



# Best Practices Database

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## CHF/Mexico Home Improvement Loan Program, Ciudad Juarez *Mexico*

Best Practice

New for 2002

- Categories:**
- Technology, Tools and Methods:
    - management tools and systems
    - planning tools and techniques
    - training and capacity building
  - Poverty Eradication:
    - access to credit
    - job creation
  - Housing:
    - access to housing finance
    - affordable housing

**Level of Activity:** City/Town

**Ecosystem:** Arid/Semi-Arid

### Summary

The purpose of the CHF/Mexico Home Improvement Loan Program is to assist low-income families along the US-Mexico border to improve their health and their living conditions. This is achieved through a loan program that provides education on credit and provides technical assistance of trained architects in the building of houses at affordable rates. In 1996, CHF created a Mexican NGO, FUNHAVI, to strengthen local capacity and implement the program. Since 1996, more than 11,500 people have benefited from loans totaling to US\$ 4.3 million. 39% of the loans have been issued to women and the loan repayment rate is 96.7%. In February 2002, alone, FUNHAVI disbursed US\$ 217,000 in form of loans to 10 families and is now using US\$5 million for growth and expansion.

Since the signing of NAFTA, Juarez has been flooded with migrants from surrounding areas. CHF/Mexico linked the program with other organisations and received donations worth \$362,000. CHF/Mexico works in conjunction with a grocery store from which the inhabitants purchase food on installments

The CHF/Mexico program was among seven in the Americas selected by the Inter-American Development Bank as the best in micro-finance in November 2000. The program will be highlighted on the Public Broadcasting Station (PBS) in the programme The Visionaries, in May 2002. The program is also part of a World Bank funded project, Cities without Slums, and will be presented as a model program for and micro-finance.

### Narrative

## SITUATION BEFORE THE INITIATIVE BEGAN

NAFTA brought great socioeconomic change to Judrez. In the 1990's, the population of this area doubled to 1.2 million due to the enormous number of migrants who had moved to this area. Shanty houses made of pallet, tire and cardboard became the norm rather than the exception. To eradicate this problem the government had to intervene. However, it did not have sufficient resources to respond to this need.

## ESTABLISHMENT OF PRIORITIES

The priority was to provide low-income families with access to factors that would allow them to improve their homes. This required streamlined processes that took into account land, education, economic and technical factors. CHF held roundtable conferences in three border cities and worked with local leaders in defining housing and relevant socioeconomic border issues. Judrez was identified as a working ground for the implementation of this program. In 1994, a pilot project, managed jointly with a local NGO, was implemented in order to test and refine parameters and assumptions. In 1996, our priority was the creation of a new NGO, FUNHAVI.

## FORMULATION OF OBJECTIVES AND STRATEGIES

The program has the following objectives:

- 1) Client sensitization on the system of credit
- 2) Getting technical assistance on the construction design and budget,
- 3) Financing the program
- 4) Ensuring the sustainability of the program.

CHF and local leaders surveyed potential clients in order to identify factors necessary for the success in home improvement and to set goals in regard to these factors. The strategies necessary in realizing these objectives included: developing informational building materials to support education, home visits by trained architects in order to design and budget the construction, creating a loan fund, setting the interest rate, developing systems to recuperate funds and developing ties with the private sector to enhance sustainability and efficiency.

## MOBILISATION OF RESOURCES

CHF has created a loan fund of US\$5 million. Of this money, the Ford Foundation and the Overseas Private Investment Corporation have donated US\$3.5 million. The Ford Foundation and the Inter-American Foundation have donated US\$1.1. Five Maquiladora companies have donated US\$362,000.

The program mobilized resources from reducing prices of items and from the support it gets from Cementos de Chihuahua (US\$84,350 in 2001) and Smart grocery stores which handle loan repayments free of charge (estimated value: US\$60,000/year) thus reduces operating costs.

CHF provides technical support and oversight to FUNHAVI in administrative and portfolio management. For example, CHF/Mexico and CHF/HQ provide assistance on accounting, overdue accounts, promotion, credit selection and the strengthening of the FUNHAVI board.

FUNHAVI has nine office staff, six honorary architects, three officers who handle overdue accounts on commission and eight promoters hired in March 2002. All these are paid a basic salary plus commission. FUNHAVI reduces fixed costs on honorary and commission-based staff and mobilizes these teams to meet its objectives. Regular training is done to promotion staff skills.

## PROCESS

Many thought it ill advised for CHF to give loans to a young, transient population on the border of Mexico amid drug cartels, illegal immigration and corruption. Mexico had just experienced an

economic crisis. Government ran housing programs had major repayment problems inhabitants were subjected to political abuse. The population had little or no knowledge on credit, many did not possess title deeds and a mortgage guarantee was impractical. The private sector needed to be motivated to collaborate in this initiative. Finally, because no local NGO was working in this area, one needed to be created.

CHF's experience in similar programs provided the underlying framework for creating FUNHAVI. CHF then met with institutions and potential clients about land issues, offering education on credit and technical assistance. Focus groups, interviews, and market studies helped to determine program parameters. Finally, CHF approached Maquiladoras, building materials suppliers and Smart grocery stores about their involvement in this project.

From this all-inclusive process, evolved a program for the working poor that offers education on credit and technical assistance by trained architects. This makes the services offered to the people more competitive. This is reinforced by the fact that monthly installments are dependent on a person's financial status. Through agreements with building materials suppliers in the city, clients receive vouchers instead of money for acquisitions of those building materials. Payments on work done are made in two installments. The second installment is paid on completion of the construction work. These measures ensure that funds are used solely for construction.

Clients must show documents proving land ownership. Instead of mortgage, the loan requires a co-signer who earns a similar income and owns land. All payments are made at Smart Stores for convenience of the clients and reducing risks on the part of the personnel of FUNHAVI. CBF developed a special program for Maquiladoras to get them involved and raised \$362,000.

CHF and FUNHAVI monthly review FUNHAVI's progress. Qualitative feedback from clients on the application process, satisfaction, understanding and recommendations is solicited in focus groups and interviews

The primary challenge now is scaling the program in order to increase our impact and reduce fixed costs. CHF and FUNHAVI are finishing a new Information System and developing manuals to expand the program to two more cities this year.

## RESULTS ACHIEVED

1. Actual improvement in people's living conditions: 2,526 documented home improvements have been achieved. 30% were improvements from pallets and cardboard to a solid structure, 8% were built on barren land.

2. Better co-ordination and integration between various actors, organisations or institutions: Interaction with border leaders and families allowed CHF guard against pitfalls and develop a responsive program. Private sector relationships led to funding, reduced building materials prices and convenient loan repayment.

3. Improved institutional capacity at the national, sub-national or local levels: FUNHAVI is the principal low-income home improvement lender in Judrez and will expand to other cities. FUNHAVI represented CHF at the Micro credit Summit, Habitat International Coalition, and US HUD conferences. FUNHAVI is part of a micro finance think-tank in Mexico.

4. Recognising and addressing specific opportunities and constraints: Low-income families, pallet housing, lack of financing and mass migration made it easy to recognize a housing finance opportunity. Due to the socio-economic and educational constraints experienced by the population, CHF recognized the need for the creation of a new NGO and the need for education and mechanisms of securing proper use of funds.

5. Changes in people's attitudes and behaviour: Some clients have borrowed loans for up to four times and have progressively improved their home. CHF notes changes in the attitudes of FUNHAVI board

members. Where there was resistance to unsubsidized interest rates, there is now recognition that sustainability and philanthropy go hand in hand. Those who take the initiative to learn about the program take responsibility for the decisions that impact their lives and families.

## SUSTAINABILITY

1. Financial: CHF leveraged its reputation and financial status by signing loan agreements to build the US\$5 million loan fund. Funds are lent to FUNHAVI at interest rates slightly below the market rate. Clients can borrow loans ranging from US\$500 - \$2,500 and repay them within 6-36 monthly installments. The monthly interest rate is 2.5% and a 2% loan commission is offered. Clients net income range from US\$200-\$800 per month. 75% of clients earn US\$200-\$500. An affordability analysis is conducted to determine monthly payment rates.

In February 2002, cost as a percentage of the amount of credit issued was 15.78%. The cost per loan was US\$309. The repayment rate was 96.7%. FUNHAVI had 1,133 active clients.

2. Social and Economic: 39% of people who borrow loans are women. Women also typically initiate the process, decide on the improvements to be made and ensure loan repayment.

3. Cultural: Inheriting one's father's property (patrimony) is deeply rooted in the Mexican tradition. Allowing people the opportunity to do this, according to their needs and desires is paramount to CHF's success. That families move from a pallet and cardboard home to a solid structure reflects respect for human dignity. Clients are not persuaded toward certain types of improvements and in that way we respect their decisions. Service is a basic organizational principle supporting respect for the dignity and pride of every individual and their progress.

4. Environmental: Solid rooms, bathrooms and kitchens improve the environment. Pallet and cardboard homes require constant reinforcement with plastic, paper, cardboard, tires, etc, and provide little comfort. Carbon monoxide, which is used for heating shelters, kills people everyday. Makeshift bathrooms and wash bins result in streams of sewer and bathing water on the streets. CHF is working with Cementos de Chihuahua to offer a new technology of "light cement", which is lighter in thermal terms, requires less manual labor and can be prefabricated.

## LESSONS LEARNED

1. Using micro finance programs can make agreements with building materials suppliers in order to improve the prices and enhance sustainability of the project. CHF receives a discount and US\$20,000 for publicity. These alliances and agreements secure the proper use of funds.

When the clients signs for the loan, they are provided with vouchers for the building materials at the store. The prices are guaranteed which eliminates changes affecting the quantity of the building materials. A copy of the building materials list is taxed to the store. When the client receives the building materials at their home, the client signs the vouchers and the store is paid directly from the FUNHAVI offices. This system ensures that construction materials are purchased.

2. Technical assistance to clients is costly and represents 19% of the 2002 budget. It is, however, a critical component for well-informed decision-making by clients and in providing tools for managing the construction. This results to a well built home by the clients and directly impacts on the repayment of the loan and the social impact on the family. Technical assistance provided by architects on an honorary minimizes costs.

3. With the creation of free trade zones, mass labour migration commonly results to a housing crisis. The Juarez population is young, transient and has the opportunity to cross into the US or return home any time. It therefore very risky to give credit to such people. However, many people come to stay, a

reflection of the conditions elsewhere in the country, and the home improvement market can thrive in these areas.

4. Maquiladoras are here to reduce the labor cost/unit. Social programs increase their cost/unit. CHF's designed a mutually beneficial program and marketed the program to increase employee retention - a costly industry problem.

## TRANSFERABILITY

CHF is proud of working with local partners in create property ownership and capacity building. Border experts, government program analysis and initiatives by other NGOs provided the network and contextual information for the program. The Mexico program derived largely from CHF programs in Latin America in the 1980's. However the FUNHAVI board's housing experts, non-profit leaders and micro finance practitioners were crucial to adapting CHF's model.

The CHF/Mexico program is recognized as a model. It is cited in the CHF publication, So, you want to do Housing Micro finance and is one of three housing micro finance programs highlighted by the World Bank's, Cities without Slums project. The program will be shown on the PBS show, The Visionaries, and CHF and FUNHAVI have presented housing and micro finance conferences in many countries.

The program is used for on-site training of CHF field directors for adaptation to programs in Honduras, Lebanon, South Africa, Kosovo, Jordan and Peru. CHF and FUNHAVI are replicating the program in two Mexican cities this year. A US\$2.5 million credit signed between CHF and Overseas Private Investment Corporation will provide capital for expansion and may be a future source of large-scale financing and further replication.

Two key things could have been done differently. First, the interest rate was increased annually using a government scheme, which tied the increase to the Mexican minimum wage. This required an administratively burdensome and confusing annual change in the interest rate of all active clients. Secondly, more attention could have been given to the board for a transition from active involvement in administrative issues early on to a role of governance or oversight. This would have avoided confusion between the role of the Executive Director and the board.

## Key Dates

1. August 12, 1994 - The initiation of a pilot project on home improvement
2. July 29, 1996-CHF signs US\$1,000,000 loan with Ford Foundation
3. September 18, 1996 - CHF and local leaders create FUNHAVI
4. November 17, 2001 - CHF receives IDB Micro-finance Award
5. December 15, 2001 - FUNHAVI passes US\$4,000,000 mark in loans

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**Type of Organization:** Private Sector

**Type of Partner Support:** Financial Support

## Financial Profile

| Year | Total budget | CHF Int'l. | Ford Fdn. | Interamerican Fdn. | Cementos de Chihuahua |
|------|--------------|------------|-----------|--------------------|-----------------------|
| 1999 | 264,946      | 18.7%      | 0%        | 5.5%               | 23.2%                 |
| 2000 | 312,949      | 10.7%      | 17.5%     | 4.6%               | 27.7%                 |
| 2001 | 417,258      | 1.0%       | 0%.       | 0%                 | 20.2%,                |

\*Tienda Smart stores receive all monthly loan payments from clients. This in-kind contribution since

June 1999 is estimated at US\$60,000 per year, or US\$150,000 total through 2001. It is not included in the budget above, but represents 15% of the total budget for 1999-2001

| <b>Loan capital funds</b>         |                       |                   |
|-----------------------------------|-----------------------|-------------------|
| <b>Partner</b>                    | <b>Amount (US \$)</b> | <b>Percentage</b> |
| Ford Fdn.                         | 1,900,000             | 38%               |
| Maguiladoras                      | 362,000               | 7%                |
| Interamerican Fdn.                | 238,000               | 5%                |
| Overseas Private Investment Corp. | 2,500,000             | 50%               |
| Total                             | 5,000,000             | 100%              |



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