



TECHNICAL WORKING GROUP MEETING NOTES

Debt and Loans in Shelter

OCHA and the Humanitarian Shelter Working Group

Friday 12th September, 9am-11am, UN-House, OCHA, Tacloban.

Agenda:

1. Introduction to the issue of Debt and Loans in Shelter
2. Save the Children Cash for Shelter – Debt and loans
3. Discussion and open floor
4. Monitoring cash assistance to reimburse shelter debt
5. Conclusions

Attended:

ADRA, American Red Cross/Philippines Red Cross, Catholic Relief Services, DSWD, IOM, HSWG/IFRC, Leyte Chamber of Commerce, Mercy Corps, Operation Blessing, OCHA, Oxfam, Philippines Red Cross, Plan International, Relief International, Save the Children, The Asia Foundation, UN-Habitat, UNHCR, World Vision (attendance list attached).

1. Introduction to the issue of Debt and Loans in Shelter

Shelter implementing agencies requested a meeting to discuss how to assist families facing large debt from borrowing informal loans to repair or rebuild their houses. Agencies have noticed through detailed assessments that as a result of this some families are facing critical vulnerability issues as they are not able to repay these loans, although the physical appearance of their house shows some sort of shelter recovery and where material and technical assistance might not be relevant.

The question raised was:

‘Should vulnerable families be excluded from shelter assistance if they have been resilient and have taken the responsibility and risk of borrowing money in most cases from loan sharks, for the repair or reconstruction of their houses? How should this assistance be provided, implemented and monitored?’

The discussion group included professionals from shelter and livelihood, including cash experts, DSWD officials, and representatives from the Leyte Chamber of Commerce and agencies with cash transfer programmes.



2. Save the Children, Cash for Shelter – Debt and loans

Aaron Anderson, Shelter Programme Manager for Save the Children (SCI) explained the reasons why his organisation is considering responding to debt issues through their shelter programme.

As a result of a participatory community hazard and capacity mapping exercise (HVCA) as well as a cross-sector detailed house to house assessment they have identified that approximately 20-25% of 3,000 interviewed households owe large amounts of debt due to loans they took to rebuild their houses. In consideration of the debt factor, many of these 20-25% are assessed to be among the most vulnerable households, having no means to repay their loans and therefore are unable to **self-recover** (a major criteria for qualification in the SCI shelter programme). Many of these families live month to month with no ability to put away funds to build or repay loans nor would they have been able to rebuild without the loans. On top of this, many of the loans identified have high interest rates, ranging from 20% fixed rate, to 5% compound interest, per month.

SCI proposes to address this issue, by providing households a package which first retrofits/repairs their self-built shelter, ensuring the 8 Build Back Safer Key Messages are integrated and that their house meets minimum safety, adequacy and durability standards. As SCI has a certain amount of funds available per household, the balance of the original funds per households, minus the costs to retrofit/repair the house would then be used as a cash grant to help pay towards the existing housing loan (principal only, excluding any interest). This programme will be developed through an integrated approach including an 18-month livelihood programme which includes capacity building in saving, financial literacy, etc.

Usually livelihood programme respond to debt issues by developing financially literacy, saving programme, and supporting families to access bank account and legal loans.

In this case, SCI would like to explore ways to response to housing damage by providing cash assistance to repay debt, when families have taken out loans to repair/reconstruct their damage house. This means looking at the issue 'backward'. It is essentially a micro-finance shelter program run in reverse. SCI fully understands that this is a context specific alternative sheltering solution, but thinks it is one worth being considered by all actors finding the same data in their assessments.

Questions from STC to the floor:

How would SCI get proof that families have taken out a loan? How to measure loan repayment? Would some sort of receipt system be appropriate? Are there other organisations involved in this kind of programme? Is this a viable shelter response?

3. Discussion and open floor

OCHA Cash Advisor:

In the Philippines taking loans, even from loan sharks, is perceived as a norm and has become part of the culture. Loan sharks often choose communities in rural, harder-to-reach areas. They tend to target women, who show some capacity to pay, those who may have or have had micro-enterprises, e.g. a sari-sari store or livestock. Loan sharks typically charge around 25% interest; they are broadly categorised into two types in the Philippines:

1. the *Bombays*: these are usually male of South Asian or Middle Eastern descent. Their selection criteria is often based on can give them a fast cash return: preferring women, who can pay back a portion of the loan with interest on a daily or weekly basis with approximately a 3-month window (maximum) or less to repay the full amount.

2. the Filipinos: these are generally women, who may even be a member of the community; in some cases, they receive remittance from family members working overseas. Because this type of lenders are familiar with and to the community, they are more flexible than the *Bombays*, allowing for longer periods of repayment staggered over several months depending on the amount.

Both will try and get to know their 'beneficiaries' to ensure that loans will be repaid. As these are informal/illegal structures, they can only depend on trust for payment, and cannot call authorities if families cannot pay. In some cases when loans are not repaid on time, loan sharks have been known to intimidate, threat, harass and behave in an abusive manner to pressure families to pay.

These informal loan arrangements are rarely documented. In some cases, there may be a record book with the Barangay Captain, or someone in the community, who keeps track of these loans.

Most families borrow money from 3 sources: family, friends and loan sharks. It has been known that when a family is unable to pay a loan from source A, it is likely to take credit from source B and/or source C to pay Source A, resulting in indebtedness.

Mercy Corps Banko project:

MC has provided assistance to families to open bank account, building a credit history, and training on financial literacy and saving. This programme is followed by a small loan programme which includes insurance, providing between 1,000PHP-5,000PHP.

Operation Blessing (OB) suggested to measure the loans families might have taken to repair and/or rebuild the damaged houses, by estimate how much materials and labour were required. This would allow for an estimation of the level of debt of the household.

However OB is not taking indebtedness as a vulnerability criteria as the loan system is a common system in the Philippines.

AmCross/PRC is developing an integrated programme including livelihood, DRR, shelter and wash. An initial unconditional cash assistance is provide in a first phase, later an additional conditional cash grant is provided. A community participatory approach using wealth ranking as one of the assessment tool is used to identify families who might have taken loans and are challenged by debt. When using conditional cash assistance a first portion of the cash is distributed then a monitoring check takes place to ensure the cash was used as agreed, then the second portion of cash assistance is provided.

The loans system in the Philippines has existed for years and will probably remain in the culture once agencies have left. Loan sharks were the first ones in the communities providing cash loans for families to get back on their feet. We should be cautious not to disturb communities or create dependency and we should follow the principles of 'Do no harm'. If we provide cash to repay a loan, families might just take another loan as they have been relieved from debt.

However in the case of the most vulnerable providing cash to reimburse debt might assist families to get back on their feet. It might be an option to provide a blanket coverage with the same amount to all households identified with having taken a loan to rebuild/repair their houses. Repaying the entire loan might be doing more harm.

OCHA Cash Advisor explained that community consultation is a good method to identify the most vulnerable especially to identify those who are struggling with loan repayment. This method is used by various agencies to develop beneficiary criteria for example by identifying those who are indebted, and those who are financially vulnerable.

Leyte Chamber of Commerce shared an example of a community saving programme where grants were distributed to a community and enabled this group to organise themselves, to share the money from



the grant as community. The community was trained to manage the funding and took the responsibility to manage this large amount of cash.

Merry-go-round (Palawaga in the Philippines) were mentioned as an existing community saving system where a group comes together to save and shares the saving in turns with the members of the group.

Asia foundation, DSWD, UNHCR, Plan International and other agencies present shared their different livelihood, cash and saving programmes, which included: providing training to increase livelihood opportunities, community saving programmes, cash distribution for livelihoods and cash monitoring, using community monitoring systems, microcredit, micro-enterprises, training for financial literacy and saving, community based programmes to identify skills and develop trainings, building capacity to enable families to enter the formal loan and banking system.

DSWD mentioned that availing loans is not be bad at all, but what is key is the enable families to better manage their funds, including loans so that their can ensure that they can with their earnings cover their basic needs. For example, providing grants for repairs and reconstruction, to ensure earning can cover their basic needs. In some cases reimbursing the loan would not be the answer. Capitalising on what families know and what they have it probably best practice.

The Leyte Chamber of Commerce explained that they approached several microcredit institution but that these were not targeting the Yolanda affected population. The National Government in May made microcredit available to small businesses in the Yolanda affected area through soft loans, with no collateral commitment for small loans.

The way to relieve the debt issue in the region is through supporting livelihood programmes, to enable families to increase their earnings which will assist them to repay their loans. This should be combined with financial literacy, saving trainings, and enabling access to formal lending systems so that families can choose.

4. Monitoring cash assistance to reimburse shelter debt

UNHCR explained that they undertake a community monitoring system for their cash assistance, this method might be a way to monitor cash assistance for debt reimbursement.

Would engaging with loan sharks to for monitoring of cash assistance be an option? If these lenders are known by the communities members, engaging with them might be the one way of getting assurance of payment.

We need to be cautious about engaging with loan sharks as these are informal systems, which agencies might not want to promote or engage with directly.

We need to remember that those taking loans are generally the most vulnerable and they would not have access to formal lending systems. Excluding them from assistance would be including the most vulnerable.

It was suggested that another meeting should be organised to specifically discuss monitoring of cash assistance for reimbursement of shelter debt.

5. Conclusions

A significant number of households have taken loans for shelter reconstruction and repairs and a portion of these are very vulnerable as they do not have the means to repay these loans, even though their house might have already been repaired.



Taking loans is a common practice in the Philippines, therefore there is a bit of concern that providing cash assistance to repay these loans might create dependency amongst beneficiaries. However, it was suggested that combining a retrofit and cash grant programme providing a fixed amount of cash toward those determined to be deepest in debt, unable to self-recover and are therefore among the most vulnerable, could be a shelter programme worth considering.

It was agreed that using a community approach to identify those struggling with debt would be an appropriate methodology to identify beneficiary selection criteria. This method might also be used for the implementation and monitoring purposes, providing community cash grants whereby the community is responsible for managing and monitoring the grant.

The need to address this issue of debt in shelter remains, and most agencies agree that any cash assistance should be combined with livelihoods intervention. It was also suggested that along with any cash intervention intended for loan relief must include financial literacy, savings training, and sensitization and linkage to formal lending systems.

It was also suggested that another meeting focused on monitoring tools for cash assistance be organised in the next few weeks.