




The Promise of Housing Microfinance

Emerging Lessons and Policy Implications for Asia

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Trends in Housing Microfinance

- Housing microfinance has emerged in recent years as a discrete area of practice that intersects housing finance and microfinance.
- Perceived as filling a large void due to the limitations of traditional mortgage finance and building on the lessons of microenterprise finance, it offers the promise of sustainable, unleveraged finance for the poor in ways that were not possible even a decade ago.

Trends in Housing Microfinance (cont..d)

- It has brought together a variety of stakeholders — government housing agencies, financial institutions, microfinance institutions, credit cooperatives, NGOs, and even private developers — particularly in Latin America, Asia, and Africa.
- However, despite the housing microfinance phenomenon of recent years, much still needs to be done in order to respond to the massive demand for pro-poor housing around the world due to rapid urbanization.

Evolving Principles of Housing Microfinance

- ▶ **Relatively small loan amounts based on client's capacity to repay**
- ▶ **Repayment periods usually shorter compared to traditional mortgage lending**
- ▶ **Pricing set to cover the real, long-run costs of the MFI in providing the services**
- ▶ **Not heavily collateralized, collateral substitutes often used**
- ▶ **Housing needs financed incrementally, based mainly on the affordable limits of the borrower**
- ▶ **Often linked to the prospective clients' prior participation in savings or other microfinance services of the MFI**

Issues in Housing Microfinance

- **Linked-based or stand alone product?**
- **Delivery: Through first tier institutions (retailers) or second-tier (Apex) institutions using retailers?**
- **Targeting: Should income-based methodology or income supplemented by non-income related poverty indicators be used?**
- **Scope: Should the MFI provide home improvement loans only?**

Issues in Housing Microfinance (cont...d)

What about the demand for loans for new home construction? Lots with services?

Collateral: What forms of collaterals or collateral substitutes should be used for longer-term housing loans?

Technical Assistance: Should construction assistance be offered to the clients?

Policy on Subsidy: Should links with government housing subsidy programs be allowed? What are the parameters for this?

The Economics of Housing Microfinance

There are many ways of delivering housing microfinance to reduce urban poverty. A benefit-cost framework based on the New Institutional Economics (NIE) methodology can be used to evaluate which delivery systems are more efficient and how a delivery system can be designed to scale-up housing microfinance initiatives.

First, the benefit of each delivery system can be measured in terms of how much it is actually able to reduce urban poverty, i.e., the total volume and amount of pro-poor housing related loans it has efficiently and effectively delivered.

The Economics of Housing Microfinance

(cont...d)

- Second, the cost of operating each delivery system can be measured by the transaction costs it incurs in providing housing microfinance products and services to its urban poor clients.
- Third, the net benefit of each delivery system can be calculated by subtracting the cost of operating each delivery system from the total benefit derived from each system.
- The housing microfinance delivery system with the highest calculated net benefit will be the optimal choice, i.e., the most viable in the long-run.

Reducing the Transaction Costs of Housing Microfinance Delivery: Key to Scaling-Up

► Sources of Transaction Costs:

- Need to identify and profile the target clients
- Need to develop financial products and services responsive to target clients' demand
- Need to secure financing
- Need to protect against risks
- Need to ensure that loans are properly serviced and collected on time
- Need to monitor and enforce loan agreements
- Need to develop effective management and operating systems

Reducing the Transaction Costs of Housing Microfinance Delivery: Key to Scaling-Up

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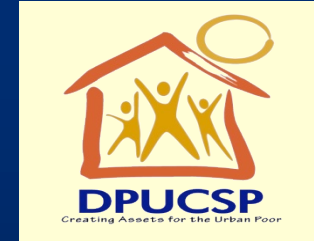
- ▶ **Policy reforms, capacity building, credit enhancements, and technology innovations will play a significant role in reducing the transaction costs of housing microfinance.**



Scaling-Up Housing Microfinance: Lessons from the Philippines

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DPUCSP....



- is an Asian Development Bank (ADB)-funded project in the Philippines which stands for the Development of Poor Urban Communities Sector Project
- Approved for implementation in 2004, it has three components:
 - Part A: Site Development & Distribution of Secure Tenure
 - Part B: Shelter Finance for Low-Income Communities
 - Part C: Capacity Building

Who are the DPUCSP target beneficiaries?

They are those characterized by a lack of basic assets to live a decent quality of life. They have...

Inferior Quality Housing



Limited or Lack of Access to Basic Services



Insecure Tenure



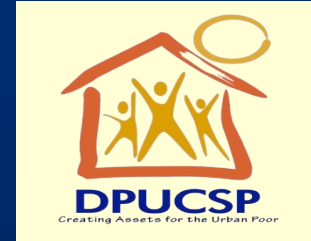
High Risk to Public Health



Irregular and Unstable Income



DPUCSP Targets



- **Poor communities in cities and municipalities outside Metro Manila are eligible to participate in the Project**
- **Under Part A, approximately slum upgrading and new site development subprojects in at least 20 local governments, will be financed and implemented over a 6-year period from 2004-2010, reducing urban poverty by an estimated 20,000 households**
- **Over the 6-year implementation period, about 2,300 home improvement loans, 10,000 microenterprise loans, and 12,000 housing loans channeled from the Development Bank of the Philippines to qualified MFIs**

DPUCSP Experience in Housing Microfinance

- Despite the enthusiasm of a number of MFIs to participate in housing microfinance as retailers through DPUCSP, many of them did not have the knowledge, systems, and capacity to undertake housing microfinance
- The wholesale bank did not have the appropriate incentive structure, organizational set-up, operating policies, and staff to implement the Project's housing microfinance component in a manner that adequately responded to demand
- After three years, about \$15 million dollars have been allotted to various MFIs under the Project. Disbursement, however, has been acutely slow.

DPUCSP Initiatives to Reduce the Transaction Costs of Housing Microfinance

- Housing Microfinance Product Manual
- Rights-Based Instruments as Collateral Substitutes
- Guaranty Mechanism for Housing Microfinance Loans
- E-Tools for Community-Focused Urban Poverty Reduction

POLICY IMPLICATIONS

- Policies to reduce the transaction costs of housing microfinance must be put in place
- Information and communications technology (ICT) applications should be developed
- Donor financing can be used to develop the systems and tools for housing microfinance
- Lessons learned must be transformed into knowledge and shared through housing microfinance networks



End of Presentation

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