your parents' home - they must take the coffin from your own home*.'