

Microenterprise as a Tool for Housing Improvement: Evaluating Resident-Led Economic Strategies in Low-Income Informal Settlements

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ABSTRACT

The paper discusses the role of low-income resident-led enterprise activity in house improvement in poor, informal, urban settlements, treating four interconnected approaches home-based enterprises, savings and credit associations (SCGs), housing microfinance, and local entrepreneurship programmes as processes through which low-income urban households access resources and motivation to expand and upgrade their dwellings incrementally. Drawing on secondary evidence from international development agencies and case material on Gungano Urban Poor Fund (Zimbabwe), rotating savings schemes in India and home-based enterprises in the Global South, the paper contends these interventions achieve most effectively not as standalone initiatives but in a synergistic layered system in which houses serve simultaneously as both 'homes' and workplaces. Evidence indicates these microenterprise and community savings mechanisms can facilitate home improvement through additional rooms, better materials, and increased plots, the very areas denied access to formal housing and credit markets.

We balance this evidence with an understanding of the obstacles: a focus on the harsh reality of microenterprise interest rates, problems scaling up interventions and disproportionate gender impacts.

The authors present a case for policy changes and the importance of greater 'ground up' research in promoting sustainable, effective solutions, on the back of effective tenure, access to social capital, and collective resident empowerment.

Keywords: microenterprise, informal settlements, incremental housing, home-based enterprises, housing microfinance, community savings, ROSCAs, tenure security, self-help housing

Introduction

For many millions of the world's urban poor, the dwelling place and household economy cannot be cleanly separated. The room which provides shelter for the household at night functions as the home to the tailor's worktable, the grocer's store, or the fried food counter during the day. This blurring of shelter and livelihood sits at the centre of how poor households in informal settlements actually build and improve their homes. Microenterprise here refers to the small, often unregistered, income-generating activities that low-income households run with little capital and a handful of workers, usually family members.¹ Such enterprises are rarely captured in official statements, yet they are the second most common source of livelihood for low-income, urban households after wage labour, with studies estimating that anywhere from a quarter to half of these households operate one.²

The scale of the housing problem behind this is enormous. UN-Habitat suggests that 1.1 billion people presently reside in slums and informal settlements (out of a world population of approximately 1.6 billion in poor housing).³ In much of Africa and the Asia-Pacific, informal construction is not the exception but the norm; in Africa, around six in ten urban dwellings are informal.⁴ Formal housing finance, mortgages, developer-built units, public housing, reaches almost none of these households, because they lack titles, formal income, and the collateral that lenders demand.⁵ And self-help does provide, incrementally, the brick, and then the wall and then the room.

¹Peter Kellett and A. Graham Tipple, "The Home as Workplace: A Study of Income-Generating Activities within the Domestic Setting," *Environment and Urbanization* 12, no. 1 (2000): 203–214.

²A. Graham Tipple, "The Place of Home-Based Enterprises in the Informal Sector: Evidence from Cochabamba, New Delhi, Surabaya and Pretoria," *Urban Studies* 42, no. 4 (2005): 611–632; see also Kellett and Tipple, "The Home as Workplace."

³UN-Habitat, *World Cities Report 2026: The Global Housing Crisis — Pathways to Action* (Nairobi: UN-Habitat, 2026); UN News, "UN Searches for Solutions to Global Housing Crisis," 29 May 2025.

⁴UN News, "UN Searches for Solutions to Global Housing Crisis."

⁵UN-Habitat, "Financing Investments in Slums and Informal Settlements," *Finance for City Leaders Handbook*, part 3, chapter 16 (Nairobi: UN-Habitat).

This paper asks what appears to be a simple question, but has complex answers: can resident-driven economic strategies lead to better housing in these settlements, and on what terms? Drawing on an extensive literature and on examples from a range of cities, it examines four strategies that seem to be constant: home-based business, savings and credit schemes, housing microfinance, and local entrepreneurship initiatives. All four, we argue, are seen not as alternatives but as components of a shared economy of self-provision and although all can do some specific work in themselves, they are most powerful in terms of reinforcing each other, and that strength is highly dependent on tenure security and organisation.

The evidence is secondary, derived from data and reports by development agencies (e.g. UN-Habitat, Habitat for Humanity, Slum Dwellers International, Institute for Environment and Development International) and by an in-depth analysis of specific case studies in Nairobi, Harare, Mumbai, Hyderabad, Buenos Aires and the Philippines.⁶ This paper does not attempt to resolve the debate empirically; rather it attempts to put together the sum of the evidence, balance the benefits with the clearly articulated disadvantages and identify where real data are needed.

1. Background: Informal Settlements, Incremental Housing, and the Informal Economy

An informal settlement (informal sector) is one in which the residents and occupiers themselves are unable to establish rights or ownership of land, that it lacks services and infrastructure facilities, and the houses erected thereon (housing) are in disagreement with the law about urban planning and construction regulations.⁷ These are not marginal spaces on the edge of the city; they are where much of the urban labour force lives and works. Understanding them means seeing them as economic as much as residential.

Incremental housing, the concept by which people construct and upgrade their own housing in gradual, spontaneous stages as they have the resources to accumulate them, at any given time - rather than building it all at once to a fully developed plan.⁸ Perhaps a house will begin with a room of salvaged stuff, then Walls replaced with fired bricks as funds allow, a second room

⁶The case material used here draws on Slum Dwellers International, the International Institute for Environment and Development (IIED), Habitat for Humanity, and the academic sources cited below.

⁷UN-Habitat, Proposed Recommendations on Informal Settlements (Nairobi: UN-Habitat, 2025).

⁸Patrick Wakely and Elizabeth Riley, The Case for Incremental Housing, Cities Alliance Policy Research and Working Papers Series No. 1 (Washington, DC: Cities Alliance, 2011).

when a second child arrives or an enterprise comes to be, then years later Hooked up to power and water - this may be slow, yet it fits the variable uncertain income to which people poor is so ill-adapted in any sense of debt with scheduled mortgage payments - though a variety of scholars are now describing as not merely poor or “defective” but incremental building of city.⁹

The political economy of this housing is shaped above all by insecurity. Without any such legal title deeds, homeowners face potential eviction, cannot use the land as an asset or collateral for loans and lack access to loans from financial institutions.¹⁰ Their response has been to rely on self-help construction and on the informal economy, home-based commerce, street vending, artisanal production, and small-scale services that sustain livelihoods where formal jobs are scarce.¹¹ The dwelling is central to this economy. As Kellett and Tipple put it in their study of income generation in the domestic setting, the home functions as a workplace, and the line between the productive and the domestic is often impossible to draw.¹²

But along with business, those in cities have depended upon collective self-saving for centuries. Rotating savings and credit associations (ROSCAs)-called various names, including chit funds in India, and susu and tandas in several other countries-are among the oldest of the instruments used. The members regularly contribute a certain amount to a common fund, and take turns to withdraw the entire collected money, thus giving the members access to a large sum they could not raise otherwise at any given time.¹³ The economist F. J. A. Bouman once called the ROSCA “the poor man's bank,” where money changes hands quickly and serves both consumption and production.¹⁴ More recently, housing microfinance has emerged as a deliberate attempt to

⁹See the discussion of incremental housing as a process of city-making in the recent housing-studies literature, e.g. *Journal of Housing and the Built Environment* (2025).

¹⁰UN-Habitat, "Financing Investments in Slums and Informal Settlements."

¹¹On home-based commerce, vending and artisanal production as urban livelihoods, see *Environment and Urbanization* 30, no. 2 (2019).

¹²Kellett and Tipple, "The Home as Workplace," 203–214.

¹³Peer Smets, "ROSCAs as a Source of Housing Finance for the Urban Poor: An Analysis of Self-Help Practices from Hyderabad, India," *Community Development Journal* 35, no. 1 (2000): 16–30.

¹⁴F. J. A. Bouman, "Indigenous Savings and Credit Societies in the Developing World," in *Rural Financial Markets in Developing Countries*, ed. J. D. Von Pischke, Dale W Adams and Gordon Donald (Baltimore: Johns Hopkins University Press, 1983).

channel small, short-term loans toward home improvement, adapting the methods of microcredit to the realities of incremental building.¹⁵

The international guidelines have not really been playing catch-up. The UN-Habitat-supported SDG 11.1 says that ‘by 2030 ensure access for all to adequate, safe and affordable housing and basic services and upgrade informal settlements,’ and UN-Habitat guidance is starting to position community-driven upgrading and finance as not an adjunct to, but at the core of, achieving this goal.¹⁶ The rest of this paper takes the four strategies in turn against this backdrop.

2. The Dwelling as a Productive Asset: Home-Based Enterprises

The home-based enterprise is the clearest case of housing and livelihood reinforcing each other. When a family runs a shop, workshop, or service from its dwelling, the house stops being a pure cost and becomes an income-producing asset. That change in function tends to change the building itself. Households with enterprises are generally found to have higher incomes than those without, and they put a share of that income back into the structure — adding a room for stock or production, building a shopfront onto the street, extending upward, or improving the floor and roof so the space can be used more intensively.¹⁷

Gough and Kellett, studying self-help settlements in two Colombian cities, found a tight link between housing consolidation and home-based income generation: as dwellings were improved they could support more and better enterprises, and as enterprises grew they funded further improvement.¹⁸ Tipple's comparative work across Cochabamba, New Delhi, Surabaya, and Pretoria reached a similar conclusion — home-based enterprises are a substantial and often overlooked part of the informal sector, deeply embedded in the physical fabric of low-income

¹⁵Habitat for Humanity Great Britain, "Microfinance," accessed 2026, <https://www.habitatforhumanity.org.uk/what-we-do/microfinance/>.

¹⁶United Nations, *Transforming Our World: The 2030 Agenda for Sustainable Development* (New York: United Nations, 2015), Target 11.1; UN-Habitat, "Financing Investments in Slums and Informal Settlements."

¹⁷A. Graham Tipple, "Settlement Upgrading and Home-Based Enterprises: Discussions from Empirical Data," *Cities* 22, no. 5 (2005); Tipple, "The Place of Home-Based Enterprises."

¹⁸Katherine V. Gough and Peter Kellett, "Housing Consolidation and Home-Based Income Generation: Evidence from Self-Help Settlements in Two Colombian Cities," *Cities* 18, no. 4 (2001): 235–247.

housing.¹⁹ The productive use of the home, in other words, is one of the main reasons households improve their housing at all.

This dual function has costs that are easy to romanticise away. Production in the home can mean noise, crowding, fumes, and the loss of domestic space, and the burden of running both household and enterprise tends to fall on women.²⁰ But as a mechanism for financing incremental improvement, the home-based enterprise is hard to beat, precisely because it needs no external lender and no title: the household improves what it already occupies, with income it generates on site.

3. Saving Together: Community Savings Groups and Collective Finance

Where a lump sum can't be gathered by one household alone, communities have mobilised and collectively obtained what they need. The organisation of community savings groups involves women contributing small sums of money regularly, with the funds then lent out to communities for livelihoods, land and housing. They don't just have financial power: their power also comes from within. A common struggle can generate organisation, trust and negotiating power to the extent required to interact with city authorities and the donor community.²¹

The Gungano Urban Poor Fund in Zimbabwe is among the most studied examples. Founded in the late 1990s by the Zimbabwe Homeless People's Federation, a series of women-centred savings schemes, the fund was initially contributed to with deposits of as little as one dollar per month.²² It pools these savings, blends them with donor contributions, and lends to solidarity groups, who on-lend to members for land, housing, water, sanitation, and small business. Over its life, the fund has helped secure land for informal residents valued at tens of millions of dollars

¹⁹Tipple, "The Place of Home-Based Enterprises," 611–632.

²⁰Kellett and Tipple, "The Home as Workplace"; on the gendered burden of home-based work, see the broader WIEGO and feminist housing literature.

²¹Diana Mitlin, *Urban Poor Funds: Development by the People for the People* (London: International Institute for Environment and Development, 2008).

²²Global Center on Adaptation, "Low-Income Residents Upgrading Informal Settlements in Zimbabwe," Locally Led Adaptation Hub, accessed 2026, <https://llahub.gca.org/>.

and has supported thousands of grassroots collectives.²³ Its resilience is striking: when Zimbabwe's hyperinflation wiped out the fund's value in 2008, members kept repaying loans in building materials rather than cash, under a system they called dombo-to-dombo, "stone for stone," until a stable currency returned.²⁴

Gungano is not unique. It belongs to the wider network of Slum Dwellers International, whose affiliates in more than thirty countries run urban poor funds and city-level financing facilities on the same logic of daily savings, collective negotiation, and community-managed lending.²⁵ The lesson from these funds is that finance controlled by the community, flexible, patient, and socially enforced, can reach exactly the households and the incremental projects that banks and governments will not.²⁶

4. Housing Microfinance and Progressive Construction

Housing microfinance takes the individual-loan logic of microcredit and adapts it to building. Rather than a single large mortgage, it offers a sequence of small, short-term loans that match the way poor households actually build, one improvement at a time, repaid quickly, with the next loan following once the first is cleared.²⁷ Products range from home-improvement loans to incremental-construction finance to loans for land acquisition, and organisations such as Habitat for Humanity have built dedicated housing-microfinance programmes on this model.²⁸

The strengths of the approach are its flexibility and its reach: because loans are small and often need no formal title, they serve households the mortgage market ignores. The best-studied informal version is the ROSCA. In his analysis of self-help practices in Hyderabad, Smets

²³Slum Dwellers International, "Zimbabwe," accessed 2026, <https://sdinet.org/category/zimbabwe/>; Global Center on Adaptation, "Low-Income Residents Upgrading Informal Settlements in Zimbabwe."

²⁴Slum Dwellers International, "Rebuilding an Urban Poor Fund," 15 February 2010, <https://sdinet.org/2010/02/rebuilding-an-urban-poor-fund/>.

²⁵Cornell University, "Informal Settlements Generate Collective Empowerment through Locally Led Action," Cornell AAP, 2025.

²⁶Mitlin, Urban Poor Funds.

²⁷Habitat for Humanity Great Britain, "Microfinance."

²⁸Ibid.

showed that rotating savings associations functioned as a genuine source of housing finance for the urban poor, with creditworthiness resting on social relationships rather than collateral, and with auction ROSCAs sometimes offering cheaper finance than formal Indian housing finance corporations.²⁹ Participation in a ROSCA could itself serve as security for borrowing elsewhere, from a moneylender or a relative.³⁰

The risks, examined more fully below, are real. Interest rates on microloans can be high, repayment schedules can be punishing when income is irregular, and the evidence that microfinance reliably reduces poverty is more contested than its promoters often suggest.³¹ Housing microfinance is a useful instrument, not a cure.

5. Entrepreneurship Programmes, Tenure, and the Reinforcing Loop

The fourth strategy is more institutional: programmes that train, mentor, and support local entrepreneurs, help formalise informal enterprises, and build the human capital of the settlement. Where they work, such programmes raise and stabilise household incomes, create local jobs, and generate spillovers: a repaired appliance, a nearby shop, a service that saves a neighbour's time that circulate within the community and can, in time, fund housing investment.³² Studies of both entrepreneurship and local development highlight this community regeneration aspect, although success is heavily dependent on design and context.³³ Perhaps most crucially, the income gains from these schemes are rarely exclusively housing-related: as local businesses flourish, it is often the case that households invest extra income on education and health alongside housing, and the scheme support for entrepreneurship supports the integration of the informal business into the wider economy, rather than sustainable development in general and improved shelter in particular.

²⁹Smets, "ROSCAs as a Source of Housing Finance," 16–30.

³⁰Ibid.

³¹"The Role of Microfinance in Reducing Poverty: A Double-Edged Sword," and the wider debate summarised in DevelopmentAid, "Microfinance Programs in Poverty Reduction."

³²See the Urban Forum literature on informal enterprise and local development, e.g. Urban Forum 28 (2017).

³³Harvard Business Review, "Research: How Entrepreneurship Can Revitalize Local Communities," January 2022.

Underpinning all four strategies is a link that deserves mention. Namely, it is mutual reinforcement between tenure security, infrastructure and enterprise; in tenure insecure households, residents invest less money in both housing and business because they predict they will profit.³⁴ Better infrastructure, water, power, drainage, and an accessible road raise the productivity of home-based enterprises directly, letting a workshop run longer or a food business meet health standards. Studies of settlement upgrading find that improved services and more secure tenure stimulate enterprise, and that enterprise in turn generates the income and the political weight to demand further upgrading.³⁵ Improved living conditions and economic productivity are, in this sense, mutually reinforcing rather than sequential. This loop is the mechanism through which the four strategies, taken together, become more than the sum of their parts.

6. Limits, Risks, and Cross-National Lessons

None of this should be read as a claim that resident-led strategies can replace public investment or solve the housing crisis on their own. The limitations are serious and well documented.

Scale is the first. Savings groups and microfinance institutions reach thousands, sometimes millions, but the informal-settlement population is measured in the billions, and community finance has repeatedly run up against a shortage of capital and the difficulty of transplanting locally rooted models elsewhere.³⁶ Cost is the second. Microloans frequently carry high effective interest rates, and critics have argued that microfinance can be a double-edged sword, deepening debt among the poorest even as it helps others.³⁷ Gender is the third. Women do much of the saving, much of the home-based production, and much of the borrowing, yet they often bear disproportionate risk and unpaid labour while holding the least secure claim on the resulting assets.³⁸ Weak regulatory and legal support is the fourth: without recognition of informal

³⁴On tenure security and enterprise investment, see the empirical study of home-based enterprises in Khulna, Bangladesh, Khulna University Studies (2023).

³⁵Tipple, "Settlement Upgrading and Home-Based Enterprises."

³⁶Mitlin, Urban Poor Funds.

³⁷"The Role of Microfinance in Reducing Poverty: A Double-Edged Sword."

³⁸Kellett and Tipple, "The Home as Workplace"; and the gender-focused critiques in the home-based work literature.

enterprise in urban planning, and without a supportive framework for community finance, these strategies stay fragile and are easily undercut by hostile authorities.

Cross-national comparison brings the conditioning factors into focus. In Harare, deep community organisation and a functioning federation let the Gungano fund survive economic collapse; in Hyderabad, dense social networks made collateral-free ROSCA lending possible; in the Colombian cities studied by Gough and Kellett, gradual consolidation of tenure allowed enterprise and housing to grow together. Where these enabling conditions- organisation, social capital, some measure of tenure security- are present, resident-led strategies deliver. Where they are absent, the same strategies stall. The variation is not random; it is explained by context.³⁹

Conclusion

The four strategies examined here, home-based enterprises, community savings groups, housing microfinance, and local entrepreneurship programmes, are best understood not as separate interventions but as a single, layered economy through which poor urban households provide their own shelter. The home earns income; that income and the collective savings fund improvement; microfinance and community lending extend what any one household could reach; and entrepreneurship programmes and secure tenure raise the whole system's productivity. Together they form a system of economic resilience that supports livelihood and shelter at the same time, which is exactly why it is so durable and so culturally embedded.

The evidence also shows what these strategies need to work. Tenure security gives households a reason to invest. Social capital and community organisation make collective finance possible and give residents a voice with the state. Genuine community agency, control over the money, the priorities, and the pace, is what separates a living savings federation from a failed top-down scheme. Where these conditions hold, microenterprise becomes a real pathway to better housing; where they are missing, it cannot carry the weight placed on it.

Several policy directions follow. Governments and development agencies should strengthen the regulatory frameworks around microfinance so that the poorest are protected from predatory lending rather than exposed to it. Programme design should be explicitly gender-inclusive, recognising women's central role and securing their claims on assets. Urban planning should stop

³⁹Mitlin, Urban Poor Funds; Smets, "ROSCAs as a Source of Housing Finance"; Gough and Kellett, "Housing Consolidation and Home-Based Income Generation."

treating home-based enterprise as an illegal nuisance and instead fold the informal economy into how settlements are serviced and regulated. And investment in community-led data, the enumeration and mapping that federations in the Slum Dwellers International network already carry out, should be supported, because communities that count themselves negotiate from strength.

Finally, the limits of a secondary review must be admitted. Much of what we know about these strategies comes from a relatively small set of well-documented cases, and the income data on home-based enterprises in particular remain thin and unreliable. There is a strong case for further primary research, ethnographic fieldwork and participatory action research carried out with residents rather than about them, to test these findings at the community level and to capture the strategies that never reach a report. Households already know a great deal about how to turn an enterprise into a home. The task for research and policy is to listen more closely, and to build the conditions under which that knowledge can do its work.

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