Habitat for Humanity®

Center for Innovation in Shelter and Finance

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HOUSING MICROFINANCE CASE STUDIES of 11 HABITAT PARTNERSHIPS from AROUND the GLOBE

Cover photo: This family in the Dominican Republic was able to improve their house through a housing microfinance loan.

Introduction

Housing microfinance is the microfinance industry's well-tailored response to the vast and largely untapped housing market serving people with low or very low incomes, who are often referred to as "the base of the pyramid." Whether housing microfinance is pursued for business or social objectives, growing evidence suggests that applying it successfully is more complex and nuanced than initially perceived by many practitioners.

Since 2005, Habitat for Humanity has engaged in partnerships with microfinance institutions to increase access to affordable housing, supporting the development of housing microfinance coupled with nonfinancial services that contribute to durable, cost-effective construction. These efforts have resulted in more than 47 partnerships around the world, whereby Habitat has provided one or a combination of the following: institutional advising and training services to financial institutions, direct housing support services to families, and access to capital. Building on these experiences, Habitat launched the Center for Innovation in Shelter and Finance, or CISF, in 2011 to facilitate collaboration among public-, private- and third-sector actors in the market to develop sustainable and innovative housing solutions for lower-income populations. As part of its mandate, the center offers advisory services, engages in research and knowledge development, and promotes peer learning opportunities.

The center, with valued support from the Citi Foundation, sought to expand knowledge and learning in housing microfinance by documenting the experiences of 11 microfinance institution partners. These cases were selected to represent diverse approaches and experiences with housing microfinance product development. They were chosen from a variety of contexts, featuring 11 countries from four regions: Latin America, Africa, Asia and Europe. The cases portray microfinance institutions at distinct stages of housing microfinance product implementation and scale-up.

Housing microfinance refers to nonmortgage loans that are intended to finance home improvements, repairs and incremental building and are characterized by common elements of microfinance, such as:

- **Small loan amounts:** Financing a single improvement or step in a gradual construction process.
- **Short terms:** Generally between 12 and 36 months.
- **Market-based pricing:** Typically on par with other microfinance products.
- **Nonmortgage guarantees:** Such as co-guarantors or promissory notes, and accepting alternative proofs of land ownership from legal titles, such as purchase agreements or utility bills.

The center, by means of these 11 case studies, seeks to leverage its growing experience in housing microfinance to highlight relevant lessons and practices, including key elements of product development, nonfinancial "housing support" services that add value to housing microfinance, and the institutional implications for reaching scale. These case studies also serve as the basis for extracting relevant lessons and guidelines for practitioners and donors/investors. Each case contains comments on the following four topics:

Opportunities and constraints for housing microfinance

The cases each list contextual factors that either contributed to or hindered the development of successful housing microfinance products. While many of these coincide with conditions favoring or constraining microfinance more generally, findings specific to housing emerged relative to land tenure, vulnerabilities to natural disasters, cost of construction materials, and government housing programs, among others.

Housing support services: Do they add value to housing microfinance?

In most of the cases, nonfinancial services were offered in conjunction with housing microfinance, intended to increase the quality and reduce the cost of construction projects. These services, frequently referred to as housing support services, which include construction technical assistance, ranged in focus and intensity and were offered via a variety of delivery models. The cases highlight the perceived value of these services to clients and microfinance institutions, and assess the sustainability and scalability of their delivery alongside housing microfinance.

Housing microfinance product development: Key factors for success

Each case describes the development process that resulted in both financial and nonfinancial housing microfinance product design, along with comments on the impact this had on the product's performance. Results from the cases suggest that well-structured development processes led to more robust products, as evidenced by stronger performance and potential for scale. Thoughtful product development also facilitated the creation of niche products tailored to specific markets or construction projects.

Taking housing microfinance products to scale: Institutional commitment and capacity

Of the 11 microfinance institutions, six were poised to scale up housing microfinance, and one was already engaged in a nationwide rollout of its product. The key constraints to scaling housing microfinance as identified in these cases were access to appropriate capital and ensuring the financial sustainability of housing support services. The findings also reveal key institutional characteristics that facilitate reaching scale in housing microfinance and "promising practices" in housing microfinance product rollout.

The case studies also signal frontier issues in housing microfinance, where proven successes and relevant guidelines have yet to emerge. The provision of housing support services at scale emerged as a topic for further exploration, along with the effective engagement of other actors (such as material suppliers and vocational training schools) in providing services that add value to families' construction efforts. Study findings suggest that as microfinance advances into an era of greater financial inclusion and responsiveness to clients' needs and priorities, housing microfinance will likely ascend as a compelling prospect for financial institutions, social investors and — most importantly — families in pursuit of improved shelter.

These case studies were produced by Habitat for Humanity's Center for Innovation in Shelter and Finance.

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- The cases of UGAFODE (Uganda) and SELECT (Malawi) were elaborated with support from Jennifer Aguti (Habitat Uganda) and Happy Namwanza (Habitat Malawi), respectively. The case of Growing Opportunity was elaborated with support from Davidson Prince (Habitat India)

The CISF would like to acknowledge the contributions of the financial institutions portrayed in the case studies. Their willingness to share their experience is definitely making a great contribution to the advance of the housing microfinance sector.

The Habitat for Humanity Center for Innovation in Shelter and Finance is an initiative to facilitate collaboration among public-, private- and third-sector actors in the market to develop sustainable and innovative housing solutions for the 1.6 billion people worldwide who lack adequate housing.

The center initiative is a result of strategic planning that pointed Habitat toward working more catalytically to have greater impact and scale through the inclusion of market development approaches to increase access to affordable shelter solutions among lower-income populations.

The center offers advisory services, engages in research and knowledge development, and promotes peer learning opportunities.

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The cases were developed with the funding support of the Citi Foundation. The content of the case studies does not represent the opinion of the Citi Foundation and is solely the responsibility of the authors.

HOUSING MICROFINANCE WITH CONSTRUCTION TECHNICAL ASSISTANCE CASE STUDY:

ADOPEM Savings and Credit Bank

Table 1: ADOPEM performance statistics

ADOPEM	
Date of data	Sept. 30, 2012
Loans disbursed	465
Total disbursed	352,950
Average loan	$760
PAR (over 30 days)	0.39%
Active clients (housing)	220
Active portfolio (housing)	$222,300
% of total portfolio	0.3%

Executive summary

The Center for Innovation in Shelter and Finance from Habitat for Humanity International's Latin America and Caribbean area office, financed by the Citi Foundation, conducted a two-year project with four microfinance institutions[1] in the Dominican Republic to design and implement housing microfinance products and services for low-income populations. ADOPEM Bank was one of the partners in this project.

ADOPEM Bank (Banking for Women) was selected because it has:

1. Customer-oriented products and services.
2. Solid leadership and governance.

1. ADOPEM Bank, ADEMI Bank, ASPIRE Bank and FIME Financial.

This family in the Dominican Republic improved their house through a housing microfinance loan.

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3. The capacity and deep understanding of the microfinance sector and its environment.
4. Extensive experience in providing a variety of financial and nonfinancial products and services.
5. A record of promoting gender inclusion.
6. Penetration and reach in the marketplace, which makes the organization sustainable and attainable for clients.

Because of the quality of the technical assistance provided by the CISF, ADOPEM was able to design and launch a product with a high potential for success.

This project has provided valuable lessons that can be used in other contexts and has helped fine-tune institutional technical assistance processes and tools for the design and pilot testing of new housing microfinance products with construction technical assistance. It also has opened up opportunities and attracted other microfinance institutions interested in partnering with Habitat for Humanity Dominican Republic to carry out processes similar to those offered by the project's participants. In addition, it has opened the possibility of having the CISF continue to advise ADOPEM during its next phase of growing and expanding its housing microfinance product.

I. Introduction and case history

ADOPEM Bank and Habitat for Humanity International signed an agreement for technical assistance in September 2010 as part of the "Strengthening Systems for Housing

Microfinance in the Dominican Republic" project, which was sponsored by the Citi Foundation.

The agreement consisted of developing a housing microfinance product with construction technical assistance, training loan officers in basic construction technical assistance elements, systematically documenting the implementation of the project, conducting a survey regarding customer satisfaction, and identifying and creating a promotional video about successful cases of clients who received construction technical assistance.

The assistance provided by CISF focused on:

1. Coordinating, advising and providing access to financial sources for new product development.
2. Supporting and assisting with the planning, implementation, monitoring and evaluation of the pilot of the designed prototype (refer to Table 1).
3. Hiring the consultants needed for the project.
4. Extracting and disseminating knowledge to help improve the results of the pilot and the assistance offered by Habitat for Humanity Latin America and the Caribbean.
5. Documenting project experiences and the adjustments made to the methodology implemented by CISF in order to enhance the housing microfinance product development tool kit that CISF has developed based on its experience with more than 25 microfinance institutions in different countries and contexts.

The product developed was aimed at a market of families with an income between one and five minimum wages (equivalent to US$150.87 to $754.35) who are interested in gradually improving their homes and can access credit for this purpose, along with construction technical assistance from loan officers for minor or nonstructural improvements. Habitat for Humanity Dominican Republic provided support and training in the design of the construction technical assistance.

Box 1: The missions of ADOPEM and CISF

CISF: To serve as a place of knowledge, expertise, advice and innovation, enabling low- and very low-income families to acquire adequate housing.

ADOPEM: To promote the development of Dominican families by incorporating them into the formal economic and financial system needed by those who are socially and economically disadvantaged, within a framework of ethical values, seeking to benefit society in general.

Values: Efficiency, solidarity, perseverance, commitment, respect for human life, being service-oriented, providing quality service, creativity, adaptability, empathy, honesty and high performance.

This woman's house was improved thanks to a housing microfinance loan.


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II. Evaluation of the pilot project

1. Opportunities and challenges for housing microfinance

Opportunities

The microfinance industry in the Dominican Republic continues to grow, and so do the overall loan portfolios of the microfinance institutions working in the country. However, it is important to note that the average loan size per borrower has stayed relatively consistent over the years. This may indicate that microfinance institutions are targeting more — and generally poorer — clients in need of smaller loans versus fewer clients borrowing larger amounts. This constitutes a market opportunity for housing microfinance focused on progressive home improvements.

There is currently a significant lack of adequate housing in the Dominican Republic, mostly because of poor economic conditions and a surge in Haitian refugees after the earthquake in 2010. According to information collected by Habitat for Humanity, there is a deficit of 600,000 housing units in the country, 55 percent of which is poor quality housing rather than homelessness. As a result, there has been a strong push among the country's microfinance institutions to offer housing loans to clients.

Several large programs have begun to support this sector in an attempt to help boost the availability of housing loans. Patrimonio Hoy, the housing microfinance program of CEMEX, has extended a program to five countries in Latin America and the Caribbean, including the Dominican Republic, to offer a partial credit guarantee of up to US$10 million from the Inter-American Development Bank and to help more than 750,000 people throughout the region finance their home. In 2009, the Development Innovations Group was contracted by the Agence Française de Développement to deliver a weeklong training course on housing microfinance to Dominican microfinance practitioners. The course, presented in Spanish, provided a general mapping of the state of practice for housing finance for clients, along with the challenges facing many practitioners within the field. In addition, ACCION, a major player in the microfinance industry, has placed a growing importance on access to housing loans for microfinance clients. As of 2008, ACCION's Latin American and Caribbean housing loan portfolio was more than US$230 million, with nearly 108,000 borrowers. Building on the existing microfinance infrastructure and delivery system has made housing loans an important aspect of the overall microfinance industry of the Dominican Republic.

Challenges

CISF's recent assessment of the pilot project carried out with ADOPEM highlighted the access to appropriate capital funds as an important challenge faced by microfinance institutions looking to expand their housing microfinance portfolio. Another — intimately related — challenge is the high demand for local currency loans, making it very difficult to place funds in a foreign currency (such as U.S. dollars). This entails additional challenges, such as the management of foreign exchange risks and defining strategies to eliminate or reduce said risks (hedging).

2. Product development: Key factors of success and failure

The Center for Innovation in Shelter and Finance contributed a clear methodology with a systematic four-stage process. The first stage, the institutional evaluation and preparation of the project, began in September 2010 with the signing of a cooperative agreement and a project work plan and the establishment of each organization's role. During the second stage, a market study was carried out during October 2010 and January 2011 — along with a market-mapping exercise that identified the players in the housing sector — in order to identify the general characteristics of the target population and the current offer for housing microfinance products and services, in addition to the role each player has in the housing industry (including local government, material suppliers, builders, technical institutions, etc.). Once all the information was analyzed, a qualitative market study of the community of Sabana Perdida was carried out, following the CISF's methodology. The housing microfinance and construction technical assistance product was designed and validated based on this study. The pilot project was launched in April 2011 and ran for nine months, during which the CISF provided support and bimonthly monitoring.

> *"The transfer of technology, training and empowerment that we have received from Habitat has been very useful in benefiting low-income families in the improvement and extension of their homes within our credit program."*
>
> ***— Mercedes Canalda, vice president of business, ADOPEM***

Table 2: Housing microfinance product prototype — ADOPEM

ATTRIBUTE	DEFINITION OF THE ATTRIBUTE
Population	Families with an income between two and five minimum wages (average of US$162)
Product	• Individual credit for home improvement, repair, extension and completion. • Loan ranges between US$248 and US$3,727. • Payment frequency is monthly. • Payment period is six to 36 months. • Fiduciary guarantee. • Document that validates property ownership, identification and a residence of at least two years.
Price	Twenty percent for clients up to five days overdue or repeat clients; 26 percent for new or regular clients. Effective rate of interest: 28 percent per annum.
Place	Existing offices and agencies across the country.
Personnel	• Credit analysts. Support the design of the "Progressive Home Improvement Plan." • Consultation with an engineer will be offered in cases involving structural improvements and additions.

The ADOPEM Bank not only met but surpassed the pilot project's goal of 150 disbursements, reaching 465 disbursements. With the partnership, ADOPEM was able to strengthen its existing product, which resulted in significant growth in its housing loan portfolio (an increase of 70 percent in 2011) and a portfolio of very high quality (0.39 percent PAR over 30 days). Furthermore, although traditional methods such as loudspeakers, press releases and launch activities were used to promote the product, it was confirmed that "word of mouth" is still the primary means of promotion to obtain new clients.[2]

In addition, the product allowed for flexibility in some of the requirements needed to access a home loan, such as the documents that could be presented to validate land ownership. Before, only the property deed was accepted. This change helped to extend access to clients who did not have deeds on the properties but did have other types of secure tenure.

During interviews, the majority of the loan officers reported the product was being used for its intended purpose and was a contributing factor in raising the level of customer satisfaction in the services and products offered by ADOPEM.

Moreover, with the coordination and technical assistance provided by Habitat Dominican Republic, they actively offered construction technical assistance for structural improvements. Habitat acted as an external provider of construction technical assistance services from the diagnostic and design process of the construction to be carried out to the final visit upon its completion.

2. Data obtained from interviews carried out during the systematization of the project, conducted with loan officers from the Sabana Perdida Branch of the ADOPEM Bank in June 2012.

BOX 2: Role of partner organizations during the pilot project

Habitat for Humanity Latin America and Caribbean's role:

- Assist ADOPEM in market research and product design.
- Support and implement the housing microfinance product with construction technical assistance.
- Assist ADOPEM in the development of educational and promotional materials.
- Train ADOPEM personnel in the construction technical assistance component.
- Assist with the hiring and training of the construction technical assistance provider.
- Monitor and evaluate the project.

ADOPEM's role:

- Offer housing microfinance loans.
- Hire the construction technical assistance provider.
- Make decisions along with Habitat for Humanity Latin America and Caribbean about changes in the product or the process flow.
- Submit quarterly and semiannual reports to Habitat for Humanity Latin America and Caribbean.
- Guarantee the client's capacity to pay the loans as a condition for loan approval.

3. Construction technical assistance

The microfinance institution highlighted the value of the training provided by CISF for loan officers in order to offer construction technical assistance. It mentioned, in particular, the guidance provided by CISF on progressive housing and the need to divide the construction into workable stages, in line with the clients' economic capacity. Construction technical assistance strengthens the relationship between loan officers and their clients and is considered a valuable component that helps loan officers even in their personal home improvement projects.[3] In interviews, loan officers had positive things to say about the training they received on how to evaluate a construction budget and about the basic guidance on construction. ADOPEM Bank has a culture of continual training and learning and is known for its dedication to training loan officers.

To introduce the housing microfinance with construction technical assistance product, ADOPEM included a two-day training course for its loan officers, designed and carried out by bank personnel. The course was divided almost evenly in two to cover guidelines regarding the financial product and construction technical assistance issues, such as building permits and standards, analysis and assessment of construction budgets, and calculation and conversion factors. ADOPEM is very meticulous about its training processes. It stays current on the latest information by purchasing and circulating the local guide on the cost of construction materials, to ensure that it is always working with the updated prices.[4] It is aware that its loan officers must have an academic level that allows them to carry out calculations associated with construction budgets. Based on its experience, ADOPEM believes that a loan officer needs to process at least 10 housing microfinance loans in order to master the methodology, particularly the construction technical assistance component.

3. Data obtained from interviews carried out during the systematization of the project, with loan officers from the Sabana Perdida Branch of the ADOPEM Bank in June 2012.
4. The publication is called "Guía para el análisis de costos de edificaciones e índice de precios en Santo Domingo, Rep. Dominicana" ("Guide to construction cost analysis and price index for Santo Domingo, Dominican Republic")

4. From pilot project to wide-scale implementation: Institutional commitment and capacity

ADOPEM Bank has clearly demonstrated its desire to "massively"[5] expand its housing microfinance product, emphasizing the product's social impact. After the success of the pilot project, ADOPEM Bank decided to incorporate and extend the housing microfinance with construction technical assistance product to all of its agencies and branches, fulfilling one of the expectations that the CISF had for this project.

ADOPEM has also designed strategies to overcome the challenge regarding access to working capital to finance home improvements accompanied by construction technical assistance. Among these are:

1. The creation of strategic alliances to leverage financial resources.
2. The creation of a second-tier fund between Habitat Dominican Republic and ADOPEM to finance loans for home improvements or progressive improvements.
3. Through the "Strengthening the Value Chain of Housing Microfinance" project sponsored by the Citi Foundation and led by CISF, a series of strategic partnerships have been identified and designed among building materials suppliers, microfinance institutions that provide financing, and Habitat for Humanity Dominican Republic as a provider of basic and structural construction technical assistance.

It is expected that these strategies will help achieve the goal of assisting 5,000 clients — approximately 10 percent of the total portfolio in value and 3 percent in number of clients — in five years.

5. "Massify" ("*masificar*") is the term commonly used by microfinance institutions in the Dominican Republic to mean "expand at a national level," etc.

Table 3: Simple calculation of funding required by ADOPEM

Projected growth target (five years)	5,000 active clients
Additional capital needed	$4,829,973
Funding opportunity (80 percent of additional capital needed)	$3,863,978

III. Key lessons

Construction technical assistance

- The importance of construction technical assistance is acknowledged, as is the value that Habitat provides by offering these specialized services to clients. But these services are being subsidized, and the microfinance institution is not prepared to bear their cost during the expansion stage of the housing microfinance with construction technical assistance product. It is necessary to find other ways to reduce the cost of the construction technical assistance component, such as through partnerships with building materials suppliers, thus obtaining favorable conditions for clients.
- It is important to include the cost for construction technical assistance within the amount of the credit or to use other sources to finance this component in order to massively expand the product.

This woman and her grandson live in a house that was improved through a housing microfinance loan.

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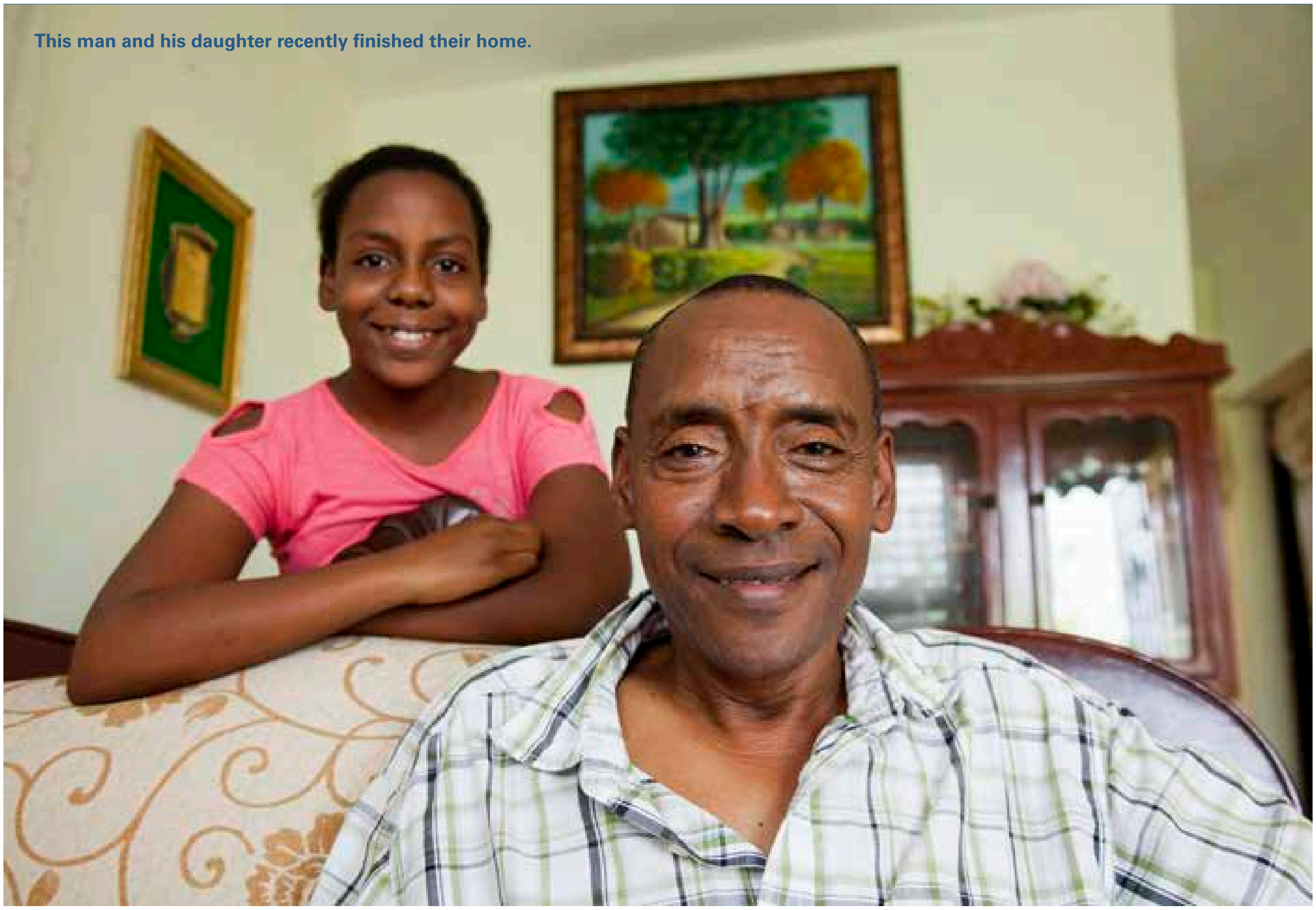

This man and his daughter recently finished their home.

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Institutional technical assistance to massively expand the housing microfinance product

The microfinance institution recognizes that increasing its housing microfinance products beyond the pilot project will require an expansion plan with several components, including geographic prioritization, training of personnel, a promotion strategy, and follow-up from the main office.

IV: Conclusion

This project has unveiled a series of achievements throughout its execution. The aspects that stand out the most are the quality of the technical assistance provided by Habitat's CISF and the excellent selection of ADOPEM, which succeeded in designing and launching a product with great potential for success. Moreover, now that the pilot project has concluded, the microfinance institution feels empowered and motivated to expand and increase its housing microfinance with construction technical assistance product.

This project has provided valuable lessons that can be used in other contexts and has helped fine-tune institutional technical assistance processes and tools for the design and pilot testing of new housing microfinance products with construction technical assistance offered by the Center for Innovation in Shelter and Finance. It has also attracted the interest of other microfinance institutions to partner with Habitat for Humanity Dominican Republic as the provider of construction technical assistance services for the families, and opened the possibility for the CISF to continue advising ADOPEM during the next phase of growth and expansion of its housing microfinance product.

As stated by a microfinance institution employee, "We learned from the heart of Habitat."

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Key links:

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HOUSING MICROFINANCE WITH CONSTRUCTION TECHNICAL ASSISTANCE CASE STUDY:

LOK Microcredit Foundation

Executive summary

A number of important lessons emerged from the collaboration between Habitat for Humanity International and LOK Microcredit Foundation to pilot integrated housing microfinance solutions in Bosnia. This initiative represents Habitat's new strategy of delivering integrated housing microfinance products in partnership with microfinance institutions. Throughout the pilot, key lessons emerged on the value of well-defined relationships not only between the project partners, but also between each partner and the clients themselves. These lessons are relevant not only to the project partners, but also to all of Habitat and the microfinance practitioner community.

I. Introduction

This case study presents key lessons arising from the partnership between Habitat for Humanity International's Europe, Middle East and Africa office and LOK Microcredit Foundation Sarajevo (Bosnia and Herzegovina), which was established to deliver holistic housing microfinance services to low-income clients.

The relationship between the project partners stemmed from an initial contact at the 2008 Microfinance Centre Network annual conference. With support and guidance from Habitat Europe, Middle East and Africa, LOK conducted market research and reviewed the results of client satisfaction studies to understand the potential for offering housing loans.

Box 1: Two mission-driven organizations

Habitat for Humanity International's mission: Seeking to put God's love into action, Habitat for Humanity brings people together to build homes, communities and hope. We put faith into action by helping to build, renovate or preserve homes, and by partnering with others to accelerate and broaden access to affordable housing as a foundation for breaking the cycle of poverty. In all of our work, we will seek to put shelter on hearts and minds in such powerful ways that poverty housing becomes socially, politically and religiously unacceptable.

LOK's mission: To continuously provide a wide range of microloan products and services to the economically less-developed population categories that will enable them self-employment, soundness, financial stability, increased income, an improved standard of living, and involvement in sound market competition. LOK serves its clients by offering agricultural loans, business loans and general consumption loans.

In general, offering housing microfinance represented an opportunity for both partners to fulfill their social objectives (see Box 1) while creating a niche product to respond to market demand that was (at the time) unmet by other microfinance institutions. Based on their research, the partners worked together to define two distinct loan products: a general renovation loan and an energy efficiency renovation loan. Each product has integrated construction technical assistance support, which is available to clients for free. These two products were piloted over a 12-month period ending December 2011. By August 2012, LOK's housing portfolio was serving 1,488 clients — 60 percent of them male clients. Of these, 43 percent were general renovation loans, and 57 percent were energy efficiency loans.

This case reviews the opportunities and challenges the pilot faces, presents details of the housing microfinance product (along with key success factors for product development), and considers the potential to take the product to scale. Finally, it presents a series of lessons learned, which will be useful not only to the project partners but also to other Habitat for Humanity country and regional offices.

II. Evaluation of the pilot project

1. Opportunities and challenges for housing microfinance in Bosnia

Opportunities

The high level of demand for housing microfinance in Bosnia stems from the fact that nearly 38 percent of the total housing stock (in both public and private ownership) was damaged or destroyed during the 1992-95 war. Since that time, despite significant reconstruction efforts facilitated by donor support, approximately 40 percent of destroyed or damaged homes remained unrepaired[1]. This trend is reinforced by LOK's own portfolio analysis, which at that time saw up to 20 percent of general consumption loans being used for housing purposes, along with market research indicating a demand for targeted housing loans. At the time, there was also a lack of competition in the housing microfinance market (although this has since changed to a certain extent, with other microfinance institutions starting to offer niche products such as financing for solar heating panels). Finally, an increasing awareness of the importance of energy efficiency — not only in terms of the cost of heating, but also in terms of comfort and climate change — highlighted a clear opportunity to provide targeted renovation loans.

Both Habitat and LOK recognized the potential synergies a collaborative relationship might generate. Each brought unique strengths to the table: Habitat Europe, Middle East and Africa contributed its technical know-how in housing development, along with the collected wisdom gained from similar microfinance institution collaborations in the past. As LOK marketing manager Melnisa Begović noted, "One of the most helpful aspects of this collaboration was HFH's readiness to share knowledge and experience from their other projects." At the same time, LOK came to the partnership with a strong position within the Bosnian marketplace. With more than 33,000 clients and a gross loan portfolio of more than €32 million (US$41.8 million) in 2010, LOK ranked in the top 5 microfinance institutions by size.[2] It also counted on a professional approach to product development and a strong commitment to both its mission and to customer service.

More specifically, this partnership presented LOK an opportunity to leverage Habitat's existing relationships with investors. According to Marina Yoveva, program development manager for Habitat Europe, Middle East and Africa, Habitat created the link between the investor and LOK. "Our participation in the project was a requirement of the investor. They wouldn't give the money if Habitat wasn't involved."

Challenges

Despite this strong existing relationship with the investor, the first hurdle faced by the project was a difficulty in raising timely capital to fund the pilot phase. Based on LOK's market research and the work of the partners to define the product offering, a proposal was submitted to the Dutch International Guarantees for Housing Foundation, or DIGH, in July 2009.

> *LOK's strength in marketing and promotion meant that it knew what needed to be done to position itself effectively in the housing loan market.*

By September 2009, DIGH's credit committee had approved the project, but because of the global economic downturn and DIGH's lengthy application and negotiation procedures, the process of finding a guarantor took until June 2010. Funding — €1 million (US$1.31 million) — was finally secured in September 2010.

1. According to the "Comparative Analysis on Access to Rights of Refugees and Displaced Persons," by the Bosnia and Herzegovina Ministry for Human Rights and Refugees.

2. LOK has largely recovered its position of strength since the crisis.

This woman's house in Bosnia-Herzegovina is being improved through a housing microfinance loan.

HFHI/EMEA

More directly, the partners saw challenges at the client level: the low levels of clients' income; their low credit absorption capacity; and, often, their lack of the knowledge and skills required to successfully undertake building projects and plan their finances. In response, LOK's construction technical assistance support mechanism offers clients budgeting and planning support where required.

2. Product development: Key factors for success or failure

Habitat for Humanity brought a clear and well-defined product development process to this collaboration. The framework includes four steps: institutional evaluation and project preparation, market research, product and service prototype design, and pilot testing. The design phase looks not only at market demand, but also at the institutional capacity to bring the product to market, and the microfinance institution's main competitive advantages. As Begović noted, "We took these steps very literally; it was a very helpful framework."

As a first step in the market research process, LOK collected secondary data to get a general picture of the Bosnian market in late 2008. This was followed by a survey of current clients in February 2009. Using a self-completed survey form, LOK collected responses from 567 current clients (approximately a 23 percent response rate against its initial sample). Forty-three percent of respondents were female. Sixty percent of respondents indicated that they typically financed housing renovations or purchases from their regular income, while 32 percent relied on loans. Seventy-five percent expressed interest in loans for purchasing or building new homes, and an overwhelming 95 percent said they would be interested in housing loans for renovation purposes. The most common renovations clients were interested in were to the façade, heating system, flooring and roof. Clients also indicated they wanted to solve issues with water supply, electrical installations, windows and bathrooms. In terms of loan size, approximately a third of respondents indicated a preference for loans of between €511 and €2,556 (US$668 to US$3,339), while another third would like to see loans of between €2,556 and €6,135 (US$3,339 to US$8,015).

LOK drew on these insights to develop its product offering, with the support of Habitat. It launched a general housing renovation/purchase loan and an energy efficiency loan, which were similar in all respects to the general housing loan, save the slightly lower interest rate. Importantly, LOK

Box 2: Creating clear roles for partners

Habitat Europe and Central Asia's role:

- Assist LOK in developing educational and promotional materials.
- Train LOK staff on the construction technical assistance component.
- Assist LOK in market research, product development and loan application procedures.
- Assist in hiring/training the construction project manager.
- Provide project monitoring and evaluation.

LOK's role:

- Provide housing finance loans.
- Hire the construction project manager.
- Make decisions jointly with Habitat on changes in product/process flow.
- Submit quarterly and six-month reports to Habitat for Humanity International.
- Ensure clients' loan repayment capacity as a condition for loan approval.

offers a lower interest rate than other Bosnian microfinance institutions involved in housing microfinance.

Table 1: Key features of LOK's housing loans

FEATURE	HOUSING REPAIR/ RENOVATION LOAN	ENERGY EFFICIENCY LOAN
Amount	€250-5,000 (US$327-6,532)	
Term	3-60 months	
Grace period and repayments	6 months, monthly	
Monthly payment/ income ratio	33%	
Interest rate*	1.98% monthly (declining)	1.78% monthly (declining)
Commission fee	2%	
Collateral	Promissory note, guarantors including co-signatories and salary deductions, asset pledge.	Promissory note, guarantors including co-signatories and salary deductions, asset pledge. Estimated invoice for labor or procurement notes; copy of energy label for appliances.

**LOK has since lowered the interest rates on its general and energy efficiency loans to 1.78 percent and 1.6 percent monthly, respectively.*

When thinking about the success of the product development phase, LOK also points to contributing factors, including:

- **Precise product definition:** LOK's housing loan products are well-positioned among its entire portfolio. Because they are targeted for a distinct purpose, and loan use monitoring is easy to achieve, they don't "compete" with LOK's loan products. A lower interest rate (compared with other loans) also facilitated product rollout (which was due to LOK's product development strategy and the favorable rates available from DIGH).
- **Clear and consistent staff training before the product's launch (and staff incentives):** This ensured that loan officers took up the product. At first, loan officers were concerned that the new housing product would be too complex to implement. But the housing loan saw a faster uptake than past products because of the clear positioning of the loan and the fact that the application and approval procedures did not differ radically from those of LOK's other products. It quickly became "business as usual."
- **Effective marketing strategy to ensure client uptake:** Drawing on its existing strengths in marketing and promotion, LOK used multiple channels to create product visibility, including posters, newspaper advertisements and fliers. Interestingly, LOK found that as the pilot progressed, word-of-mouth promotion played a big role in bringing new clients in the door.

Importantly, LOK's housing products have a clearly defined target group: families with a monthly household income of €150-1,020 (US$196-1,333), which is consistent with its targeting strategy across the entire portfolio. The majority of housing clients are expected to have a monthly household income of €500-770 (US$653-1,006). The pilot evaluation found that the target range guidelines were, in the main, consistently applied. The average monthly income of families sampled was around €600 (US$784). However, because of a few cases in which loans were approved for higher-income clients, LOK is also considering whether to lower the upper income bracket for its targeting. To improve its targeting, it is also considering moving to an "income per capita" measure, rather than "income per family," and accounting for alternative sources of income (informal income, remittances, inheritance and savings).

3. Construction technical assistance

Construction technical assistance is included in each housing loan product, provided free to clients. The design of this component is based on market research, staff feedback from trainings, and input from Habitat. The construction technical assistance is financed by LOK, which provides 1 percent of the total loan amount to Habitat for Humanity Europe, Middle East and Africa to cover a portion of the cost of staff training and support. There is one construction project manager, trained by Habitat, who is based in LOK's offices on a part-time basis (20-30 hours per week). She supports loan officers through:

- Reviewing the loan application and analysis of the housing intervention planned by the client.
- Monitoring and evaluating the quality of clients' housing projects.
- Monitoring and evaluating the construction support provided to clients by the loan officers.

The loan officers send completed applications to the construction project manager by email, who reviews them and provides advice by email within 24 hours. Particular focus is on whether all materials are planned for and whether the budget is correct. Any additional clarifications the loan officer needs are also addressed by email, again with a 24-hour turnaround. When a number of clarifications are needed, the fact that the construction project manager is working only part time has caused delays in the loan approval process.

There are also written technical support manuals covering four common topics: bathroom renovations, thermo insulation, doors and windows, and health and safety. These manuals, which were jointly developed by Habitat and the construction project manager, are available to all clients for free, but they are handed out only when the loan officer determines that the client might need them. Although loan officers are obliged to visit clients at the time of application and periodically throughout the loan period, there is currently no mechanism whereby the construction project manager routinely visits the building site or interacts directly with each client. However, she does visit a random sample of clients (up to 5 percent) to ensure the quality of work completed, give additional guidance, etc.

The pilot evaluation revealed that nearly 98 percent of clients surveyed were satisfied with the service they'd received from LOK. All surveyed clients who received construction technical assistance found it useful, and where the technical advice was followed, it resulted in cost savings and improvements in material and method selection. However, only 45 percent of these clients had actually received advice, and only 16 percent had received a copy of the construction guide. As Begović explained, "Together with Habitat, we concluded that Bosnia and Herzegovina is a specific case" when it comes to accepting construction advice. Many clients already have the skills to undertake the project or know someone who can do it for them. "In such cases, our construction technical assistance is a recommendation, but we don't find that they always accept the advice that we give," Begović said.

Based on the results of the pilot, LOK has restructured its construction technical assistance offering in an attempt to streamline it. Habitat has trained 20 LOK loan officers to provide construction technical assistance for loans up to €1,500 (US$1,960) for the three most common types of interventions — door/window replacement, bathroom/kitchen repairs and flooring — seeking construction project manager input where needed. These 20 loan officers will, in turn, train the rest of LOK's frontline staff. The remainder of the construction technical assistance (for larger and more complex projects) is still provided by the construction project manager. LOK is also looking to hire additional construction project managers in order to reduce delays in the loan approval process.

4. Taking housing microfinance to scale: Institutional commitment and capacity

Both project partners are committed to scaling up the housing microfinance products developed in this pilot project. The experience highlighted a clear demand for housing microfinance, along with the potential for sustainable delivery. At the moment, housing loans represent 6 percent of LOK's overall portfolio, and LOK is committed

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This house is in the process of being improved.

to increasing this to 10 percent by the end of 2012. In the long term, it wants to increase housing to 15 percent of its portfolio. The institution has the required capacity in place, both in terms of infrastructure and management systems.

At the present time, no funds have been identified for product scale-up. As Yoveva noted, "We are trying to get more funding. LOK's product has met with very good market demand, and their housing portfolio is growing. However, Bosnia is considered a risky market. We had an understanding with DIGH that there would be follow-on funding, but the Netherlands has their own problems right now, and they can't deliver at the moment. Therefore, we are looking for alternative funding sources."

A key consideration for taking this product to scale is the issue of sustainability, particularly in relation to the provision of construction technical assistance. Currently, this service is provided free to the client, although construction technical assistance does represent an operational cost for LOK. In the future, LOK is looking for an effective means of streamlining the product (by making efficiency gains), or even potentially cross-subsidizing with its other products.

A final potential barrier is the issue of regulation. Local laws prohibit microcredit foundations (such as LOK) from offering loans in excess of €5,000 (US$6,532) (although this cap does not apply to microcredit companies). Although this cap presented no impediment to the pilot phase (in which loans averaged €1,250-1,440 (US$1,633-1,881), in line with average loan size across its entire portfolio), it could limit the potential for future expansion. In response, LOK is supporting an advocacy initiative to lobby the government around raising this cap — and has also started looking at offering incremental building loans. The latter, in particular, would help clients achieve longer-term projects with a series of loans under the legal limit.

III. Key lessons

Establishing a strong relationship among partner organizations

The pilot project highlighted the importance of devoting effort to establishing a strong working relationship among organizations. "Building relationships takes time," Yoveva advised. "First you have to create collaboration at the project management level — where the nitty-gritty work happens. You also need links at the senior management level, including a clear and simple escalation mechanism, whereby any operational stumbling blocks can be addressed quickly."

More broadly, Yoveva pointed to the importance of a shared understanding of what form the relationship between Habitat and the microfinance institution takes. In this case, she noted that LOK tends to view Habitat as more of an investor, whereby Habitat aspires to be considered a partner. Her reasoning was this: "Our goal is to improve housing conditions for low-income people. We want our partnerships to result in vision alignment and for the microfinance institution to embrace housing as part of their own core strategy — so that even when the partnership comes to an end, they're still working towards those shared goals. In this way, partnerships are a good way of leveraging our limited resources for bigger impact — and also creating broad awareness around the problem of inadequate housing."

Getting the relationship with clients right

From Habitat's perspective as technical support provider, there is an important distinction between considering the microfinance institution as its "client" and seeing its relationship as being with the end users (the microfinance institution's clients) themselves. In the case of LOK, Habitat for Humanity Europe, Middle East and Africa's focus was on supporting LOK's loan officers and the construction project manager (a formal employee of LOK), and LOK (through its loan officers) bore sole responsibility for the client relationship. This distinction is worth noting because, as a mission-driven organization, Habitat cares about its clients. This is why targeting requirements were agreed on up front. However, Habitat's only direct contact with clients came during routine project evaluations (midterm and final).

In this way, there is a potential challenge for Habitat to have a regular and clear understanding of the clients, their needs, and how they are using and benefiting from the product (especially the construction technical assistance). More broadly, the lesson for future Habitat projects is that the dynamics of the relationship with the end users (clients) need to be considered and agreed on up front, and whoever is entrusted with this relationship needs to ensure that client feedback is regularly communicated between both partners. As Yoveva explained, "Will this relationship change in future? Yes and no. In terms of our technical advisory services, LOK will be the client. However, for us to develop our know-how, we need regular contact with the client. It's essential for helping us identify demand and know what changes are needed so our services remain relevant to the end clients and to the MFIs."

For the microfinance institution, there's a key choice to be made in terms of how it approaches its relationship with clients. It can either approach clients with a limited vision of funding short-term building projects, or with a long-term vision as a partner over the entire life cycle of a family's efforts to improve their living conditions. In this way, the relationship need not be confined only to the term of the loan, but can extend across many loans. Shifting to a broader conceptualization of a microfinance institution's relationship with clients, however, would require it to have an insight into the whole range of clients' needs and projects, not just those related to one particular loan. It would require them to offer budgeting, planning and technical support where needed. For an organization that strongly emphasizes customer service and the client relationship, this "partnership" model presents a clear opportunity to deliver real value to clients.

Getting the timing right

Another key lesson emerging from this experience is how the partners respond to the seasonality of demand. Given that LOK was dependent on external funding to launch the housing product, it did not have control over when the funds would be disbursed. In the pilot, the funding was made available in September. "Launching this product in the winter showed that we had unrealistic expectations," Yoveva noted. "Housing construction is seasonal, so you should launch a new product in early spring. However, winter is a really good time to start preparing for launch — getting the product right, training your staff, getting systems in place, and doing your promotion." LOK experienced a slower-than-anticipated uptake at the start of the pilot, but the rate picked up once spring arrived.

The daughter of the Karovik family plays in front of their house, which has been improved through the support of a housing microfinance loan.

HFHI/EMEA

IV. Conclusion

This case study has been written to present lessons emerging from the collaborative relationship between LOK Microcredit Foundation and Habitat for Humanity Europe, Middle East and Africa, which was established to pilot the feasibility of delivering housing microfinance products to the Bosnian marketplace. The pilot was met with both healthy demand and generally positive feedback from clients. The project represents the approach of Habitat to the technical assistance side of the product, but the microfinance institution will be going through a process to learn more about what is working and what is not working, and might revise its approach in the future.

A number of key lessons arose from this experience, which are valuable not just for the pilot collaborators, but also for the wider Habitat and microfinance community. These lessons mainly revolve around an often-intangible (yet vital) aspect of field operations: creating effective relationships. From creating a strong working relationship among partners to effectively calibrating both partners' relationships with the end users (clients), it is clear that it is worth the time to agree, develop and maintain the links that will underpin future scale-up of this initiative. Knowing your partner's strengths and your customers' needs is the key to success.

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Key links:

Habitat for Humanity Europe and Central Asia: habitateurope.org

LOK Microcredit Foundation: lok.ba

LOK on the MIX Market: mixmarket.org/mfi/lok-microcredit-foundation

DIGH: digh.nl/index.php?language=en

HOUSING MICROFINANCE WITH CONSTRUCTION TECHNICAL ASSISTANCE CASE STUDY:

CRECER

This family in Bolivia is getting help building their house through a housing microfinance loan.

ADRIANA LLORCA/HFHI

Executive summary

This case study presents the lessons learned within the framework of a technical alliance among the microfinance institution CRECER in Bolivia, Habitat for Humanity International's Center for Innovation in Shelter and Finance in Latin America and the Caribbean, and Habitat for Humanity Bolivia. This alliance, which was established to address the qualitative housing deficit of CRECER clients, sought to leverage the skills and expertise of each organization and enable the development of a housing microfinance product with construction technical assistance that is relevant and appreciated by the target population. The Center for Innovation in Shelter and Finance, or CISF, provided technical assistance to help design a housing microfinance product with construction technical assistance, and supported the implementation of the pilot project and the systematization of the experience. Habitat Bolivia provided expertise in the implementation of the construction technical assistance model by assisting some clients directly and by training and supporting the loan officers of CRECER in offering basic construction technical assistance. CRECER contributed its understanding of the context, its relationship with the target population, a team dedicated to the product development and pilot implementation, and the capital needed for the pilot project.

Table 1: Housing product performance indicators (October 2012)

Launching date	November 2011
Loans disbursed	196
Total disbursed	US$633,000
Portfolio at risk over 30 days	0%
% of total portfolio	0.55%

Several lessons in building a strong relationship among different actors came up during the development of this pilot project, and they may be useful for other organizations interested in forming strategic alliances to develop new housing microfinance products. The most important lessons are related to leadership and monitoring during the pilot project. Being able to count on leaders from both Habitat and CRECER who are committed and focused has facilitated the acceptance of the product at an institutional level, in addition to helping the implementation of the pilot project. Timely and opportune monitoring throughout the implementation of the project helped minimize the risk of diversion, achieve the placement targets, and allow for the prompt adjustment of both the financial product and the construction technical assistance services. So far, CRECER, CISF and Habitat Bolivia are satisfied with the results of the pilot project and are working together on a plan to massively expand the product in 2013 by leveraging a loan that CRECER just received from MicroBuild[1].

1. MicroBuild is a social investment fund, majority-owned by Habitat for Humanity International, to mobilize capital to invest — primarily debt — in sustainable housing finance products for very low-income households in developing countries. The fund is a demonstration fund, the first of its kind to act as a global investment vehicle for affordable housing.

I. Introduction

This case study presents lessons from the technical cooperation of CRECER, the CISF and Habitat Bolivia in designing and implementing a housing microfinance product with construction technical assistance for CRECER clients belonging to the group lending methodology known as village banking.

The partnership between the Multilateral Investment Fund of the Inter-American Development Bank and Habitat for Humanity International has resulted in a project designed to help reduce the qualitative housing deficit among low-income populations in Bolivia and Peru.

CRECER, one of the two institutions chosen in Bolivia, is the third largest institution in the country, with high financial and social performance indicators (see Table 2) that have earned several national and international awards. On Nov. 30, 2012, the institution had a loan portfolio of more than US$114 million, 128,523 clients and overall delinquency of 0.74 percent. The institution's philosophy seeks the well-being and development of Bolivian women, especially those with fewer economic opportunities, promoting financial access to a population traditionally excluded from traditional banking, which is directly in line with the corporate vision of being a "microfinance leader renowned for its commitment to provide women and their families with opportunities for a better life." Furthermore, this institution offers nonfinancial educational components for each of the financial products. Besides its indicators, it was attracted to the project because of its desire to include a housing finance product as part of a growth strategy alongside the housing needs already assessed among its clients.

Table 2: CRECER financial and social performance indicators[2] (December 2011)

Gross loan portfolio (millions of US$)	90.8
Number of active borrowers	120,183
Average loan balance per borrower	755.2
Assets (millions of US$)	100.0
Equity (millions of US$)	24
Percentage of female borrowers	87.21%
Clients below first poverty line	41%

2. Source: mixmarket.org/mfi/crecer

This woman and her children recently improved their home thanks to a housing microfinance loan.

ADRIANA LLORCA/HFHI

Box 1: Mission of CRECER, the CISF and Habitat Bolivia

CRECER: Provide comprehensive financial products and nonfinancial services that improve the quality of life, preferably for women and their families, with excellence and warmth.

CISF: Serve as a place of knowledge, expertise, advice and innovation, enabling low- and very low-income families to acquire adequate housing.

HABITAT BOLIVIA: Eradicate subhuman housing in Bolivia by building simple, adequate and affordable housing.

Despite its desire to include housing microfinance products, CRECER was not sure how to develop a comprehensive housing product that could meet the needs, preferences and capacities of its clients while complying with the requirements established by the institution.

CRECER took on the housing microfinance project with enthusiasm and a high level of commitment toward providing construction technical assistance, as it already had experience in providing nonfinancial services. From the beginning, CRECER recognized the advantages of the construction technical assistance component as a distinctive service to complement the loan. The microfinance institution endeavored to fully comply with all project plan objectives during the pilot period, including placement goals and developing a construction technical assistance model that would provide an added value for clients in improving their homes.

II. Evaluation of the pilot project

1. Opportunities and challenges for housing microfinance

Opportunities

Bolivia has high poverty rates and presents vast differences within the living conditions of high- and low-income populations. According to projections made by the National Institute of Statistics and Census in 2006, the country has 9.4 million inhabitants, 61 percent of whom live in urban areas and 39 percent of whom live in rural areas. The housing deficits affect the most vulnerable urban and rural populations and are expressed in an absolute lack of housing (quantitative deficit) and inadequate housing (qualitative deficit). The qualitative deficit of the country is approximately 1 million homes, and the quantitative deficit is estimated at 200,000 housing units. This very large qualitative deficit has resulted in the demand from low-income families for progressive housing solutions, which is consistent with the perception presented by the microfinance institutions interviewed for this project. A vast majority expressed their clients' specific request for home improvement loans, and many had already confirmed the diversion of productive loans for home improvement. These statements are a reflection of the country´s housing statistics and, ironically, represent a big opportunity for the development of housing microfinance programs.

In this context, housing microfinance is an alternative of great potential to support a large number of low-income families to improve and gradually build adequate housing.

Challenges

Bolivia maintains a strong and favorable regulatory environment for microfinance operations. In 2009, Bolivia created the Supervisory Authority for the Financial System, or ASFI, according to its name in Spanish. The ASFI is dedicated to promoting price transparency through stricter disclosure rules, which benefits clients of these institutions but also may complicate the introduction of fees or charges for nonfinancial services, including construction technical assistance.

Another important challenge for the microfinance sector in Bolivia is the uncertainty regarding the possibility of integrating nongovernmental organizations and cooperatives in the new regulations for microfinance institutions. These organizations fall under the mandate of ASFI monitoring, even though the process of full integration into the regulatory framework has been delayed. Toward the end of March 2012, nine Development Finance Institutes had met the requirements, but their operating licenses were still pending. This atmosphere of uncertainty among nongovernmental organizations and cooperatives can limit the introduction of new products.

2. Product development: Key factors of success and failure

In February 2011, an agreement of technical cooperation was signed with CRECER to design and implement a pilot project of housing microfinance with construction technical assistance for low-income families[3] in Oruro and Challapata, Bolivia.

The target population was CRECER clients permanently residing in peri-urban areas of the city of Oruro and the municipality of Challapata and having a monthly income between one and five minimum wages[4].

The methodology used in the project followed a systematic process consisting of four stages: institutional assessment and project preparation, market research, product and service design, and pilot implementation. From the beginning, CRECER was made aware of the importance of following the four steps included in the methodology and was

This home was finished through a housing microfinance loan.

ADRIANA LLORCA/HFHI

3. In this document, the terms "families" and "clients" are interchangeable.
4. One national minimum wage is equivalent to US$144 (at the time of this study).

reminded that housing microfinance products respond to an incremental construction process in line with the families' payment capacity.

The design of the housing microfinance product began with market research between March and May 2011 in the communities of Oruro and Challapata. The product, including a construction technical assistance model, was designed based on the input from the market study.

The pilot project was carried out in the area of influence of CRECER's Central Agency in Oruro. The area has a population of approximately 100,000 inhabitants in neighborhoods with a very high concentration of homes, poor infrastructure and unpaved secondary roads.

Table 3: Features of the CRECER housing microfinance product

ATTRIBUTE	DEFINITION OF THE ATTRIBUTE
Population	CRECER clients with a monthly income between one and five minimum wages.
Product	• Minor improvements: Does not require structural work. • Major improvements: Walls, roofing, structural work. • Amount: Between US$150 and $3,000. • Guarantee: Documents in custody, collateral or personal. • Payment frequency: Monthly, bimonthly, quarterly or differentiated. • Payment period: Six to 48 months. • Requirements: Identification, residence of more than one year, good credit history, dependent or independent economic activity.
Price	Interest rate: 18 to 20 percent per annum on balances, depending on the guarantee and amount (including construction technical assistance).
Place	Oruro Branch: North and Central Agencies and Challapata.
Personal	Individual loan officers and specialized external personnel in charge of construction technical assistance.

Box 2: Roles of CRECER, the CISF and Habitat Bolivia during the project

CISF's role:

- Coordinate market research.
- Assist in the design of a housing microfinance product with construction technical assistance.
- Design materials and tools to carry out the construction technical assistance.
- Support the development of educational and promotional materials.
- Train the personnel in the use of the new product.
- Assist in the hiring and training of the construction technical assistance provider.
- Support the implementation of the pilot project.
- Assist with bimonthly monitoring.
- Evaluate and systematize the project.

CRECER's role:

- Designate a team and leader for the project.
- Assist with the logistics of the market study.
- Participate in the market study and product design.
- Design and develop construction technical assistance and promotional materials.
- Implement the housing microfinance product pilot project.
- Participate in making decisions about changes to the product or the process flow.
- Monitor the new product.
- Submit quarterly reports to Habitat for Humanity International.

Habitat for Humanity Bolivia's role:

- Provide construction technical assistance.
- Assist in the design of the construction technical assistance model.
- Assist with monthly monitoring and advice to loan officers.

The pilot was initiated in November 2011 and, even though it was scheduled to end in November 2012, was extended until February 2013 in order to introduce some changes to the construction technical assistance process, increase the number of disbursements and promote an increase in the portfolio of loans for minor improvements.

3. Construction technical assistance

The construction technical assistance model that was designed is divided into two types, minor or major, depending on the complexity of the home improvement. The loan officers were trained by the CISF and Habitat Bolivia to provide construction technical assistance for minor, nonstructural improvements. In addition, tools such as technical booklets and forms for the collection of diagnostic information were designed. Construction technical managers supervised by Habitat Bolivia handled structural improvements (walls, foundations, etc.). Of the construction technical assistance provided during the 12-month pilot project, 18 percent was provided by CRECER loan officers, who offered assistance for minor improvements, and 82 percent was provided by construction technical managers from Habitat for Humanity Bolivia.

To meet the goals set for construction technical assistance, the CISF and Habitat Bolivia trained 20 CRECER loan officers and two construction technical managers.

The central point with the construction technical assistance has been the training. The CISF started by training two construction technical managers at Habitat Bolivia who, in turn, trained the CRECER loan officers. The Habitat Bolivia construction technical managers have developed the capability to provide construction technical assistance for structural improvements and are known by CRECER personnel for their charisma, sensitivity and commitment to serving the target population.

Through the training, the loan officers acquired new skills and knowledge in the field of nonstructural home improvements and in strategies to promote the housing microfinance product among their clients. Besides the loan officers, other microfinance institution personnel also benefited from the training to improve the monitoring of the project. From the beginning of the pilot project, the training offered by the construction technical managers was well-received by the loan officers, providing them with an excellent opportunity to learn.

According to CRECER clients, the advice provided during construction technical assistance was very useful, especially with regard to construction budgets and improvement plans for each home, and it provided them with the opportunity to obtain technical advice from a professional. However, in terms of who should cover this expense, the cost of construction technical assistance remains a challenge in the design and promotion of housing microfinance products. The construction technical assistance was subsidized during the pilot implementation, but families are expected to assume these costs during the expansion of the product.

From pilot project to wide-scale implementation: Institutional commitment and capacity

This new housing product with construction technical assistance is already part of the strategic plan at CRECER. It is an important element of the institution's expansion, growth and diversification process. Because of this, and taking into consideration the institution's financial and operational performance, CRECER just received approval for a US$2 million line of credit from the MicroBuild Fund. With this funding, CRECER will be able to extend, initially, the offer of the housing microfinance with construction technical assistance product to Cochabamba, and afterward to the rest of its branches in 2013. This expansion is scheduled to begin as soon as the first $1 million installment is disbursed. CRECER's goal during this stage is to allocate 822 loans, with a disbursement of US$2.8 million and a PAR[6] of no more than 1 percent.

Along with the loan provided by the MicroBuild Fund, CRECER will continue to receive institutional technical assistance from the CISF, which will further strengthen the construction technical assistance offer and the marketing and positioning of the product within the new geographical area. More specifically, the CISF will advise on and support the expansion of the pilot project to other geographical areas, support monthly monitoring of the project, advise on adjustments to processes and product features, and build

5. Information obtained through interviews carried out during the systematization of the project in September 2012.

6. PAR means portfolio at risk over 30 days.

A CISF team member visits a community that is starting to receive housing microfinance loans.

ADRIANA LLORCA/HFHI

internal skills in CRECER for the operation of the housing microfinance product with construction technical assistance. Three key factors that influenced and stimulated the transition from pilot project to wide-scale implementation were identified during the pilot period. These are:

- The microfinance institutions' positive experience regarding the assistance provided by the CISF, and the pilot project results to date, have convinced CRECER of the relevance of the housing microfinance product with construction technical assistance. CRECER has validated that this product not only helps it fulfill its mission but also is also a solid product that can be offered on a wide scale.
- Access to adequate sources of financing (a fund assigned to housing loans) facilitates the expansion of the program.
- CRECER's expertise in nonfinancial services — educational components and leadership training for women, health services and community activities — is an important asset because these components are a part of the institution's culture and facilitate the implementation of construction technical assistance on a wide scale.

III. Key lessons

Leadership

Having a highly committed leader is vital. The efficient and effective level of leadership of the project leader at CRECER, who serves as the national business director, was vital to the success of the project. The leader assigned by Habitat Bolivia was highly involved in the same way. These leaders took control of the project, motivating and providing timely advice to all those involved and under their supervision. Together, they managed to position the product and take it to the level of growth that it has experienced to date.

Monitoring of the housing microfinance product

A monitoring strategy defined and implemented by CRECER, the CISF and Habitat Bolivia as a team has guaranteed the success of this project. The timely and adequate follow-up throughout the project has allowed for the minimization of the risk of diversion, helped control the monthly payments, and identified the needs that arose during the pilot.

Selection and training of construction technical managers

The selection and training process carried out by Habitat Bolivia was crucial and considered highly successful. The selection focused on skills and not just educational background and work experience. This was followed by a very hands-on training in which the construction technical managers understood not only the construction technical assistance model and how to implement it, but also the importance of inserting it as part of the whole housing microfinance product.

The microfinance institutions' institutional capacity

CRECER's institutional capacity and commitment to its clients has helped strengthen, promote and extend the home improvement product with construction technical assistance. CRECER clearly understands the project's focus and how it contributes to the reduction of the qualitative housing deficit for low-income populations.

This family is improving their home with the support of a housing microfinance loan.

ADRIANA LLORCA/HFHI

IV. Conclusion

The results of the pilot project confirm that the alliance of the CISF, Habitat Bolivia and CRECER generated a housing microfinance product designed based on the needs, preferences and capacities of their clients and aligned to CRECER's preferences and capacities. The expansion of this product to other areas of the country can directly help reduce the housing deficit in Bolivia as well as influence other Bolivian microfinance institutions to replicate the experience. To have access to MicroBuild funding, assistance from the CISF and provision of construction technical assistance for major improvements from Habitat Bolivia during the product expansion stage will facilitate the wide-scale launch of the product and will serve more low-income Bolivian families who have limited access to housing loan products.

The construction technical assistance component provides an added value to the product, which requires continual training of loan officers and continual improvement of the services provided by the construction technical managers at Habitat Bolivia. It also requires continual adjustments so that CRECER can offer it in a sustainable way while making it relevant to increasing the clients' quality of life.

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Key links:

CRECER: crecer.org.bo

CISF: habitat.org/cisf

FOMIN
Multilateral Investment Fund
Member of the IDB Group

We thank the Multilateral Investment Fund from the Inter-American Development Bank for partnering with Habitat's CISF to make the design of CRECER's housing microfinance product possible.

Masons work on a home improvement for one of Edyficar's clients.

HFHI/LAC

HOUSING MICROFINANCE WITH CONSTRUCTION TECHNICAL ASSISTANCE CASE STUDY:

Financiera EDYFICAR

Executive summary

This case study presents key lessons that emerged from the technical alliance between Financiera EDYFICAR in Peru and Habitat for Humanity International's Center for Innovation in Shelter and Finance, or CISF. This strategic alliance, established to address the qualitative housing deficit of EDYFICAR clients, sought to leverage the skills and expertise of each organization and enabled the development of a housing microfinance product with construction technical assistance that is sustainable, relevant and attractive for the target population. The CISF provided the methodological approach, expertise and assistance in designing the product, and supported the implementation of the pilot project and the systematization of the experience. EDYFICAR contributed its understanding of the context, its relationship with the target population, its ability to introduce new products to the market, and the capital needed for the pilot project.

While this pilot project was being implemented, a series of lessons emerged that are believed to be relevant not only for future projects implemented by the CISF, but also for the housing microfinance sector at large. Having a committed and influential project leader, coupled with a strong organization that is well-positioned in the market, is essential to increasing the probability of success when implementing a new product. The training and support provided to loan officers during the design and implementation phase increase the promotion and positioning of the product and generate a sense of ownership and a commitment to continuing to offer the product. Based on the success of this experience, the CISF and EDYFICAR have decided to continue working together to serve more families in need of adequate housing. They are aware that it is critical to broaden the scope of market actors involved in the process of housing, such as building materials suppliers, construction technical training institutions and local governments. It is only through the participation of additional market actors that greater access to funding and construction technical assistance services for housing will be generated.

Box 1: Missions of the partner institutions

CISF's goal: Serve as a place of knowledge, expertise, advice and innovation, enabling low- and very low-income families to acquire adequate housing.

EDYFICAR's mission: We grant access and provide financial services to people of low economic resources, preferably to businessmen and businesswomen of the micro- and small-size business, contributing to the quality of their life.

I. Introduction

This case study presents lessons that emerged from the technical alliance between Financiera EDYFICAR Peru and Habitat for Humanity International's Center for Innovation in Shelter and Finance to design and implement a financial product for housing with construction technical assistance aimed at a highly vulnerable sector of the market (families with incomes between one and two national minimum wages).

This alliance emerged as a result of the partnership between the Multilateral Investment Fund of the Inter-American Development Bank, or MIF, and Habitat for Humanity International. In 2009, Habitat and MIF partnered to implement a project designed to help reduce the qualitative housing deficit among low-income populations in Peru and Bolivia by offering more housing microfinance products that include construction technical assistance.

In Peru, four microfinance institutions were chosen to carry out pilot projects. One of these institutions was EDYFICAR, the second-largest financial institution in Peru (Table 1), which was attracted to the project because of the opportunity to respond to an existing demand among its clients in Peru's low and marginal socioeconomic sectors (sectors D and E[1]). They were, however, skeptical about the feasibility of offering a home improvement product with construction technical assistance that was sustainable and affordable for their clients. It should be noted that EDYFICAR already had a housing product without construction technical assistance called Edyvivienda, aimed at socioeconomic sectors B, C and D, but the latter sector was hard to reach with the existing product.

Table 1: Basic EDYFICAR financial and operational indicators (December 2011)[2]

Gross loan portfolio (millions of US$)	506.0
Number of active borrowers	356,099
Average loan balance per borrower	1,421.1
Assets (millions of US$)	578.3
Equity (millions of US$)	72
Total number of agencies	110
Geographic location of agencies	Most of Peru (in 16 of the 25 regions).
Total number of employees	2,439

During the development of the pilot project, the institution strove to meet its goals and to develop a construction technical assistance model that represented an added value for its clients. The pilot project lasted 12 months, placing 504 loans for a total portfolio of US$323,579. As a result, the subproduct "Edyvivienda Paso a Paso" ("Building My House Step by Step") with construction technical assistance was incorporated as part of the housing product to target lower-income populations not served by the above-mentioned Edyvivienda product.

Table 2. Housing product performance indicators (October 2012)

Launching date	June 2010
Loans disbursed for "Edyvivienda paso a paso"	1138
Total disbursed for "Edyvivienda paso a paso"	US$1,657,416
Portfolio at risk over 30 days	2.06%
Active housing clients	66,180
Active housing portfolio	US$140,000,000
% of total portfolio	20.5%

The pilot provided the microfinance institution with several benefits, such as the reaffirmation of its mission and vision, the strengthening of customer loyalty, and the possibility of targeting a new segment of the population: very low-income families in need of a loan for progressive home improvement with construction technical assistance. (See Box 2).

1. Population stratification in Peru places people in the following socioeconomic status levels: SES A: high and upper middle; SES B: middle; SES C: upper low; SES D: low; and SES E: marginal.
2. Information as of project completion date, December 2011. Source: mixmarket.org/mfi/financiera-edyficar.

Edyficar client Wilfredo Cohelo improved his home with support from a housing microfinance loan.

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Box 2: Edyvivienda Paso a Paso client profile

WILFREDO COHELO lives in Cerro Camote, Jicamarca, with his wife and three children. He received a loan for the construction of walls and columns. He is a construction foreman, which made the work easier.

"My home was made with mats and plastic and was very dusty," he said. "When it rained, the moisture would come through, and the winds are strong on this part of the hill. This is why my children got sick a lot. A neighbor told me about EDYFICAR, and I listened to the good advice and guidance the analyst had to offer. I applied for my first loan, which was quick, and continued the construction. With the second loan, I installed the roof. The construction advice was good, without a lot of 'empty words.' It helped me in solving technical problems. My neighbors tell me that I 'won the TINKA' (lottery) when they see how far I have come along. I never thought that I would have my own home. Before, I tried with banks, but they requested so many papers, and their interest rates were so high. Now my family and I are happy and healthy thanks to the housing product provided by EDYFICAR."

EDYFICAR is now in the massive expansion stage of the new product, but during the design process and the implementation of the pilot, important opportunities and challenges emerged. These were taken into account to make adjustments for the scale-up of the current product.

II. Evaluation of the pilot project

1. Opportunities and challenges for housing microfinance

Opportunities

Paradoxically, the existence of a high demand for housing solutions by the low-income population in Peru, especially in the big cities, where rural people have migrated in search of jobs and better living conditions, has brought the first major opportunity for this project. The housing deficit in Peru amounts to 1,860,692 homes. Of these, 389,745 (21 percent) correspond to housing shortages (the quantitative deficit) and 1,470,947 (79 percent) to existing homes that are inadequate because of their physical characteristics and overcrowding (the qualitative deficit).

In this context, housing microfinance represents a highly potential solution for helping a large number of low-income families improve and progressively build adequate housing. This solution is compatible with the practice of self-construction by vulnerable families who, through a series of microloans, continue to improve their homes. As described by the Consortium of Private Organizations Promoting the Development of Small and Micro Enterprises, or COPEME, based on its name in Spanish, during an evaluation of the project implemented by Habitat for Humanity International and the MIF: "the housing microfinance product is a product with a highly emotional component that responds to the families' hopes and adapts to the construction process present among the marginal population of Peru."

Challenges

The first and perhaps the greatest challenge in Peru for housing microfinance is the overindebtedness of clients resulting from the wide range of products and level of competition. Regulated microfinance institutions have chosen to include parameters in their credit policies that limit the provision of loans to customers with four or more outstanding loans with similar financial institutions. They also contract monitoring systems that provide warning signals regarding larger debts. Similarly, microfinance institutions have established indicators that allow them to apply necessary precautions in their analyses so as to not affect the client's capacity to pay, such as debt-to-equity and loan payment-to-monthly surplus ratios.

The second major challenge is to be able to serve the population in socioeconomic sectors D and E, since the instability and limited income of these sectors discourages microfinance institutions from providing a housing product. Microfinance institutions prefer instead that the loans in these segments be directed at working capital and boost the development of the family's economic activity.

Also, the presence of the state, through its various subsidy programs for home improvement and construction, puts initiatives to develop housing microcredit programs at risk. It generates fear among microfinance institution executives and managers, discouraging the expansion of housing microfinance products among very low-income populations.

> *"We appreciate that the essence of this project was explained to us from the very beginning. They told us that it was about loans with construction technical assistance for home improvements to support families in obtaining adequate housing and not a way to accelerate the process of low-income clients in obtaining the house of their dreams."*
>
> ***— Giovana Lozada, marketing manager, EDYFICAR, Peru.***

2. Product development:
Key factors of success and failure

The alliance between EDYFICAR and the CISF leveraged the strengths of both institutions and facilitated the development of a new product, Edyvivienda Paso a Paso, designed according to the needs, preferences and capacities of potential clients and to the requirements and capacities of EDYFICAR. The identification of this intersection of interests between demand and supply is the key that enabled the design of a product that was sustainable for the microfinance institution while being relevant and accessible for the target population.

The CISF team brought a clear methodology to the project: a systematic process consisting of four stages.

A house in process of improvement.

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The first stage, institutional assessment and preparation of the project, began in May 2009 with the signing of an agreement, the development of a project work plan and the clarification of each organization's role. The second and third stages, market survey and product design, were implemented between July and October 2009. A preliminary market study was carried out to identify the general characteristics of the target population, the existing offer of housing microfinance products and services, and the role of other actors in the housing sector: local government, builders, building materials suppliers, technical institutions, etc.

After the information was analyzed, a qualitative study of the market was carried out in Jicamarca and Huachipa. According to the market study in these communities, the main elements of a value-added housing product offered by EDYFICAR would be differential pricing of building materials for clients; advice to clients on how to implement the home improvements; and the possibility of creating partnerships with the government in order to facilitate access to water and sanitation facilities, specifically for vulnerable families in the rural and peri-urban Santa Maria de Huachipa area.

The main features of the designed product were:

ATTRIBUTE	DEFINITION OF THE ATTRIBUTE
Population	A subsegment of the Edyvivienda product, aimed at families belonging to socioeconomic sectors C, D and E.
Product	• Individual loans to clients and nonclients. • Loan range between 500 soles (US$150) and 5,000 soles (US$1,500) • Maximum payment period of 24 months, with an average period of nine months. Monthly payment frequency. • Includes nonfinancial services such as construction technical assistance.
Price	Monthly interest rate of 3.85 percent
Plaza	One office in the pilot area.
Personnel	• Loan officers for the housing microfinance product, who will also provide construction technical assistance services for minor repairs and improvements. • Consultation with an engineer will be offered in cases involving structural improvements and extensions.
Requirements	Document stating tenure, identification, source of income and promissory note.

The fourth stage, the pilot of the product called Edyvivienda Paso a Paso, was launched in May 2010, with a planned duration of 12 months, and received support from the CISF with bimonthly monitoring during its implementation. Upon completion of the pilot project, an evaluation identified the following success factors in the development of the product:

1. The methodology to develop the housing microfinance product followed a clear and systematic process that facilitated the implementation of a sustainable and affordable product[3].
2. The product conforms to the family's progressive self-construction process and responds to their needs, preferences and capacity to pay. The construction technical assistance component was a differentiator valued by clients.
3. The leadership displayed by EDYFICAR's project coordinator was instrumental in achieving the goals established in the pilot project and in the permanence of the product within the institution's portfolio.
4. The financial institution showed openness to and genuine interest in exploring the possibility of addressing, through a housing product, a market segment traditionally considered very risky.

3. Construction technical assistance

The construction technical assistance component differentiates the Edyvivienda Paso a Paso product. The design of this technical component was based on the results of the market study and the CISF's expertise.

> *"Housing improvement has great potential for the creation and placement of safe loans. It also improves people's quality of life and promotes customer loyalty."*
>
> ***— Luis Polo, manager at EDYFICAR Jicamarca***

The low-income families in the pilot communities were very interested in receiving construction technical assistance and, therefore, the construction technical assistance model was designed to satisfy this demand. However, the cost of delivering this component was one of the main challenges of the pilot implementation. Although the construction technical assistance component was very appreciated by the clients, it was very difficult to cover the cost of this service through the interest rates.

3. The four stages of the methodology are institutional evaluation, market study, product and service design, and implementation of the pilot project.

Loan officers and a construction technical adviser from Edyficar visit one of the institution's housing microfinance clients.

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EDYFICAR's construction technical assistance model focused on two components:

a. Assistance for minor repairs and improvements, and the development of a plan for progressive housing improvements. In most cases, the loan officers carried out this component.
b. Assistance for major improvements and extensions. This was done with the aid of an outsourced engineer, who was in charge of providing technical assistance and monitoring the improvements while promoting and coordinating product placement in EDYFICAR's area of influence.

In addition, brochures, forms for follow-up visits and budget plans, and other tools were designed and implemented.

At the end of the pilot period, EDYFICAR conducted a customer satisfaction survey and a study of the cost of the construction technical assistance model, which demonstrated that the actual cost of providing the construction technical assistance component was approximately $59 per loan and that the recovery, through a service fee, could reach $40. Thus, providing the service would generate a deficit, which could be mitigated through the wide-scale expansion of the product. However, this expansion would require a massive recruitment of engineers in order to allow the current model to provide for major improvements, which could make the model unmanageable. This situation made it necessary for EDYFICAR, with the support of the CISF, to adjust the delivery of the construction technical assistance model services, which resulted in a simplified model in which the loan officers provide basic construction technical assistance.

4. From pilot project to wide-scale implementation: Institutional commitment and capacity

EDYFICAR is clearly committed to expanding the product offer to all of its geographical areas of intervention, for which it has taken several steps, including:

- Continuing to receive assistance from the CISF.
- Hiring a manager dedicated to the expansion of the housing product.
- Allocating resources to build the capacity of all loan officers to offer construction technical assistance services.
- Allocating funds for the growth of the product.
- Seeking partnerships with building materials suppliers and technical training centers in construction.

With the expansion strategy for the housing product, EDYFICAR hopes to increase the housing portfolio while keeping the portfolio risk indicators low, increasing customer satisfaction and loyalty, and, ultimately, improving the quality of life of the families served. This process of expansion plans to place at least 16,000 loans, over three years, among population sectors C, D and E, with an average loan of US$2,100 for home improvements and progressive construction of housing, and a cumulative portfolio of US$34 million.

III. Key lessons

The alliance between organizations

- The development of a strong working relationship and credibility among the participating organizations was critical in creating an environment of trust and teamwork.
- The clear division and understanding of the roles was critical to ensuring organizations contributed according to their capacities and experience, which generated a sense of ownership among the financial institution.

A house being improved with the support of a housing loan.

Product design

- In conjunction with the microfinance institution, the establishment of the roles, objectives, expected results and timetable for the various stages of the project from the start was critical to the design and implementation of the project.

- Being able to count on an internal leader who truly believed in the product and was determined and influential within the organization helped expedite acceptance of the product at different levels within the institution and had an impact on the sense of ownership.

- The importance of the four stages of methodology was observed throughout the project. The methodology helped design and pilot a well-structured product that adapted to the needs, preferences and capacities of the clients, as well as to the capacity and interests of the microfinance institution.

The added value of housing microfinance with construction technical assistance

- Housing is a family project. Taking into account the income of all working family members facilitates access to financing alternatives.

- Housing-related loans are a priority for families in terms of payment, and the construction technical assistance brought an added value that was evidenced in the decrease in EDYFICAR's portfolio in risk for the housing product.

- Housing contributes to the transformation of the family's life, making it a product that promotes customer loyalty.

- A customer satisfaction survey among clients served with the new product and a study of the financing of the construction technical assistance will provide important input for any adjustments to the product.

IV. Conclusion

The outcome of the case study confirms that the alliance between Habitat for Humanity International and EDYFICAR resulted in a product designed according to the needs, preferences and capacity of families in socioeconomic sectors C, D and E (the lowest-income population) in Peru. This segment of the population represents a new and interesting market for Financiera EDYFICAR. The expansion of this product to other areas of the country can help reduce the housing quality deficit in Peru and influence other microfinance institutions to replicate the product. EDYFICAR values the support from the CISF during the pilot project and the expansion phase.

The construction technical assistance component adds value to the product, which, with the adjustments suggested for the expansion and growth phase, will improve the quality of the self-construction process for the families served.

Based on the success of this experience, the CISF and EDYFICAR plan to keep working together to better serve more families in need of adequate housing. Also, they are aware that it is critical to broaden the scope of actors involved in the process, such as building material suppliers, technical training institutions and local governments. It is only through the participation of additional actors that greater access to funding and construction technical assistance services for housing will be generated for low- and very low-income families.

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HOUSING MICROFINANCE WITH CONSTRUCTION TECHNICAL ASSISTANCE CASE STUDY:

IMON International LLC

A housing microfinance client in Tajikistan speaks with personnel from IMON International.

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Box 1: Key details of IMON's housing loan product

Purpose	Capital and small repairs; reconstruction, extensions of existing houses; finishing new construction and half-builds.
Amount	$100-5,000
Term	Two to 18 months (three-month grace period)
Interest rate	32-38 percent (varies by branch)
Collateral requirements:	Pledge on movable assets and guarantors.

Executive summary

The collaboration between Habitat for Humanity Tajikistan and IMON LLC highlights important lessons about the effective delivery of integrated housing microfinance solutions to clients. For both partners, this initiative responded to a market opportunity as much as a mission opportunity — and indeed offered the potential for each organization to leverage its unique strengths to achieve greater impact. A clear message arising from this experience is that the nature of both the product and the collaboration demands careful design and planning up front. Key points of consideration include defining clear roles and responsibilities, aligning partner expectations around targeting strategy, and managing trade-offs of the delivery of nonfinancial services. The lessons arising from this case are relevant not only to the project partners themselves, but also to the whole Habitat and microfinance practitioner communities.

I. Introduction

This case study presents key lessons arising from the partnership between Habitat for Humanity Tajikistan and IMON International LLC Tajikistan. Specifically, it addresses lessons from a pilot project that delivered holistic housing microfinance services to clients in housing poverty throughout the country.

Habitat for Humanity Tajikistan was established in 1999 and has reached more than 5,000 families with construction services and more than 4,000 families with housing support services. This includes new construction, completion of half-builds, renovations, remodeling and disaster-response projects. Habitat Tajikistan also works within communities, offering housing improvements, water and sanitation, and winterization services. Historically, Habitat's approach included the direct provision of housing finance services to clients. However, in 2009, a global strategic shift saw the organization focusing more closely on its core strength (providing housing technical assistance), and outsourcing its lending functions through partnerships with microfinance institutions.

Around this time, IMON entered the housing microfinance market. IMON's mission is to promote sustainable economic development and improved quality of life in Tajikistan by ensuring reliable access to financial services for the economically active members of the population. Originally established in 1999 as a project of Mercy Corps International and the National Association of Business Women in Tajikistan, the IMON family now comprises both a commercial financial institution and a foundation. The foundation is not only the founder of the commercial side, but also a major stakeholder. The move to commercialize in 2008 was underpinned by the need for long-term sustainable development and a desire to access market-based sources of capital. In addition to being the largest microfinance institution in Tajikistan, IMON remains a strongly mission-focused organization[1]. IMON reaches out to low-income populations — especially women and those in rural areas — with loans, consulting and advisory services.

IMON's decision to offer a housing microfinance product stemmed from management's analysis of the consumer loan product. At the time, 40 percent of consumer loans were being used for housing improvements. Seeing the opportunity to deliver a niche product and support its social mission (specifically its goals around improved quality of life), it introduced a home-building credit product. As Naimjon Masaidov, IMON's credit manager, explained: "The loan was designed to help clients build the whole house, from the foundations all the way up to the roof."

The village of Bahoriston was designated as the pilot site, but IMON soon found that external environmental factors, including lack of infrastructure and problems with the local government, limited its ability to roll out loans to clients. Faced with this barrier, IMON sought to expand its housing portfolio to villages and regions beyond Bahoriston.

In early 2011, IMON became aware of Habitat for Humanity International's work in Tajikistan, and approached Habitat for advice and support in developing its line of housing products. One of the first points of engagement between the organizations was a field visit to Armenia to learn from a successful housing microfinance program jointly implemented by Habitat for Humanity and a local microfinance institution. Inspired by a vision of the potential of this collaboration, IMON and Habitat Tajikistan established a working group to improve the existing product and add a technical assistance component.

This case study reviews the opportunities and challenges that faced the pilot project, presents details of the housing microfinance product development process, and offers its perspective on key considerations for taking housing microfinance to scale in Tajikistan. Finally, it lays out those key learning points that will inform similar collaborations by other Habitat regional offices.

II. Evaluation of the pilot project

1. Opportunities and challenges for housing microfinance in Tajikistan

Opportunities

The partnership between IMON and Habitat Tajikistan represents a unique response to the overwhelming demand for improvement of the national housing stock. Alongside IMON's analysis of the need for housing microfinance, Habitat's own research highlights that 70 percent of the population lives in substandard conditions, especially in rural areas. Additional demand for housing finance derives from a number of other trends, including:

- **The ever-increasing cost of building:** This provides an incentive to complete building projects as soon as possible.
- **A government push to create housing:** Thanks to a government initiative that saw more than 50,000 land plots become available in 2011, there is a high demand for financing completion of new builds in particular. Sixty percent of IMON's housing loans were used to complete new builds.

1. In 2010, the Microfinanza Rating agency awarded IMON with a grade of "A+" on its social rating.

On the supply side, a clear opportunity existed to combine the strengths of two different organizations working toward the same goals. Leveraging Habitat Tajikistan's technical know-how with IMON's financial services infrastructure and outreach has allowed the partners to react to a clear demand that was not otherwise being served. See Box 1 for details of the loan product.

Challenges

Given the national incidence of men working away from home (primarily in Russia), women are most often left in charge of managing the household, including repairs and renovations. Because women often have not been taught the skills needed to manage and undertake home improvement, any housing finance product would need to include a technical assistance component in order to be successful. This implies a higher cost to the institution, the client or both. Given the high cost of capital in Tajikistan, any increase in costs has the potential to limit the scale reached by a housing microfinance product.

2. Construction technical assistance

The construction technical assistance component is designed to equip and empower clients to self-manage their home construction and improvement projects. It does this by providing access to expert advice on needs assessment, prioritization, budgeting, scheduling, materials, contractors and quality control (see Box 2 for details). At the time of loan disbursement, IMON also provides a building manual to each client, which includes general information about building technology and repairs. Feedback from clients revealed that they appreciated how the construction technical assistance improved their knowledge and helped them save time and money.

"Providing construction technical assistance is good for clients, and also helps IMON demonstrate that it's an institution that cares."

— Elena Milanovska, regional program development manager, Habitat for Humanity Europe, Middle East and Africa

Elena Milanovska, Habitat for Humanity Europe, Middle East and Africa's regional program development manager, explained: "What surprised me most about this project was how clients embraced the construction technical assistance component. In other countries, you don't see the same uptake. Instead, people tell you, 'I know someone who can help me with this.' I'm not sure whether it's a question of Tajik culture or whether it was because the majority of clients are women — but not only were clients satisfied with the advice, they really welcomed it."

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A construction technician visits one of IMON's housing microfinance clients.

From IMON's perspective, building clients' construction skills through this "credit-plus" approach is especially relevant within the current labor context in Tajikistan. With many men working away in Russia and supporting their families at home through remittances, more and more women are taking charge of traditionally male roles such as home improvement. Thanks in large part to the advice given to clients, the project evaluation revealed that clients' construction projects were completed to standard and generally resulted in improvements to space and privacy (60 percent), and hygiene, comfort and cultural dignity (40 percent).

The construction specialists who were embedded in IMON branches were staff members of Habitat Tajikistan. Importantly, this provided Habitat a means of both providing ongoing support to IMON loan officers where needed and maintaining a close link with the end beneficiaries: the clients. This arrangement will allow IMON to have an ongoing and detailed understanding of how clients were using the housing products, what common technical challenges they faced, and how best to shape the construction technical assistance component in the future. Providing construction technical assistance also offered a key value-add for IMON itself. First and foremost, being closely involved in the technical side of clients' projects enabled the microfinance institution to closely monitor loan use. Meeting the varied needs of clients also helps to position IMON as an institution that cares about its clients. "This product helps us reach out to new clients and serve existing clients better," Masaidov noted. "As a result, our clients stay with us longer." Although IMON does not systematically track client satisfaction (apart from a complaints phone number), client retention has been increasing in recent years, and anecdotal evidence suggests that improved public perception has played a contributing role.

"Don't try to save money on technical specialists. Make sure you have the right skills on board, or risk a painful process."

— Naimjon Masaidov

Table 1: Key financial performance statistics (August 2012)

Area	Result
Loans disbursed	4,419
Total amount disbursed	US$5,683,290
Percentage at risk over 30 days	0.06%

3. Product development: Key factors for success or failure

From the outset, this project involved clear and agreed-upon roles and responsibilities for the collaborators. Individuals were appointed to key roles such as product management or coordination, and a project monitoring and reporting system was developed with tasks, forms, due dates and responsible people named.

Each institution also drew on its internal strengths to achieve the project aims. Habitat Tajikistan provided advice on product design, delivered training to IMON's loan officers, undertook product monitoring and evaluation, and developed a construction manual. IMON drew on its strengths to develop, test and market a new product, and brought a strong institutional commitment to providing housing microfinance.

4. Scaling up housing microfinance: Commitment and capacity

Habitat Tajikistan and IMON are both strongly committed to scaling up the housing microfinance product, and they have the capacity, financing and incentives required to do this successfully. Importantly, both see housing microfinance as a priority in terms of supporting their social mission. The partners have secured a US$2 million loan from the MicroBuild Fund[2] and are looking to add a specialized new/half-build product, a mortgage product and, potentially, a condominium loan.

When IMON's senior management started discussing housing microfinance in 2008, the board was initially reluctant to take on the associated risk. While IMON financed the entire cost of the pilot capital (US$1.2 million), the board introduced a cap on consumer loans — including housing finance — so that they would not exceed 20 percent of the total portfolio. As it became clear that the pilot would be successful, the board increased the portfolio cap to 30 percent in 2011, enabling the microfinance institution to expand its housing portfolio. Today, the board has fully embraced housing microfinance as a core loan product. With the new product firmly embedded in the business plan, IMON is now preparing to offer bigger loans over longer terms, including mortgages. To this end, it has secured an additional US$2 million from the MicroBuild fund and plans to reach out to 2,000 to 4,000 more clients per year. IMON is also considering whether part of its housing loan portfolio should be moved to the foundation side in order to avoid the cap on consumer loans. In particular, IMON would seek to offer mortgage loans through the foundation, since the foundation's level of equity would enable it to offer such loans without seeking external long-term funding.

From Habitat Tajikistan's perspective, partnership with a microfinance institution as large and well-established as IMON has advantages. First and foremost, IMON's outreach includes nearly the entire country, an achievement that no other microfinance institution can boast. In addition, "IMON had an institutional readiness to build the capacity required to deliver the product, especially the CTA," Milanovska explained. "They also have a big business development department. They're the size of a bank, but they're strongly mission-focused — focusing on women and linking in business development training through their foundation."

In preparation for continuing and expanding its partnership with IMON (and establishing similar partnerships with other local microfinance institutions), Habitat Tajikistan is focusing on building its own capacity to deliver high-quality housing technical support services to microfinance institutions. This includes developing the tools needed to support microfinance institutions, along with the staff's capacity to use them (see Box 3 for details).

Box 3: Increasing Habitat Tajikistan's capacity to support microfinance institutions

Habitat for Humanity Tajikistan aims to:

- Continue to develop new modules to train microfinance institution loan officers (energy-efficiency, new builds, etc.).
- Increase and develop internal capacities to support microfinance institutions (both in terms of hiring more staff and providing staff with more training).
- Increase the number of microfinance institution partnerships to introduce or scale up housing microfinance products.
- Increase the number of families served through housing microfinance products and services.

Importantly, IMON has integrated the housing microfinance product into its staff incentive scheme. Staff members are awarded based on number of housing loan clients, loan size and repayment rate. There's also an implicit incentive in that the housing finance loans are 6 percent cheaper than the standard consumer loans (34 percent vs. 40 percent, on average). Feedback from the pilot reveals that loan officers have also fully embraced the new housing loan and appreciate the added value of the construction technical assistance.

2. MicroBuild is a social investment fund, majority-owned by Habitat for Humanity International, to mobilize capital to invest — primarily debt — in sustainable housing finance products for very low-income households in developing countries. The fund is a demonstration fund, the first of its kind to act as a global investment vehicle for affordable housing.

However, a number of financial constraints surround this project, including the lack of low-interest housing finance. Given this, one of the key challenges facing successful scale-up is sustainability. Despite pressure from Habitat for Humanity International for a self-sustainable construction technical assistance model, IMON and Habitat Tajikistan have agreed to continue co-subsidizing the cost of construction technical assistance in the near term. Although asking clients to cover the cost is clearly the most sustainable option, it is also clear that their willingness to do so will be governed by their perception of whether it saves them time and money. At present, the partners understand that clients value the construction technical assistance as a free service, but do they value it enough to pay for it? To ensure that they do, Habitat Tajikistan should take steps, through its routine impact-monitoring activities, to gather positive "stories of change" from clients (specifically about the value of the construction technical assistance), which can be used in promotional materials to effectively communicate the value of the service provided.

If, on the other hand, the partners agree to continue funding the construction technical assistance, they should consider restructuring its financing. Currently, the construction specialists are paid a flat fee regardless of their caseload. IMON should consider indexing construction specialists' salary to the number of clients they serve. However, any decision should be balanced with a cost-benefit analysis of providing construction technical assistance through loan officers versus construction specialists. Otherwise, the risk is that the construction specialists, in pursuit of higher targets, will serve clients who would be better served (from a cost/complexity perspective) by the loan officers.

This house is being improved with a housing microfinance loan.

HFH TAJIKISTAN

III. Key lessons

Creating synergies

First and foremost, it is important to highlight the value created by combining the complementary skills of the project partners for this pilot. Habitat drew upon its technical housing experience to help IMON develop the construction technical assistance component, while IMON relied on its strength, professionalism and experience in developing and delivering new products within the marketplace. When thinking about establishing new partnerships with other microfinance institutions within the same marketplace, Habitat should consider the unique strengths that each potential collaborator can bring to the table, whether in terms of organizational capacity, poverty outreach or scale of operations.

Product targeting

During the pilot, the housing loan was offered widely, and limited targeting was applied. From IMON's perspective (both institutionally and for this product specifically), it reaches out to a broad client base, which is considered to be the "economically active" population of Tajikistan. On the other hand, Habitat Tajikistan operates with a more precise understanding of housing poverty (including measures around state of repair, access to infrastructure, hygiene and privacy). As Behruz Dadoboev, Habitat Tajikistan's program development manager, explained, "We didn't agree on our target clients up front, mostly because we came in after the initial product had been developed. Our remit was to develop the CTA component. Nonetheless, we knew up front who IMON was reaching — not rich people, but middle-class people — and that lined up with our target group as well." Indeed, the pilot evaluation by Habitat[3] concludes that there is a great deal of overlap (potentially up to 90 percent) between the two target markets. Although this is a positive result in terms of this pilot project, Habitat should consider agreement on a clearly defined target group as a precondition for other collaborative projects in order to avoid so-called "mission creep."

3. Evaluation report written by Elena Milanovska and Nurlan Moldosherip (Habitat for Humanity Tajikistan).

Box 4: Defining the division of labor for construction technical assistance

When it comes to deciding who provides construction technical assistance to clients, the partners have agreed on a threshold of US$1,000 for the pilot project, below which loan officers provide basic advice to clients (with the support of a construction specialist where required). Both Habitat Tajikistan and IMON find this threshold approach very useful in terms of clearly delineating roles and responsibilities.

Milanovska offers this advice: "Ultimately, the threshold should be set according to the complexity of the intervention. Complexity, however, is context-specific. If you find, through your pilot, that 90 percent of your clients are using your product in one specific way (for example, for simple window/doors projects), then you might decide that with training, loan officers can give them support on this. The lesson is this: A dollar threshold is useful in the short term, until you can understand how your clients are using your products and what types of interventions need specialized input from the construction specialist, versus general support from the loan officer."

Focusing on construction technical assistance sustainability

This pilot project has revealed a number of trade-offs inherent in offering integrated construction technical assistance. For similar initiatives, it might be necessary to subsidize the initial product offering and refine it through field implementation before decreasing costs through reaching scale and expecting clients to pay for construction technical assistance. Moving toward a fee-based service would require a microfinance institution to consider whether it has achieved:

1. **Differentiation:** Moving from general to tailored housing products enables a microfinance institution to tailor its construction technical assistance to different types of implementation. Differentiation should also be considered from the perspective of offering a basic level of construction technical assistance for free, but also offering a "menu" of fee-based construction technical assistance options for clients to choose according to their needs. Finally, within the Tajik context, there is also an opportunity to differentiate the construction technical assistance offering based on the clients' gender.
2. **Quality:** According to Dadoboev, "We need to work on improving the CTA to make it really unique within the market. Right now it's good, and our clients like it, but maybe not enough to pay for it. We need to improve the quality and the content of the service and give support in technical areas that no one else can, like energy efficiency and disaster risk reduction." If the conversation within IMON moves toward having clients cover part or all of the cost of the construction technical assistance, then IMON needs to ensure that it is delivering the right support to the right clients at the right time.

Ensuring organizational buy-in from the start

The IMON case highlights a key lesson about organizational buy-in, namely: When an organization invests its own capital in a pilot project, it creates a strong incentive to make the product work and allows Habitat to test the microfinance institution's commitment to the project. This might act as an effective screening mechanism for Habitat's MicroBuild Fund, whereby special consideration is given to organizations that have already invested in their own housing solutions.

IV. Conclusion

This case study was written to review the experience of the housing microfinance collaboration established between Habitat for Humanity Tajikistan and IMON International LLC Tajikistan. In terms of portfolio disbursements, the one-year pilot exceeded expectations and introduced the microfinance institution to minimal risk (evidenced by a PAR[4] of just 0.06 percent over the entire housing loan portfolio). At the same time, offering housing loans enables both organizations to deliver on their missions and consolidate their market positions by offering a niche product.

4. PAR means portfolio at risk over 30 days.

A number of key lessons have emerged from this project, which are relevant not only to the project partners but to the wider housing microfinance community. First, this experience has underlined the importance of creating synergies between organizations to bring specialized products to the market, and of defining up front each partner's expectations for the project in order to avoid mission mismatch. Second, the project has underlined a common challenge around the trade-offs inherent in offering nonfinancial services: Although the rationale for providing construction technical assistance within the context of Tajikistan is clear, there are opportunities for building on the efficiency of the service without compromising quality — and ultimately reaching service sustainability through scale.

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Key links:

Habitat for Humanity Tajikistan:
habitat.org/intl/eca/235.aspx

IMON: imon.tj/eng/

IMON on the MIX Market: mixmarket.org/mfi/imon

SANDRA CALLISON/HFHI

Visitors from other financial institutions talk to clients of Growing Opportunity who received housing microfinance loans.

HOUSING MICROFINANCE WITH HOUSING SUPPORT SERVICES CASE STUDY:

Growing Opportunity Finance

Executive summary

Although the microfinance sector has expanded exponentially in India, access to housing microfinance by people with low or very low incomes (sometimes referred to as "the base of the pyramid") remains limited because of the lack of dedicated capital and the limited capacity of microfinance institutions. This case study presents the experiences of a pilot project between Growing Opportunity Finance, or GO, and Habitat for Humanity India to deliver housing microfinance in Tamil Nadu. The pilot reveals strong demand for the housing microfinance product by Growing Opportunity Finance clients, along with satisfaction with the nonfinancial housing support services offered to clients approved for the loan. The housing support services model was flexible enough to respond to the varying technical needs of the clients. Housing support services also helped Growing Opportunity Finance ensure both positive financial and social outcomes. Finally, this case study presents three key lessons that can be generalized for other institutions piloting housing microfinance.

1. Responsible lending practices can promote synergies with value-added housing support services that help clients achieve their housing improvement needs.
2. Housing support services are most successful when the institution has a firm grasp on the needs, preferences and capacities of its clients.
3. Capacity to roll out a housing microfinance product must be matched with timely access to capital to support the pilot and the expansion of the product.

Box 1: Profile of the partnership

Growing Opportunity Finance, a member of the Opportunity International network, is a microfinance institution offering income-generating loans and training in business planning and social development. Combining training, technical assistance and capital for very low-income clients, Growing Opportunity Finance also provides graduated home improvement loans to well-performing clients.

Habitat for Humanity India's Technical Assistance Centre focuses on building a vibrant housing microfinance sector that will strengthen and transform communities' access to housing in India. The TAC supports the microfinance institution sector with market research, product development, development and outsourcing of housing support services, and pilot testing planning.

I. Introduction

This case study presents the housing microfinance partnership between Growing Opportunity Finance India and Habitat for Humanity India's Technical Assistance Centre. The pilot was implemented in Tamil Nadu, South India.

A 2007 study conducted by the Centre for Microfinance at the Institute for Financial Management and Research revealed that even though the microfinance sector has expanded exponentially in India, there remains limited

1. "A Report on Low Income Housing in India: Challenges and Opportunities for Microfinance." Centre for Microfinance at the Institute for Financial Management and Research, Chennai. June 2007

access to housing microfinance among low- and very low-income populations. The research identified two main factors preventing access:

1. **Capital:** Microfinance institutions in India lack dedicated funding for housing microfinance products because of the short tenor of available finance. Microfinance institutions generally borrow for up to 24 months from banks to finance their short-term working capital loans, whereas housing microfinance loans can stretch to 60 months.
2. **Capacity:** Microfinance institutions lack experience in designing, managing and delivering housing microfinance products, and have no capacity in construction-related technical services.

In response to this research, Habitat India decided to pilot new and innovative business models to help microfinance clients access housing loans with technical assistance.[2] In 2009, Habitat India established the Chennai-based Technical Assistance Centre, or TAC, to promote and support a vibrant housing microfinance sector in India with support from USAID's Innovation Grant Program. The TAC approach is to develop the capacity of the microfinance sector to enter into housing microfinance, and to advance learning in innovative housing microfinance products and service delivery models. Growing Opportunity Finance was one of the first microfinance institutions to test a housing microfinance product with technical assistance. TAC provided institutional technical assistance to GO and housing support services to its housing microfinance clients. This value-added approach helped GO launch affordable housing microfinance products and also assisted homeowners in making well-informed decisions about improving their homes.

The result is a housing microfinance product with housing support services for GO's well-performing clients who have graduated from the group lending model. The home improvement loan product is offered in several urban, semi-urban and rural branches. As of September 2012, GO had distributed 171 housing loans averaging $550.[3] Additionally, 470 clients had received technical services. Sixty-six percent of these clients paid a fee for the housing support services. The fee structure was put into place a month after the product launched.

Although this pilot project is still at an early stage, valuable lessons on partnership and demand for outsourced housing support services have already emerged. This case study will first explore the market opportunities and constraints for housing microfinance in India at the time of the pilot, and then examine lessons learned.

II. Evaluation of the pilot project

1. Opportunities and challenges for housing microfinance in India

Opportunities

India's housing shortage is estimated to be as high as 40 million units.[4] Consequently, consumer demand for housing is very high throughout India. Additionally, only 46 percent of the population have toilet facilities in their homes, 37 percent live in a one-room unit, and 32 percent have access to treated water.[5] Sixty-two million urban people live in slums and squatter settlements today, more than 21 percent of the urban population.

Housing supply is constrained by the availability of low-income housing finance. Arnab Roy of the National Housing Bank emphasizes that government support comes in a combination of subsidies and new housing construction, along with enabling regulatory environments. However, government subsidy alone is insufficient to meet the housing demand in India.

2. The strategy included development of the MicroBuild India fund to provide a dedicated source of capital for housing to Indian microfinance institutions, and a separate entity to focus on developing housing products with housing support services. The MicroBuild India fund was not operational at the time of the pilot covered by this case study.

3. One hundred percent of the loans are to female clients.
4. "A Report on Low Income Housing in India: Challenges and Opportunities for Microfinance." Centre for Microfinance at the Institute for Financial Management and Research, Chennai. June 2007
5. P. Sunderanjan. "Half of India's Homes Have Cellphones, but not Toilets" The Hindu Newspaper, March 14, 2012.

"Tremendous growth and building in the urban and peri-urban areas isn't any indication that all is well: High risers catering to the higher end of the population while the lower class is left out."[6]

— Arnab Roy, speaking at the India Housing Microfinance Toolkit Consultation Workshop jointly organized by the National Housing Bank and International Finance Corp.

The government has made strides to increase access to affordable housing finance by creating an enabling environment. The National Housing Bank is supporting those institutions interested in developing housing for the low-income sector with regulations and refinancing schemes. But the supply of finance for low-income housing in India is limited at all levels: The mortgage-to-GDP ratio is estimated at 7 percent. This was further validated by TAC's own market research, which revealed that 43 percent of respondents in Tamil Nadu financed their home improvements from moneylenders, and an additional 23 percent borrowed money from family and friends. Only 12 percent used funding from government entities, and another 12 percent used formal loans. Currently, most microfinance institutions do not offer housing microfinance, though many show interest. Increasing the percentage of India's microfinance lending for housing from the current 1 percent to just 6 percent would result in more than 1 million households gaining access to improved shelter.[7]

Table 1: Housing loan product key financial performance statistics (September 2012)

Total clients receiving housing financial and technical orientation	1,310
Total on-site construction technical assistance	468
Free/Fee	159/309
Total loans disbursed	171
Total amount disbursed	US$102,019
Current outstanding portfolio	US$87,662
Portfolio at risk over 30 days	0%

TAC and GO recognized that targeting low-income groups, which have traditionally been excluded from the housing market, would require customized housing finance products with value-added services. Each partner brought its own strength to the partnership: TAC contributed technical know-how in affordable home construction and housing support services, along with years of experience working with nongovernmental organizations and self-help group partners throughout the country. GO came to the partnership with ambitious plans to expand its small but growing portfolio throughout the country, along with a focused approach and leadership support from the Opportunity International network. The pilot was well-positioned to roll out nationally in the near future.

Challenges

India's Andhra Pradesh microfinance crisis in 2010[8] led to delays and uncertainty throughout the industry and had a discernible effect early in the pilot project. Because of the ongoing liquidity crunch, GO's ability to raise capital to fund the pilot phase is a tremendous hurdle. Very few microfinance institutions in India have gained access to fresh funding from banks and investors. Lack of capital has slowed disbursement of housing loans to clients and has prevented GO from reaching the target of 500 clients in the pilot year.

The microfinance crisis has also drawn increasing attention to the need for responsible lending and improved financial capability of the low-income segment. Both GO and TAC recognized the need to provide financial and technical

6. Arnab Roy, speaking at the India Housing Microfinance Toolkit Consultation Workshop jointly organized by NHB and IFC. Presentation: "NHB's vision and role in developing the housing microfinance market in India" National Housing Bank, New Delhi, India. Nov. 23, 2012.
7. This would be on par with the Philippines but still short of global leaders such as Bolivia and Peru, where housing microfinance reaches more than 10 percent of portfolios.
8. The crisis of microcredit in the southern Indian state of Andhra Pradesh began in October 2010 with a suicide wave caused by widespread overindebtedness, badly tarnishing the sector's image in India and abroad.

orientation and education to all clients before applying for housing loans as a way to both increase financial capability and promote transparency with the product.

2. Product development: Key factors for success or failure
From August 2010 through February 2012, TAC and GO collaboratively implemented the following four-phase approach for the product development process: market research, product design, pilot testing, and product monitoring and revision.

Table 2: Key features of GO's housing loan product

Loan usage	Minor and major repairs. Extensions/additions. House completions and improvements (including water and sanitation). Incremental/progressive builds.
Eligibility	Excellent repayment record for two to three cycles in the group setting.
Loan type	Individual loan, graduated from group.
EMI	25-30 percent of net household income.
Amount	US$184-$920.
Term	12-24 months.
Interest rate	24 percent declining.
Collateral	Cash flow-based loan with guarantors and co-applicants. In the absence of title, the following documents are accepted: Purchase agreement, property tax receipts, government allotment, or copy of electricity or water bill; identification and one guarantor. These documents serve only as surrogate documents for proof of title.
Application fees	Processing fee is 1 percent of loan amount.
Technical services fees	US$4.50 per engineer's visit.
Additional requirements	Attend orientation meeting, on-site technical assessment.

The first stage was to carefully survey the market, both in terms of financial product considerations and housing support service needs. Drawing from the Opportunity International network's experience with housing finance and GO's experience with individual loan product development, GO conducted a survey of its existing clients to understand their needs, preferences and capacities. Praveen Samuel, marketing manager for GO, described the process, saying GO conducted its own market research and product development exercises while TAC's team helped sort out the clients' housing needs. "At first, we were very stringent" with the home improvement loan requirements, Samuel said, "but this process helped us to navigate and build the product."

TAC also conducted more broad-based market research, surveying 600 randomly selected individuals in Tamil Nadu associated with NGOs, microfinance institutions and other associations, using a mixture of structured interviews and focus group discussions. Eighty-nine percent of respondents were women. The market research looked into past and future housing needs in order to design the housing support services product features, which revealed the following:

- Proof of ownership: 50 percent of Respondents in urban and semi-urban areas have some kind of document to prove house ownership. In rural areas, 70 percent of respondents have ownership proof.
- Loan mechanism: 73 percent seek to avail housing as an individual loan, vs. 21 percent as a group loan.
- Expenses incurred to improve housing: Across urban, semi-urban and rural areas, 84 percent of respondents spent approximately $1,000 toward home improvements in the past two years.
- Future housing need: 62 percent required loans for home improvements, including fixing the ceiling or floor, building room extensions, and purchasing land.
- Fee for service: There is a willingness to pay for housing support services (95 percent) across urban, semi-urban and rural respondents.

It was clear from the results of the market study that both the demand for housing finance was high and there was an interest in housing support services. Based on the market research, GO positioned the product for well-performing group lending clients who were ready to graduate to individual loans. Housing support services are provided by TAC. The client is charged a fee of $4.50 per engineer's visit, 1 percent of the loan amount as processing charges, and a one-time life insurance premium of $12.

GO and TAC have rolled out the product in nine branches across three districts (urban and rural) in Tamil Nadu. GO has one housing loan manager who liaises directly with the technical team. The client relationship officers promote the housing loan product and source applications with support from the branch manager. The housing loan manager currently oversees nine branches.

3. Housing support services

Technical assistance is delivered at three points of contact: pre-application orientation (90 minutes), technical assessment visit (45 minutes), and loan use and impact assessment visit (30 minutes). Each plays a specific role in helping GO clients access housing while also reducing the lending risk.

Financial and technical education and technical services are the differentiating factor of the pilot product.

- **Preapplication housing support services:** Experience showed that clients were interested in availing housing loans but did not always know how to prioritize their housing needs and match those needs with their affordability. Early in the pilot phase, TAC observed that clients' self-estimation resulted in escalated pricing of sometimes four to six times more than the maximum loan size. There was a risk that clients would request a high loan amount without really having thought through the improvements they were to implement, leading to either unfinished housing improvements or unused or diverted loan funds.

  TAC recommended a preapplication orientation to improve the efficiency of the loan process and make the home improvement loan procedures transparent to clients. The orientation session is marketed to successful group lending clients with a minimum of two successful loan periods. The session is facilitated by the housing loan manager and a TAC staff member. The preloan orientation covers the following topics: home improvement loan orientation, basics of financial education, introduction to home improvement technical considerations, and questions and answers. The housing loan manager helps applicants complete the housing loan application.

- **Preloan on-site technical visits:** TAC initiated the on-site construction technical visit to assess the construction technical considerations for the home improvement needs of the client. Research revealed that 90 percent of clients were unable to determine the correct loan amount on their own because they did not have the technical knowledge to estimate the costs.

Housing support services provided by Habitat India's TAC:

- Financial literacy and technical orientation.
- "Doorstep" technical service by Habitat's technical team.
- Booklets to manage home improvement work.
- Help line for technical issues.

The technical visit helps clients by using a technical assessment sheet to assess the existing housing condition, the proposed housing improvements and the estimated

SANDRA CALLISON/HFHI

Growing Opportunity is extending housing microfinance loans in this community.

Table 3: Complexity matrix of home improvements

Type of work	Complexity level	Average loan size	Work days	Percentage of completed improvements
Borewell	1	$601	1 – 4	6%
Compound wall	2	$747	8 – 15	7%
Flooring	2	$547	2 – 10	21%
Painting and plastering	2	$693	10 – 15	17%
Waterproofing	2	$656	7 – 10	7%
Roofing	3	$638	7 – 15	15.5%
Toilet and bathroom	3	$729	6 – 7	8.5%
Staircase	3	$638	4 – 10	7%
Others (room addition, wiring, etc.)	3	$693	5 – 60	11%

costs. The first visit is a preliminary assessment in which the technical sheet is filled in and later becomes part of the client's loan application. Recommendations regarding loan usage and amount are provided by a technical team, and a second visit is arranged in very complex cases. The visits are an opportunity for the technical team to raise any concerns that might affect the loan, such as structural damage. The value of the "doorstep" service is that the client receives a preliminary assessment technical sheet, estimated costs and materials, and any booklets or technical sheets on relevant home improvement needs. Additionally, a helpline is available for clients to access technical advice anytime after the loan has been disbursed.

- **Loan usage visit:** The loan usage visit is made by a construction technical team member. This is an opportunity to verify loan usage and to review with the client any outstanding construction activities and potential next steps. The pilot revealed that 60 percent of improvements fall between a low and medium complexity level (see Table 3).

The pilot revealed the following key lessons about the provision of construction technical assistance:

1. The financial and technical orientation using the group system helps GO prepare clients before the loan application process. In the first year, 1,300 clients attended the financial and technical orientation in the preapplication stage, and 408 of them applied for a home improvement loan. GO felt that the piloting of the preapplication steps made the loan approval for its home improvement product more efficient. Additionally, 60 percent of the clients felt confident enough to apply for the housing loan product. GO has made the financial and technical orientation a requirement for all housing loan clients. Not only has this created a pipeline of clients for GO, but it also has taught clients about different kinds of improvements and how they may save money in the process. For example, decentralizing loan approvals up to $540 to the branch managers helped to cut down on the processing time of the loans.
2. The tech sheets proved an essential tool for GO's loan committee in making the loan decision. The recommendations help break down the client's housing need into manageable steps. The tech sheet is a good communication tool among the client, the institution and the technical services. GO sees the value of the tech sheet for ensuring effective loan usage by the client.
3. Technical visits were an important factor for helping clients with loan use. GO's Housing loan managers found that 78 percent of clients have completed the intended home improvement. The usage visit revealed that unexpected events such as monsoons delayed implementation and clients required more time to complete the work. GO has found that periodic and continual usage checks on larger loan amounts encourage clients to use their loans efficiently, which in turn minimizes lending risk. In cases where there was a lag between the orientation and the disbursement, there was an increase in the number of diverted loans.

Given these important lessons, the pilot has not explored extensively the issue of cost in delivering customized housing support services. The true cost of delivering the services needs to be considered in order to assess the sustainability of these services to GO's clients. At present, the housing support services costs have been subsidized by USAID funding. However, the market study and pilot reveal that clients are willing to pay. Additionally, the pilot experience with charging fees has been focused around simple improvements. Although the product was developed to offer subsequent technical visits to support the work of the home improvement, this case study does not provide further insights into how many visits the client is willing to pay for as the complexity or loan amount increases. Further testing is necessary to understand the cost issue in more depth. There is also a limitation with the product on the staffing side. Although GO has a housing loan manager, the product is primarily marketed using existing loan officers with a separate incentive scheme for housing microfinance. Additionally, the housing loan manager has to manage nine branches. When considering offering the product in more branches, GO will need to consider different strategies to ensure the staff has adequate skills, training and time to dedicate to the product.


SANDRA CALLISON/HFHI

A loan officer from Growing Opportunity visits a housing microfinance client.

III. Key lessons

Responsible lending practices are synergistic with value-added services

Given the tremendous demand in the country, institutions interested in housing microfinance offerings must consider how to ensure responsible lending practices. Clients often want a higher loan amount irrespective of the needs and affordability. GO has created a two-pronged approach to ensuring client protection. To prepare clients for housing loans, GO and TAC have introduced the financial and technical orientation training. This short but effective orientation is delivered in the form of classroom sessions that include a short video screening and help clients to understand the value proposition of a non-income-generating loan. The results of providing this service are promising and show that the training helps the clients prepare for housing loans and decide on an affordable loan amount, sometimes in stages. GO requires regularly held group meetings in which educational topics are often covered in addition to normal business. On the loan application side, GO uses the Highmark credit bureau, which helps avoid processing clients with two outstanding loans or more from other microfinance institutions. Together, these two elements help GO promote both client protection and responsible lending practices.

Successful housing support services

This pilot has grappled with how to provide high-quality but low-cost technical assistance that can be accessible to a large number of people in order to increase the quality of housing conditions and mitigate the risk of the client and institution. A product review six months into the pilot test resulted in the following recommendations:

1. The home improvement loans should be categorized according to the type and complexity of the improvements. This includes major and minor repairs, extensions, house construction completion and improvements (including water and sanitation), and incremental or progressive building. This helps clients understand that not all improvements could be made at once, given what they could afford to borrow at that time. This focus on small repairs and improvements has also helped GO deal with constrained capital dedicated for housing.
2. Given that the demand in India for simple improvements is very high, TAC has focused much of its effort on developing booklets and tech sheets to help clients who don't require the guidance of skilled workers or engineers to make small but impactful improvements. Although the pilot of the technical hotline has revealed that clients prefer face-to-face contact and information, the technical booklets and technical sheets have supported families in thinking through options and ideas for simple improvements.
3. Clients are willing to pay for services that help them achieve their housing goals. Services that are personalized, including the technical booklets and the associated technical services, further confirm that a fee for service model has proved effective when matched with the right product mix of housing support services.

Ensuring timely access to capital

This case study reveals the importance of the availability of timely capital to the success of a housing microfinance product. Lack of access to capital has resulted in GO making a lot fewer housing loans than planned. For instance, although 1,300 clients have gone through the training, GO has disbursed only 200 loans to date. In the absence of capital, GO has focused instead on making housing loans for small improvements such as sanitation or toilet loans of $460. Although GO is dedicated to building the portfolio with the housing microfinance product — and the board has developed a strategy for housing microfinance moving forward — the major hurdle to move beyond the first 200 loans is the timely raising of capital. The availability of housing-specific loan capital continues to be a constraint in piloting housing microfinance in India because of the microfinance crisis.

IV. Conclusion

This case study presents the experiences of the collaborative relationship between Growing Opportunities Finance and Habitat for Humanity India's TAC in piloting housing microfinance with housing support services in Tamil Nadu. Key lessons drawn from the experiences presented in this case will be valuable within the Indian microfinance sector and the broader microfinance community of practitioners. Specifically, ongoing monitoring and evaluation of the pilot reveals both demand for the product and satisfaction with the services among the clients. The pilot presents a housing support services model that responds to the varying technical needs of the clients and helps the institution ensure positive financial and social outcomes. Finally, the success of a pilot in a country with such high demand requires leadership and transformation throughout the institution to get the product right and grow.

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Key links:

Growing Opportunity Finance: gopportunity.net/

GO on Mix Market:
mixmarket.org/mfi/growing-opportunity

Habitat for Humanity India Technical Assistance Center:
habitatindia.in/housing-support-services/hmftac/

HOUSING MICROFINANCE WITH CONSTRUCTION TECHNICAL ASSISTANCE CASE STUDY:

Mikrofond EAD

This family received a housing microfinance loan from Mikrofond.

HFHI/EMEA

Executive summary:
This case study presents key lessons arising from the partnership between Habitat for Humanity Bulgaria and Mikrofond EAD. Although the need for housing improvement loans is significant among Bulgaria's low-income population, initial outreach targets for housing loans have not been reached because of overestimation of initial demand, capacity-related issues and a challenging external environment. In four years, Habitat Bulgaria and Mikrofond have built a successful partnership based on mutual interest and understanding of each other's operating and business models. Ongoing discussions and communication helped to continually modify the loan eligibility criteria and the pricing structure of loans in order to increase competitiveness and widen the potential clientele, while remaining focused on the low-income population. Both institutions have demonstrated their commitment to continue delivering financial and nonfinancial housing services, and both are exploring new opportunities to address housing poverty.

I. Introduction
This case study presents key lessons from the partnership between Habitat for Humanity Bulgaria and Mikrofond EAD Bulgaria. Specifically, it addresses lessons learned from a project run since 2008 to deliver housing microfinance services to clients in housing poverty throughout the country.

Habitat for Humanity Bulgaria is a national organization of Habitat for Humanity International. Since 2001, it has helped more than 1,300 families in Bulgaria. The organization works with low-income families and disadvantaged and vulnerable people to improve their housing situation. Habitat Bulgaria currently is engaged in various projects addressing poverty and child neglect, residential energy efficiency in condominium buildings, financial literacy programs for low-income families, and plans to build new homes in partnership with poor households in one town.

Mikrofond data as of December 2011	
Number of active clients	1,104
Loan portfolio (US$)	4,613,245
Number of branches/representations	14

For five years, Habitat for Humanity International has been working closely with the Dutch International Guarantees for Housing Foundation, or DIGH, to design and fund social housing projects in Bulgaria. With support from DIGH in 2008, it created a Joint Housing Fund in partnership with Mikrofond, a Bulgarian microfinance organization working in the market since 1999. Mikrofond, which started as a microcredit program of the Open Society Institute to serve the financial needs of microentrepreneurs, has become a sustainable financial institution and has maintained its focus on underserved regions and communities. Mikrofond's clientele includes microentrepreneurs and the low-income population of Bulgaria, who have limited or no access to banking services.

The Joint Housing Fund, created in this partnership, has a total value of €1,000,000 (US$1.31 million), of which €627,000 (US$823,840) is a loan received by Mikrofond from Habitat Bulgaria (financed by DIGH). The remaining amount is Mikrofond's own investment. The fund is a 10-year revolving loan facility that focuses on lending to low-income Bulgarian households. It offers home improvement lending in support of the low- and moderate-income families in Bulgaria, and supplies low-income families with access to energy efficiency loans with reasonable terms and interest rates. Home improvements usually include repairing roofs, insulating water pipes or exterior walls, repairing or replacing windows, updating bathroom fixtures, or replacing inefficient appliances. After four years of operation, the fund's use remains low; the housing loan portfolio is slightly above €200,000 (US$262,788), leaving the remaining €800,000 (US$1.05 million) unused.

The fund is not a separate legal entity; it is being administered daily by Mikrofond, which originates the loans, disburses the funds to borrowers, monitors the loans, and manages delinquent and defaulted loans. Loan application review and approval is a joint action of Mikrofond and Habitat Bulgaria, which is based on agreed-upon and jointly developed criteria and approved by the Joint Housing Committee with the participation of members of both organizations. Habitat also trained Mikrofond loan officers in assessing the construction aspects of the loan, and is available to provide technical assistance whenever needed.

II. Reviewing the experience

1. Opportunities and challenges for housing microfinance in Bulgaria

This partnership has a number of opportunities and constraints for further development of housing microfinance. In particular, these are related to external factors, such as macroeconomic conditions, the status of housing stock, the demand for housing loans, competitors such as consumer lenders and banks, and product- and capacity-related strengths and weaknesses.

Bulgarians are not active in the search of specific financial information. Thirty-five percent never discuss financial services with friends and relatives. The financial institutions are also not active in informing the people of their services and products. Fifty-seven percent of the population have never talked with bank officers, and 83 percent have never talked with insurance agents.

Source: "Financial Literacy Survey, Report on the Key Findings of the Survey," prepared for the World Bank, June 2010, Alpha Research.

Housing improvement needs and potential market for Habitat for Humanity and Mikrofond:
According to recent EU studies[1], as of 2009, around 7 percent of the population[2] — and more than 20 percent of those at risk of poverty[3] — are spending more than 40 percent of their disposable incomes for housing.[4] These people are considered "overburdened" by housing costs. In other words, their housing costs are too high compared with their earnings. About 15 percent of the population — most of whom are living below the poverty threshold — lives in overcrowded dwellings. About 17 percent of the population lacks basic facilities such as a bath or shower, hot running water and central heating. The existing heating systems often are poor, and a majority of basements and attic floors lack thermal insulation. Thus, most of the domestic energy consumption in the country is spent on heating. On average, 18.8 percent of Bulgaria's population suffered from severe

1. Source: "Housing Europe Review 2012: The Nuts and Bolts of European Social Housing Systems," CECODHAS Housing Europe's Observatory; Brussels, Belgium; October 2011.
2. The population of Bulgaria was 7.037,935 as of July 2011.
3. Those having incomes of less than 60 percent of the country's median income.
4. According to Eurostat's definition, the "housing costs" include mortgage or housing loan interest payments for owners and rent payments for tenants. Utilities — water, electricity, gas and heating — and any costs related to regular maintenance and structural insurance are likewise included.

housing deprivation in 2009, which is three times higher than the European average. These figures demonstrate the wide extent of housing improvement needs among Bulgaria's low-income population.

Housing finance supply and features of available products
Bulgaria ranks second in the EU in terms of most expensive housing loans for households . But even with the higher interest rates, the demand for housing loans is increasing in the country. Since 2010, financial institutions have launched several projects to bridge the gap in housing and energy efficiency financing through four commercial banks. These banks also provide a matching grant to the clients of 20 percent of the loan amount, which is considerably attractive for clients. The APR for these loans varies between 12 and 15 percent.

Still, many low-income households do not qualify for bank loans because of a lack of regular income or necessary documentation. Others use loans from consumer lenders for housing improvement and renovation purposes, although no specific research has been done in regard to what portion of consumer lending is spent on housing or energy efficiency needs. Some of the consumer lending companies in Bulgaria have an APR as high as 1,000 percent, but clients still approach these lenders because they value their extremely speedy service (some lenders are providing loans in just a couple of hours). Often, consumers are not even aware of the total price they pay for the loan. On one hand, such demand for fast loans indicates lower levels of financial literacy and a reactive approach among Bulgarian customers, who rarely consider the effect of the high-price loans on their family budget and do not research more affordable options, instead preferring an immediate service with a higher price. On the other hand, it is an indicator of the existing demand for consumer finance, including demand for housing loans.

This family is enjoying their recently renewed home.

HFHI/EMEA

In this environment, Habitat Bulgaria and Mikrofond have developed a product with a market-based price. The APR for housing loans is set between 13 and 14 percent. Clients receive housing loans in four to five days, which they perceive as very accurate, punctual and speedy. The client is given sufficient time to consider alternatives. As one client, Burkhan Nazifov Akhmedov, said, "Mikrofond does what they say, very precisely. We decide together on the loan size, repayment schedule, amounts and construction project. They also inform me when exactly I will get the loan. I received a friendly service with professional advice."

Most of the Mikrofond clients are those who either would be rejected for bank loans because of a lack of regular formally proven income, or who just do not apply to the bank because they do not trust it and presume they would be rejected.

5. According to European Central Bank statistics for January 2012.
6. Annual percentage rate, usually reflected as annual effective percentage rate, which takes into account the nominal interest rate and all kinds of commissions and fees paid by the client to the financial institution. Usually, the nominal interest rate is smaller than the effective interest rate, because the latter reflects all costs of the loan.

Habitat for Humanity and Mikrofond housing products options	
Loan amount	€500 minimum, €5,000 maximum.
Loan term and repayment schedule	Minimum 12 months, maximum 60 months (housing improvement) and 120 months (energy efficiency). Monthly repayment.
Target segment	Low-moderate income.
Interest rate (APR)	13.39 percent.
Collateral/security	Promissory note, guarantors or asset pledge.

2. Product development: Key factors for success or failure

Mikrofond and Habitat Bulgaria cooperated to develop the housing loan product. No formal market research or product development process was launched, but the product prototype was based on secondary data from other research, along with existing knowledge of the market and clients' preferences. Since 2008, the product has not undergone major changes in its design. However, based on feedback from staff and clients, lending criteria and pricing have been fine-tuned several times to obtain more clients. There is a common agreement that the product with its current parameters is generally in accordance with the demand of the sought-after low-income population[7]. But 2008 targets for the number of disbursed loans now appear overambitious, partly because no formal assessment of the market demand was done before the product was launched. In addition, the financial crisis, which started in 2008, highly influenced the preliminary projections, making them unrealistic.

Mikrofond and Habitat jointly developed and agreed on the criteria for the review and approval of loan applications. Initially, the requirements for clients to qualify for the housing loan included having incomes of 20 to 65 percent of the per capita gross national income, having severe home improvement needs, applying for a loan with maximum loan payment-to-income ratio of 25 percent, and having appropriate repayment capacities and good credit histories. This strictly limited the clientele to a niche group, and later the criteria were revised. The ratio of family income to average salaries in the region was taken as a basic filter, with specific thresholds for each region. Later, the criteria were revised again, and currently families who have incomes up to 100 percent of the average salaries in their region can qualify for the housing loan. These changes widened the potential clientele while maintaining the focus on the low-income population.

Pricing was also adjusted to reflect the market situation. Mikrofond has been communicating the effective interest rate to the market, without mentioning the nominal rate[8]. Although its effective interest rate of 13.39 percent was competitive and market-based, comparable with those of major banks and much lower than consumer lenders' prices, it was revealed that clients compared it to the nominal interest rates of competitors, which look much smaller than their effective interest rates. To stay competitive, Mikrofond and Habitat decided to communicate both the nominal and effective interest rates. Currently, the pricing is at an 8.8 percent nominal annual rate. Adding commissions and fees, along with the risk premium, brings the total to around 13.5 percent APR.

Taking the next step in tailoring the product to the clients' needs, the partners are starting a risk-based pricing model. The price will be calculated for each client based on income size, credit history and the level of the family's debt. It is anticipated that the effective interest rate will be between 12 and 18 percent in most of the cases, while clients with maximal risk scores could have an interest rate above 22 percent.

Loan information as of September 2012	
Number of loans disbursed	355 (vs. 750 projected)
Average loan size	€1,750 (US$2,299)
Average loan term	31 months
Average loan repayment (monthly)	€80

Most clients have expressed that the loan is affordable. This reflects satisfaction with the interest rate and the affordability of monthly repayment, which is in line with their payment capacities. The staff negotiates the repayment amounts with each client and makes an offer of a loan term within the

7. Clients express relative dissatisfaction with the requirements regarding co-signers when there is a lack of collateral.

8. The nominal interest rate is usually smaller than the effective interest rate, because the latter reflects all costs of the loan, not just the interest rate.

> *"This loan simply saved me. I don't know any other organization or bank who would give me a loan in my situation, and I desperately needed one to install a heating system and liquidate humidity in my house."*
>
> ***— Petya Bocheva, client in the Vratza area***

requested loan amount. In rare cases, the loan amount is decreased to reflect the client's payment capacities. The staff applies this practice, if necessary, so that clients are still able to make home improvements with smaller amounts and are not forced to find money from other sources, adding to their debt pressures.

Clients most value the speed, punctuality and friendly informal service of Mikrofond. Overall, a majority of clients, who live in rural areas or represent ethnic minorities such as the Roma or Turkish, say they most value the very fact that Mikrofond gives them access to loans and is working openly and transparently.

3. Housing support services:
Delivery of financial education

Habitat Bulgaria and Mikrofond jointly provide financial education programs to their existing and potential clients. The staffs of Mikrofond and Habitat Bulgaria are trained to deliver financial education on topics such as budgeting, saving, wise borrowing, debt management and financial planning. They also raise clients' awareness about the benefits and risks of using credit. Educational activities are run in a form of group trainings in various communities

> *"It was good to learn how to borrow smart from banks and other institutions, so that we don't get misled by advertisements. It would be very useful for the people from my community to learn how to cooperate with financial institutions, because they are quite afraid and think that it is very complicated."*
>
> ***— Dafina Krumova Nacheva, client***

of Mikrofond and Habitat Bulgaria. In partnership with Mikrofond, seven group trainings were delivered. A follow-up with some of the training participants shows that the majority of clients who received financial education found it useful and practical. Some participants reported increased savings due to improved attitudes toward planning and spending. Although the changes in behavior do not happen easily, many participants expressed willingness to better manage their money and make wiser use of financial services.

Despite relatively small outreach in financial education trainings, both Mikrofond and Habitat Bulgaria consider providing financial literacy to be a valuable part of their service and plan to continue. Although clients in general have expressed their satisfaction with the group trainings, it is still quite difficult logistically to ensure their participation over two working days for a comprehensive program. Therefore, alternativess are being explored, such as shorter training sessions on specific topics or individual counseling. The individual counseling is integrated into the conversation between the loan officer and the client over the loan, and thus it is an integral part of the lending process, not a separately delivered service.

The construction technical assistance services are not provided to clients on a regular basis, although the Habitat Bulgaria staff is available to do so on the request of Mikrofond or its clients. Generally, clients do not express significant interest for such services and instead use construction advice from their close relatives (for free) or pay full market price for specific construction and renovation services delivered by relevant workers. In general terms, the current clients respond positively to the idea of construction technical assistance, but they actually prefer to get advice and assistance from their own, verified sources.

4. Taking housing microfinance products to scale:
The institutional commitment and capacity

Growth in housing loans has been slower than projected for a number of reasons. There is evidence that the slow growth in the number of housing loans might not be product-specific, although objective market research information is missing in order to confirm this assumption. For example, Mikrofond's number of housing loan clients is about 20 percent of its overall clientele. Although no specific benchmark was set for this indicator, this percentage is quite high, considering

One way to increase scale is to increase the speed of the service, but this can happen at the expense of price and quality, said Georgi Breskovski, director of Mikrofond. "As a social organization, we cannot afford such change.

"This would also make it difficult to ensure the loan is being used for housing purposes — something that consumer lenders do not do but that is necessary in our case. Alternatively, we could run an aggressive countrywide marketing campaign, but it is costly and not justified within our scales.

"Demand for consumer and housing loans is still more speed-sensitive than price-sensitive, so consumer lending companies have their advantages." However, this is slowly changing. Once people start understanding the costs of loans and realize the importance of wise financial decisions, Mikrofond will be there to serve more people with its product.

that Mikrofond has seven other products, most of them for entrepreneurs, who are one of the main target groups. At the same time, the housing loan portfolio is only about 5 percent of the total loan portfolio of the organization, because of the smaller loan size and longer maturity terms.

Growth was not following projections for reasons related to objective assessment of market demand, along with the financial and economic crisis that has been taking place since 2009. Housing loan demand was overestimated; in practice, some of the implied demand was from over-indebted clients who would use the housing loans to repay their existing debts with banks and consumer lenders. On the other side, as of 2010, the economic crisis has also decreased the overall consumption of financial services, which has dropped back to its 2005 level.[9] This reflects the overall increased cautiousness of clients and some distrust toward financial sectors, especially from clients who take care about their credit histories. Strong competition with banks — and especially with consumer lenders — makes the expansion more challenging. Part of the perception of the "slower" pace of disbursement has to do with projections that were based on qualitative assumptions and became unrealistic with these changed external circumstances. Additionally, housing loan clients turned out to be less frequently renewing their loans (and getting the next loan) than business loan clients, because their cooperation with Mikrofond is usually limited to a single renovation project. Some clients express their willingness to take consecutive loans for new renovation projects, but their number is not significant.

Additionally, there are some operational issues preventing quicker growth in housing loans. This has to do with the fact that within the current scale, loan officers are dealing both with business and with housing loans. This puts significant expectations on the staff; they are expected to be equally qualified in serving two specific target groups with two distinct sets of products. In practice, however, some loan officers are better positioned to make business credits, while others do housing loans better. This results in a sometimes unbalanced composition of individual portfolios. The skilled loan officers with a corresponding set of values and motivations are not readily available in the labor market nowadays, so efforts should be put either into building the capacity of unskilled staff members or attracting professionals with previous experience in microfinance or banking. Creating a product-centered structure in the branches (when loan officers are dealing with a single product) has its own constraints and is not cost-effective, since there is no significant scale to afford such specialization yet.

"You have to stay involved and have ongoing communication. In our case, we have a lot of discussions on various issues, particularly around how to make the product more competitive and reach more people. We introduced several changes, and all of them were done as a result of mutual agreements."

— Mincho Benov, director of Habitat for Humanity Bulgaria

9. Financial literacy survey, "Report on the Key Findings of the Survey, Prepared for the World Bank," June 2010, Alpha Research.

"The NGO also has to understand our business model, as well as, for example, hire a financial specialist or have a manager who 'wears two hats': business and developmental."

— Georgi Breskovski, director of Mikrofond

This family was able to improve their house through a housing microfinance loan.

HFHI/EMEA

Mikrofond balances these tradeoffs by setting up incentive schemes that motivate housing loan delivery while incentivizing business loan delivery. Amounts of bonuses are tied up with the profitability of the products. The bonus for managing business loans is slightly higher because of their relatively higher profitability. On the other side, as most loan officers express, the general level of effort for housing loan production is somewhat lower than that for a business loan, and interest rates for housing loans are lower than those for business loans, which makes it relatively easier to attract housing loan clientele. These features help to ensure that loan officers are not biased toward one product, but make sensible marketing and lending decisions in correspondence with the organization's goals and objectives.

Mikrofond and Habitat Bulgaria built a successful partnership that went beyond a single project, and they are now working together to renovate blocks of flats within the National Program for Renovation of Residential Buildings in Republic of Bulgaria. This will also help to reach a bigger scale through the recently developed innovative financial scheme.

III. Key lessons

Partnering around common interest

In this case, two organizations of distinct types — an NGO and a for-profit company — have built a successful partnership that went beyond a single project. With significant differences in their business models, the organizations are successfully partnering to achieve common social goals. The dialogue does not happen automatically; the partnership is being developed around mutual goals, along with a recognition and understanding of each other's differences.

Despite its for-profit status, Mikrofond has routes in social development and a clear social mission. This made the mutual understanding easier. Mikrofond's interest in offering housing microfinance services lies in the areas of product and portfolio diversification and the organization's social mission and intentions. As Mikrofond director Georgi Breskovski said, "There were various motivations for the Mikrofond to engage in this program. It was a new product, for a new target group, and it was all in line with our social intentions and social ideas."

The institution was offering only business loans before, and it saw a perfect opportunity to introduce consumer loans while contributing to the achievement of social goals (improvement of efficient use of energy in houses). Mikrofond's co-investment into the Joint Fund is a sign of a solid interest in providing housing finance and of its long-term commitment to housing finance development.

In its turn, Habitat was looking for a sustainable and committed partner to serve low-income people and help them obtain decent living conditions. To build and manage the partnership, Habitat Bulgaria has demonstrated flexibility and stayed involved in constructive discussions around strategic and operating issues. Habitat has to understand how the housing finance fits in the overall business and general strategy of the microfinance institution. This involves a lot of communication, including between management and staff of both organizations. In this case, Habitat Bulgaria has also invested in hiring additional staff members with particular financial and banking experience, and it has a director with former banking experience. These made the two organizations even closer and helped them to better understand each other.

Exposure to new risks

Introducing a new product always brings risks. In the case of Mikrofond, there was a double risk, because the new product was introduced to a new, largely unfamiliar market: non-entrepreneurs. This market has a different set of players and is dominated by consumer lenders, and as such poses newer competition risks. It is thus important to keep one's fingers on the pulse of the market, to possess objective market information and to monitor its dynamics to better inform the scale-up strategy.

It is crucial to have the right staff, who are capable of promoting the product with the same degree of commitment and buy-in as other products of the microfinance institution. Since the housing loan delivery requires a slightly different set of skills, it might require training the staff or finding the right candidates, who are able to work with various types of clients. In general, loan officers have to take into consideration several new aspects, including suitability of loan amount to the renovation/construction budget, duration of the loan cycle, and stability of incomes during the loan term, which is relatively longer than that of the usual entrepreneurship loans. Housing finance also may demand specialization of personnel in order to increase their productivity. The microfinance institutions might consider adding new personnel rather than training the current staff, but this will depend significantly on the accuracy of the demand information and financial projections.

Setting realistic expectations based on market information

While the majority of current clients are satisfied with the housing loan product and find it quite useful for their needs, information is lacking about how nonclients perceive the product and what features of the product are preventing it from scaling up. Exact figures of the market demand for a product with such parameters are not available, and the disbursement projections were set at pretty ambitious levels, especially considering the strict lending criteria in the beginning of the project. On the other side, the slowdown of the growth could be attributed to more than just the housing product planning issues. The overall outreach of Mikrofond has also decreased, from 1,302 clients at the end of 2008 to 1,104 at the end of 2011. At the same time, as mentioned earlier, the housing loan is not and generally has not been underrepresented in the overall active portfolio. These suggest that the reasons for the slow scale might be related mostly to somewhat unrealistic expectations, especially during the crisis, along with general institutional capacities to address strong competition and the changing circumstances.

Managing loan and product portfolio

The vision of new, comfortable, renovated and decent houses can inspire a relaxed assessment of repayment capacity. However, this assessment should remain sound in order to prevent clients from getting into too much trouble with paying unnecessary big loans. "In the beginning we were too optimistic," said Albena Marinova, Mikrofond's credit director. "We would love to see a big change in clients' homes, and would disburse bigger amounts so that clients make their desired renovations at once. However, we ended up having bigger default rates. Nowadays, we advise clients to take smaller consecutive loans and make step-by-step renovation projects. Our loan officers, together with the client, make a choice of the right loan amount and loan term, so that it is enough for the project and is not too risky."

As a relatively longer-term and lower-priced product, the housing loan may look more attractive for clients who use other products, which causes unhealthy interest and misuse of it for other purposes. In order to ensure purposeful use of the housing loan, appropriate mechanisms should be introduced to avoid what is called "cannibalization of products," when market share of one product is lost to another product of the same company.

Practices introduced to ensure purposeful use of the housing loan:

- Photos of houses are being taken by loan officers or clients before, during and after the loan cycle.
- Loan amounts are given in two tranches: the second tranche is disbursed after the client presents evidence of housing works (either photos or receipts from or contracts with construction companies).

IV. Conclusion

This case study was written to review the experience of the housing microfinance collaboration established between Habitat for Humanity Bulgaria and Mikrofond EAD. The organizations have not reached the desired scale so far and are working together to find ways to make the product competitive and valuable for clients.

The experience underlines the importance of creating a stable and developing partnership in order to find solutions that could be applied to both organizations' benefit and, eventually, to better serve clients' interests. The experience is demonstrating the magnitude of risks that the microfinance institution gets exposed to once it decides to enter a new market segment with a new product, and underlines the necessity of having objective market information on which accurate projections and planning can be based. Last but not least, various issues related to the organizational capacities of partners to manage a diversified portfolio of products are revealed, and a focus on a new set of skills and product management qualifications for the staff is emphasized.

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Key links:

Habitat for Humanity Bulgaria: habitatbulgaria.eu/

Mikrofond: mikrofond.bg/

Mikrofond on the MIX Market:
mixmarket.org/mfi/mikrofond

MicroBuild fund:
habitat.org/hw/inside_habitat/MicroBuild_Fund.aspx

HOUSING MICROFINANCE WITH CONSTRUCTION TECHNICAL ASSISTANCE CASE STUDY:

Banco Santander

A woman in front of her improved house.

HFHI/LAC

Box 1: Missions of the partner institutions

Habitat for Humanity International's mission: Seeking to put God's love into action, Habitat for Humanity brings people together to build homes, communities and hope.

Santander's mission: To improve the flow of financial resources in the country, offering low-income populations lines of credit that allow the creation and growth of small businesses, creating jobs and income for the realization of life projects.

Executive summary

This case study presents key lessons that emerged from the partnership between Habitat for Humanity Brazil and Real Santander Microcredit in Brazil (the microfinance sector of Santander Bank), which began as the possibility of developing a portfolio management agreement. During the process of establishing the alliance, a great need was identified for low-income clients at Santander to improve their housing conditions, and Habitat Brazil showed interest in increasing the opportunities to access sources of funding and housing solutions for vulnerable populations. This coincidence of interests led to an alliance to develop a housing microfinance product, the process and lessons of which are presented in further detail in this case study. The new housing microfinance product would include a construction technical assistance component. Santander was in charge of providing the capital and personnel needed for the housing microfinance product, while Habitat Brazil was in charge of the design and implementation of a construction technical assistance model.

Out of this experience emerged several lessons relevant to the alliance processes — in this case between two organizations that serve low-income populations with different approaches. The main lessons in this case are:

a. For a partnership to be successful, there must be a recognized added value from each of the parties involved, which is why it is important to clearly define from the very beginning the purpose of the partnership, each organization's interests, the market sector that is to be served, the possible roles and responsibilities, the results expected, and a clear understanding of the possible internal and external challenges that may come up. The good intentions of the parties are not enough; a joint effort with appropriate input is needed to ensure a successful product.

b. A methodology is necessary to facilitate the participation of the different actors during the planning, design and implementation of the products and services that respond to the needs, preferences and capacities of the target population, along with the capacities and preferences of the institutions providing the new

product. These elements are fundamental to the development of products that are tailored to the reality and context in which they are to be implemented.

I. Introduction

This case study presents lessons that emerged from the technical partnership between Real Santander Microfinance, which is the sector of Santander Bank that is in charge of microfinance operations, and Habitat for Humanity Brazil, a national organization founded in 1996 that, to date, has served more than 6,000 families in Brazil. Habitat Brazil's main office is in the city of Recife. The project — to develop a housing microfinance project in Heliopolis, a *favela*[1] with a population of over 100,000 inhabitants in the state of Sao Paulo — had the support of Habitat for Humanity International's Latin America and the Caribbean area office through its Center for Innovation in Shelter and Finance, or CISF. In mid-2010, Habitat Brazil hired a consultant to decide how to manage its loan portfolio and identify potential funding partners. One of the potential partners identified was Real Santander Microfinance, which expressed no interest in managing the Habitat Brazil portfolio. However, both organizations identified opportunities to work together to serve vulnerable families in the *favelas* of Sao Paulo. The bank had already allowed the diversion of some productive microfinance loans for housing improvements, which led them to believe that there was a potential market for a housing microfinance product. Meanwhile, Habitat Brazil was already working on projects aimed at the improvement of housing in Heliopolis. Faced with this scenario, they began working together, and each one, based on their own expertise, took on part of the design. The bank adjusted the loan product, and Habitat Brazil handled the construction technical assistance component, all of which was done without the use of a specific and comprehensive methodology.

1. *Favelas* are settlements that lack property rights and are made up of below-average housing. They lack basic infrastructure, urban services and social facilities and are located in areas that are geologically inadequate or environmentally sensitive. In their search for affordable housing, the city´s poor are faced with a balance between location and property rights. The favelas offer proximity to jobs, commerce and urban facilities. ("Favela-Barrio Program, Río de Janeiro (Brazil)", study sponsored by Rio de Janeiro City Hall, 1996. habitat.aq.upm.es/dubai/96/bp028.html.)

Both organizations started out with a lot of enthusiasm but little clarity with regard to the target population and the potential market for Santander Bank in Heliopolis. They worked under the assumption that they could successfully implement a housing microfinance product by leveraging each organization's strengths.
The lessons reflected in this document focus primarily on the partnership process and the lack of a systematic methodology for developing the product.

II. Description of the pilot experience

1. Opportunities and challenges for housing microfinance

Brazil has a population of 196.5 million[2]. To date, 6 percent of the Brazilian population lives in *favelas*[3] concentrated primarily in Río de Janeiro and Sao Paulo. It is estimated that in 2020,[4] 25 percent of the country´s population (approximately 55 million people) will be living in *favelas*, the same ones that have tripled in size since the 1990s. The quantitative housing deficit currently stands at 8 million new homes (not including improvements, extensions, repairs, etc.), and it is estimated that at least 83 percent of this shortage is among families with an income below two minimum monthly wages (US$775). Of Sao Paulo's more than 45 million inhabitants, approximately 3 million have a housing problem, and at least 18 percent of those are living in critical conditions.

In Brazil, housing finance for low-income families is dominated by the state (Caixa Economica Federal, or FGTS), which primarily addresses the quantitative deficit with, for example, new housing. Access to housing improvement programs is very limited for the low-income population in the informal sector. Cooperatives provide loans only for their members; private banks do not serve this population; and microfinance institutions complying with existing regulations may provide loans only for productive activities. The microfinance institutions estimate that a portion of the loans granted for productive loans are diverted to housing.

Given this situation, Santander and Habitat Brazil identified a great opportunity to serve the low-income population (those earning one to six minimum wages a month) with a

2. World Bank, 2011
3. IBGE, Census 2010
4. U.N, 2010

housing improvement product that adapts to the progressive construction process of low-income families.

2. Product development: Key factors of success and failure

Product development was based on the hypotheses each institution proposed about the partnership. For Santander, the hypothesis stated that offering a housing finance product with a construction technical assistance component would be a distinguishing factor over the competition, would give families access to tangible changes in their living conditions, and would promote customer loyalty. For Habitat Brazil, who was already in Heliopolis, partnering with a well-known bank the size of Santander would provide a way to reach more families in need of home improvements, would position Habitat as the construction technical assistance provider for the microfinance institutions, and would influence the mobilization of other capital into the social housing sector.

Convinced of the strategic implications of this alliance, they proposed the following objectives for the product design:

a. Develop a housing microfinance product with construction technical assistance that is affordable for current Santander clients, in which Santander will provide the financing and Habitat Brazil will provide the construction technical assistance component.
b. Implement a pilot product in Heliopolis that can be extended to new communities in the future.
c. Place 300 housing microloans with construction technical assistance within the first six months of the pilot.

The development of this product was atypical and did not follow the methodological guidelines suggested by the CISF for the design and refinement of housing microfinance products.[5] The partners decided to redesign an existing product loan that Santander already had, adding some suggestions made by Habitat Brazil in terms of payment periods, amounts and interest rates, and they agreed to work with a target group having an average monthly income of one to six minimum wages (US$390 to US$2,340).

Box 2: Roles of Santander and Habitat Brazil.

Habitat for Humanity Brazil's role:

- Design a model of the services.
- Support loan officers visiting clients and assist with the design of the improvement.
- Promote the product in the community, along with Santander personnel.
- Provide the construction technical assistance service.
- Assist in personnel training processes.
- Monitor the pilot process.

Santander´s role:

- Provide financial and human capital for the placement of loans.
- Offer and place the product within the community.
- Coordinate promotional activities with Habitat Brazil.
- Coordinate visits and improvement designs with Habitat Brazil.
- Ensure payment of construction technical assistance services.
- Participate in trainings in order to guarantee an understanding of the product.

The roles, expected results and certain terms of the alliance were defined from the beginning. The product was designed based on secondary information available and some surveys in the community.

5. See the Housing Microfinance Product Development Tool Kit. May 2012. habitat.org/cisf.

ATTRIBUTE	DEFINITION OF THE ATTRIBUTE
Population	Current Santander clients, those with good credit histories, independent workers with the ability to pay the loan according to the assessment made by the loan officers.
Product and service	Improvement with construction technical assistance for housing, retail and rental locations, with contracts exceeding the credit period. Payment period: Four to 24 months, with monthly payments between US$2,500 and $7,500. Guarantee: Trust.
Price	Interest rate: 2 percent monthly. Value of construction technical assistance: 10 percent of the value of the loan (a separate charge).
Promotion	Conference, community radio, community cafes, pamphlets, grass roots community organizations.
Site	Heliopolis (clients only). South Sao Paulo Branch: 2,500 clients total (portfolio of US$2.5 million to $3 million), 900 active clients in Heliopolis (portfolio of $1 million to $1.5 million).
Personnel	Santander: Two loan officers, also serving other areas. Habitat Brazil: One construction technician and one architect.

The pilot was launched Aug. 15, 2011, with the goal of providing 300 solutions over the first six months. Personnel at Habitat Brazil and Santander were trained to handle the product two weeks before the launch; computer tests were conducted to include the new product; and training in the construction technical assistance component and marketing and sales strategy was carried out, including a field test.

By February 2012, six months after the launch of the pilot project, only four loans had been placed. After conducting a midterm evaluation, it was observed that many situations had limited the success of the project, and most of them should have been considered from the beginning of the partnership. It was determined that the product had to be redesigned completely, so the partnership was put on hold.

Some of the most noteworthy aspects that affected the implementation of the pilot project are:

- Challenges related to internal bank policies were not identified from the start. These include:
    - » Not allowing different placement goals between products.
    - » The lack of personnel dedicated exclusively to a product.
    - » The lack of specific incentives for loan officers for placing the product.
    - » Failing to identify the regulatory limitations on Brazilian finances that limited the scope and, in turn, the success of the new product.
- Because the bank would consider only its 900 existing clients in Heliopolis — where at least 20,000 families are constantly making improvements to their homes — this limited the access to the potential market in the area.
- There was no qualitative market study identifying the needs, preferences and capacity of the target population, which would enable the design of an adequate product. This was quite evident with the construction technical assistance component being the distinctive feature, which is not how Santander clients perceived it.
- There was a lack of coordination among the various aspects that need to be taken into account during the design stage of a housing microfinance product, such as:
    - » The limited training of loan officers.
    - » The lack of an office within the *favela*.
    - » The lack of distinct goals and specific incentives for the loan officers to promote the new product.
    - » The fact that the construction technical assistance component was not perceived as an added value among the families, which made it difficult to charge for the services.
    - » The lack of product ownership and clarity regarding the partner relationship. Santander was under the impression that it was helping Habitat for Humanity

A house renovated with a housing microfinance loan.

HFHI/LAC

with a social responsibility project, while for Habitat Brazil this was a social business opportunity to give low-income families additional access to housing solutions.

3. Construction technical assistance

The construction technical assistance was divided into two parts:

a. Construction technical assistance for nonstructural home improvements such as flooring, paint, ceramics, doors, stairs, roofing, treating leaks, electrical wiring and sanitation, which correspond to smaller loans and are less complicated to carry out.
b. Structural improvements and extensions such as redefining rooms; adaptating extensing and remodeling rooms; reinforcing the structure; designing and adapting the home for ventures (productive home), vertical or horizontal growth; etc. Such work requires technical assistance that is much more specialized, costly and demanding, along with supervision by an architect or engineer.

The construction technical assistance component, for both structural and nonstructural improvements, cost 10 percent of the total value of the loan.

The construction technician from Habitat Brazil accompanied the loan officer on initial visits in order to design a progressive improvement plan for the different stages with the family.

From the community's viewpoint, the authority on housing improvements is the local mason. Therefore the external construction technical assistance was not perceived as an added benefit, since families can carry out their improvements with help from the mason. This perception not only affected the performance of the service but also made it difficult to charge for the service.

Furthermore, the bank suggested on numerous occasions that the construction technical assistance had to be tied to "green" issues that generate savings in electricity and water bills, such as the collection of rainwater for domestic use and better use of energy and natural lighting. The families might perceive these savings as an added value, but they were never explored by Habitat Brazil.

As with the designing of the financial component, a market study exploring the needs, preferences and capacity of the target population in regard to the nonfinancial construction technical assistance component was not carried out, which resulted in a service that did not contemplate the viewpoint of the client.

III. Key lessons

Partnership between organizations

- The lack of an institutional assessment from the start, to evaluate capabilities and any internal limitations, can weaken the partnership and the implementation of a new product.
- Failure to define effective channels of communication hinders the achievement of the objectives established by the partnership.
- The lack of ownership at all levels within the financial institution regarding the partnership and what it is expected to achieve limits the success of reaching the goals established and fosters the breakdown of the relationship.
- To launch a partnership with little flexibility among the parties involved affects the potential success of the relationship and therefore the project results.

- The development of partnerships among institutions with vast differences in their capabilities and trading resources may require great negotiating skills on the part of the smaller organization.

Product design

- The establishment of roles, objectives, expected results and the timeline for the different stages of the project from the start, and as a team with the microfinance institution, is key to the successful design and implementation of the project.
- The lack of a leader with influence in the organization affected the acceptance of the product at different levels within the institution and affected the sense of ownership on the part of the financial partner.
- The lack of a methodology for market analysis and the design of the new product limited the adequate design, institutional preparation and subsequent implementation of the pilot product. This resulted in a product that was not well-structured or tailored to the needs, preferences and capacity of the clients and the microfinance institution.
- Limiting the project to a small market segment, either geographically or based on design constraints, limits the product's growth and sustainability.
- Failure to introduce specific incentives and placement goals for the new product makes it difficult for loan officers to accept it.

The added value of the construction technical assistance component

- The provision of a construction technical assistance component that offers families an added value by responding to the needs, preferences and capacity of the clients, including the various players who operate within the context of the product (such as masons or building material providers), can facilitate clients' acceptance and willingness to pay for the construction technical assistance service.
- The possibility of having technical personnel work from the financial partner's offices could strengthen the communication between the parties, facilitate loan calculations and streamline customer service.

IV. Conclusion

In this case, the lack of institutional analysis to evaluate the capabilities and limitations of the partner organizations to introduce a housing microfinance product, combined with the limited analysis of the regulatory and market context, the limited segment of the target market, the lack of a project leader, and the absence of the systematic process for the product design, resulted in the launch of a microfinance product that was weak and had minimal acceptance from the clients.

The lack of a market study that included not only existing bank clients but also potential clients led to the design of a housing microfinance product of little relevance for the bulk of the target population. The construction technical assistance component did not provide the target population with an added value because it took into account neither the culture and manner in which families in *favelas* carry out their improvement projects nor what they perceive as an added value. This is reflected in the comments made by clients who said they could use the money for construction technical assistance to buy more materials or to pay the mason.

A housing microfinance loan allowed this family to improve their house.

HFHI/LAC

There is great potential for housing microfinance products with construction technical assistance in the area selected for the pilot project, if the component meets the needs, preferences and capacity of the families as well as the interests and capacity of the financial institution and the organization providing the construction technical assistance services. Heliopolis is a community with more than 100,000 inhabitants that grows every day in structure and infrastructure, responding to a culture of self-construction. It is not possible to reach wide-scale expansion and sustainability with a product that is limited to such a small market segment, in this case, the 900 existing clients that Santander has in the area.

It is important to mention that the inability to keep the cost of the construction technical assistance component open without including it in the loan, whether through a commission or as part of the interest rate, made it difficult to manage and position one of the most distinctive features of this product.

Last but not least, it is not possible for a new product to thrive and compete with existing ones if there is no commitment and support from senior management, a dynamic project leader with influence, specific goals for product placement, and incentives that make the product attractive to loan officers.

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Key links:

CISF: habitat.org/cisf

Real Santander Microcredit: sustentabilidade.santander.com.br/default.aspx

HOUSING MICROFINANCE WITH HOUSING SUPPORT SERVICES CASE STUDY:

SELECT Financial Services

Judith Kumwenda, a client of SELECT, improved her house.

HFH/MALAWI

Executive summary

The partnership between Habitat for Humanity Malawi and SELECT Financial Services demonstrates the need for individuals in the lower income bracket in Malawi to have access to formal, affordable housing financing and affordable housing support services. This partnership was formed to collaboratively address the needs of clients in the housing finance industry. The lessons arising from this partnership are relevant to upscale housing microfinance lending in Malawi and also to the Habitat for Humanity International network and the microfinance practitioner community.

I. Introduction

This study outlines the challenges, opportunities and lessons learned in the partnership between Habitat for Humanity Malawi and SELECT Financial Services, which started at the beginning of 2011. The memorandum of understanding for this partnership stipulates that SELECT will provide housing finance loans to clients in Malawi while Habitat provides housing support services.

Habitat Malawi was registered as a nongovernmental organization in 1986 to address poverty housing in Malawi. Its vision is "a world where everyone has a decent place to live."

Habitat Malawi operates in the following program areas:

- Providing decent, low-cost houses to clients.
- Providing housing microfinance loans for home improvement or incremental building.
- Providing free houses to orphans and vulnerable children.
- Providing model houses and safe havens for families in flood-prone areas.

Habitat Malawi has built, rehabilitated, repaired or improved more than 8,563 housing units in Malawi since it was established in 1986, providing simple, affordable shelter for more than 872 households.

SELECT was incorporated in December 2007. Its business model is based on payroll-facilitated lending for housing finance and consumer lending. Through this model, employers deduct monthly loan payments from their employees' pay slips and remit them to SELECT. This practice enables SELECT to offer its clients competitive interest rates. The risk of nonpayment is also reduced while SELECT's clients remain employed.

Habitat Malawi and SELECT established this partnership to reach out to many low-income communities with housing microfinance loans and housing support services that are affordable and flexible. The role of SELECT is to provide housing microfinance loans, while Habitat Malawi provides housing support services. SELECT has already developed a housing microfinance loan product that targets salaried government workers as its major clients. This partnership had run for 24 months as of January 2013.

Box 1: Motivations for partnership

Habitat for Humanity Malawi

- Expertise in offering housing support services, including construction technical assistance.
- Desire to provide housing support services (including construction technical assistance) to low-income clients for home improvements and incremental building.
- The opportunity to work with a microfinance institution that has a large client base and loan funds through which the above services could be offered.
- Desire to learn the experiences of offering housing support services and to share these experiences with others.

SELECT

- Expertise in payroll-facilitated lending for housing finance.
- Great demand for housing microfinance loans in the lower income bracket in Malawi.
- Secured loan repayment deductions from government employees who are the major clients.
- Desire to bundle housing microfinance loans with nonfinancial services such as construction technical assistance.
- The need to learn from an organization that has the same mission of offering housing financial services, especially construction technical assistance.

Habitat Malawi and SELECT agreed on a broad framework for collaborative efforts to serve clients in ways that further each organization's mission. The parties agreed to:

a. Combine their resources, knowledge and expertise to complement and benefit each other's core work/business focus.
b. Continue the partnership that was established in 2011.
c. Formalize this organizational partnership at a local and national level.
d. Encourage local and national co-operation between Select Financial Service Malawi and Habitat Malawi.
e. Form a basis for future regional partnerships with Habitat for Humanity International (across Africa and the Middle East) and Select Africa.

II. Reviewing the partnership experience

1. Opportunities and challenges for housing microfinance in Malawi

Opportunities

- There is a great demand for housing loans in Malawi. In a 2009 UN-HABITAT study, it was observed that fewer than 1 percent of employed Malawians have access to mortgage funding. Financial institutions therefore see a huge demand for housing microfinance loans.
- SELECT can provide clients with easy access to loans. Most salaried government workers qualify for this loan because repayments are deducted at the source from their pay slips.
- The culture of self-building and the need to improve shelter conditions incrementally are entrenched in many parts of Africa, and this contributes to the high potential for housing microfinance.
- An incremental building system ensures affordable and flexible planning for homeownership, and this is common in Malawi. SELECT takes advantage of this opportunity.

Box 2: Responsibilities of Habitat Malawi and SELECT during the partnership

Habitat for Humanity Malawi will:

- Offer housing support services, including construction technical assistance, to SELECT housing loan clients for simple, low-cost housing construction or improvements. These services should include technical information, professional services and training, advice and services related to specific construction products, monitoring visits by constructions specialists, and structural engineering intervention.
- Provide a fee services schedule that SELECT will give to each client.
- Explain to clients which housing support services are included in the housing loan package, in accordance with the schedule of services to be provided by Habitat Malawi, and how to take advantage of them. (Any additional services requested by the client will need to be done in consultation with the Habitat Malawi housing support services specialist, and additional fees will be charged for this. These fees may be included into the loan — on agreement from the client — or may be paid for separately.)
- Inform SELECT of any changes to its fee structure or pricing, along with any procedural changes that will be of consequence and material to SELECT.

SELECT will:

- Provide loans for housing and housing-related purposes to clients within its target market through its regular loan application procedures.
- Make space and suitable facilities — desk, chair, filing cabinet and telephone handset) — available in its branch offices for Habitat Malawi employees and housing support services specialists.
- Refer all qualifying clients applying for the housing loan product to the Habitat Malawi housing support services specialist, with relevant documentation.
- Explain to clients which housing support services are included in the housing loan package, in accordance with the schedule of services to be provided by Habitat Malawi.
- Distribute to clients the information materials prepared by Habitat Malawi, including technical advice on construction, building materials and supplies, repairs and maintenance, and other relevant information to the construction process.Inform Habitat Malawi of any changes to its fee structure or pricing, along with any procedural changes that will be of consequence and material to Habitat Malawi.

- There are few microfinance institutions and banks that offer housing microfinance loans, so SELECT is filling this gap as effectively as it can.

Challenges

- The high inflation rate in Malawi (about 34.5 percent in December 2012) makes the cost of operating high, and consequently leads to high interest rates on loans to clients.
- Loan repayment deductions from government payroll are normally delayed, sometimes two to three weeks, and this causes distortions in the cash flow of financial service providers using this mechanism to provide loans to clients, as in SELECT's case.
- There is a large geographic dispersion of clients all over Malawi, so it is expensive to monitor housing projects undertaken by clients.

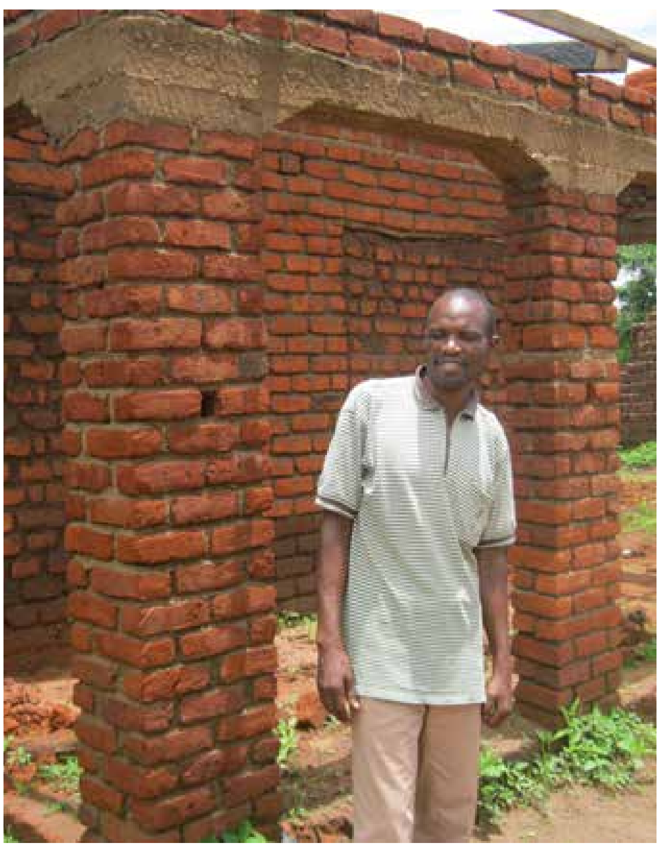
- Disbursement of loans poses a challenge as a result of inefficiencies in the interbank clearing system.

2. Housing support services

The memorandum of understanding subscribed to by the partners stipulated that Habitat Malawi would provide housing support services to clients of SELECT who benefit from housing loans. The greater part of the housing support services given to clients in the partnership has been off-site, including:

a. Technical information: Information kits, brochures, lists of builders or other noncustomized information available to housing microfinance clients.
b. Professional services: Design advice or services; information regarding permits, secure tenure and land issues; technical advice; etc. This is customized advice provided without a site visit.

SELECT client Stephen Mwakalagho is in the process of improving his home.



HFH/MALAWI

Some lessons extracted from the provision of housing support services to SELECT clients:

- The provision of housing support services to families through the network of a financial service provider such as SELECT (since housing support services are bundled with a housing microfinance loan) represented for Habitat Malawi an advantage in making this service available to a larger number of families.

- Habitat is one of the few institutions in Malawi that has expertise in housing support services, and this partnership provided it with the opportunity to offer these services to clients. Habitat Malawi's affiliation with Habitat for Humanity International also gives it recognition in the housing microfinance industry.

- SELECT leveraged its financial services infrastructure and outreach with Habitat Malawi's technical know-how in housing support services to react to a clear demand that was not otherwise being served.

- Ideally, housing support services should be provided before the loan is approved, so that they form part of the appraisal process. However, in practice, housing support services are given to SELECT clients after the loan is approved, which makes their relevance debatable. Under the memorandum of understanding, it was stated that "SELECT may use the construction technical information and assessment made by the HFHM HSS specialist in its assessment of the loan applications. However, SELECT's approval of loan applications will not be dependent on the HSS technical information and assessment, and will remain at the sole discretion of SELECT." The challenge for SELECT is that using the housing support services advice that relates to a particular loan application might delay the approval process, so it approves the loan before the housing support services advice is given.

- There is no clear separation as to which level of housing support services the clients are paying for. According to the MOU, "SELECT will explain to clients what HSS services are included in the housing loan package, in accordance to the schedule of services to be provided by HFHM. (Any additional services requested by the client will need to be done in consultation with the

HFHM HSS specialist and additional fee(s) will be charged for this, such fees which may be included into the loan applied for by the client, on agreement from the client, or may be paid for separately by the client.) SELECT will provide the additional services fee schedule to each client." Habitat Malawi is offering technical information, professional services and some level of on-site supervision, but the schedule of fees for further on-site housing support services is yet to be agreed on by Habitat Malawi and SELECT.

- To quote from action items agreed upon after the January 2012 meeting with SELECT, Habitat Malawi, at a monthly review meeting with SELECT, was to: "Define our policy on HSS services we provide for SELECT clients so as to clearly demarcate the services that are included in our standard fee, and what the fees are to be charged directly to the client by HFHM for additional services. We need to make sure that we inform clients of what the policy is, so that if they want us to do an additional service, they know how much they would need to pay for it." Based on client responses, there is some confusion regarding fees and what they are for. Clearly, no housing support services fee schedule or description of services has been written, so clients are confused about what the services are, how much they cost and who is doing them. They often think Habitat Malawi employees are SELECT employees.

- There are only three Habitat Malawi housing support services specialists at SELECT, and it is really difficult for them to meet all clients who received housing loans.

Status of the housing microfinance product (December 2012)	
Number of loans disbursed	6,000
Percentage at risk over 30 days	2%

3. Product development: Key factors for success or failure
The partnership agreement did not place any responsibility on Habitat Malawi for product development. This was done exclusively by SELECT, and the features of the home loan product (Table 1) illustrate the resolve of SELECT to meet the housing needs of civil servants in Malawi.

Table 1: Features of the SELECT home loan product

Product definition:	The SELECT home loan product is used for home improvement or incremental building. **Average loan amount:** MKW 110,000 (US$310) **Average loan term:** 30 months **Collateral requirements:** Loan repayment deduction at source with a letter guaranteeing continuous employment with the applicant's organization.
Population:	To serve about 160,000 clients who are government civil servants or employees of para-statal organizations.
Price:	**Interest rate:** 40 percent flat per annum. **Other charges/fees:** Initiation fee and monthly administration fee.

To prevent clients from diverting the loan for other purposes, SELECT included that a client must sign a confirmation of use document and that Habitat Malawi's staff will make selective post-contract calls. There is also a clause in which SELECT reserves the right to discontinue future loans with clients who divert loans.

Key factors for the success of the product include:

- The "SELECT Home Loan Product" is a brand for SELECT Africa, focused on unsecured credit for the purpose of housing.

- The inability of financial service providers in Malawi to address the housing needs of clients makes the home loan product a welcome loan product.

- The operating platform provides seamless processing, centralization of loan approvals and easy expansion into new markets.

- The two partners have separate competencies that augment each other. Habitat Malawi has strong competencies in housing support services, and SELECT has a fast loan-processing methodology.

- Capital is available from SELECT to extend the loan facility. Habitat Malawi would have found it difficult to do this with its own funds.
- Competent staff members from both institutions are committed to the success of the product.

Factors that could lead to the failure of the product:

- Product knowledge is important for both SELECT and Habitat Malawi housing support services officers. If clients realize that officers do not understand the product, they are not likely to patronize it.
- There is no appropriate standard of performance for Habitat Malawi's housing support services officers. It is difficult for Habitat Malawi to monitor the performance of the housing support services officers who are stationed at SELECT branches.
- Housing support services officers have inadequate skills to operationalize the product and grow it to scale.
- SELECT's management information system has certain limitations. Top-up loans that are not housing loans are classified as housing loans by SELECT's loan-tracking system, thus creating an inaccurate portfolio of housing loans.
- If the staff is not motivated and committed to the product, it could easily fail.
- Inflation rates may make the cost of doing business untenable.
- There is a risk of loan diversion.
- Two requirements for a loan — pay slips and bank statements — are difficult to get from clients.
- Clients might intentionally refuse to see housing support services specialists because of their intention to divert the loan from SELECT to purposes other than housing.

Box 4: Increasing Habitat Malawi's capacity to support microfinance institutions

Habitat for Humanity Malawi aims to:

- Develop housing support services and bundle them with housing microfinance whenever there is demand by the microfinance partners (and clients by extension).
- Increase and develop the internal capacity to support microfinance institutions (both in terms of hiring more construction technical assistance staff members and providing the staff with more training.)
- Increase the number of microfinance partnerships to introduce or scale housing microfinance products.
- Increase the number of those served through housing microfinance products and services.

- A large number of clients cannot be visited because of their geographic dispersion. SELECT loan clients are government workers in Lilongwe or Blantyre who are doing home improvements or incremental building in their hometowns, which are scattered all over Malawi.

4. Scaling up housing microfinance commitment and capacity

Habitat Malawi and SELECT are both committed to scaling up the housing microfinance product with housing support services. Both see housing microfinance as a priority in terms of supporting their social mission. However, the available skills capacity, financing and incentives that housing support services officers need to do this successfully must get appropriate attention.

SELECT has a considerable number of client consultants (both office- and field-based) who process client loan applications expeditiously. The large number of government workers (approximately 160,000) provides ready demand for the home loan product. Habitat Malawi's growing reputation for providing housing support services, evidenced by its 25 years of operation in Malawi, inspires a huge vote of confidence and trust among current and potential clients. Habitat Malawi will also continue to receive institutional technical assistance from Habitat for Humanity International's Center for Innovation in Shelter and Finance. However, a number of challenges will need to be addressed, including:

- **Loan amounts:** Construction materials are becoming expensive, and this has implications for the loan amounts. There is a further risk that large loans could create delinquency.

- **Housing support services:** There is confusion in the minds of clients as to what they are paying for in terms of the housing support services. Both SELECT and Habitat Malawi need to educate the clients on what they are paying for and what other housing support services are available at additional charges.

- **Economic challenges:** Inflation has been on the rise. By December 2012, the inflation rate was about 34.5 percent, posing significant challenges for any profitable organization. If it is not stabilized, it will affect the ability of clients to repay their loans.

III. Key lessons

- There is a need to use housing support services advice as input in SELECT's loan appraisal process. Currently, the loan is approved before the clients are referred to Habitat's housing support services officers. In most occasions, the advice given will not be relevant to the client, especially if the loan amount is small.

- Clients need education on the type of housing support services they are receiving and how much they are paying for it. They also need to know which additional housing support services are available and what additional fees they will pay if they request them.

- Ensuring that housing support services officers have appropriate technical skills and can rise to the challenge of meeting their operational costs (especially field visits) is important for scaling up housing microfinance bundled with housing support services. An evaluation report on the partnership carried out in April and May 2012 revealed that Habitat Malawi is covering only about 43 percent of its expenses from the fees received from SELECT. This is not sustainable and needs to be addressed.

- The best practice in mortgage financing is to charge a declining interest rate. Currently, SELECT charges a flat rate, and clients are rightly perceiving this as expensive. It would be appropriate for SELECT to review its pricing policy to either be consistent with or better than those offered by mortgage lending institutions.

- A performance monitoring and evaluation methodology should be adopted by SELECT and Habitat Malawi to ensure housing support services officers are up to duty efficiently.

- Regular monthly meetings between the management of SELECT and Habitat Malawi are necessary to iron out operational challenges.

IV. Conclusion

This case study was written to review the experience of the housing microfinance partnership established between Habitat for Humanity Malawi and SELECT Financial Services. The partnership has been in existence since January 2011 and has served about 6,000 clients with loans and housing support services. Through this project, both organizations have been able to deliver on their missions and consolidate their market positions by offering a niche product.

A number of key lessons have emerged from this project, which are relevant not only to the project partners but also to the wider housing microfinance community.

- When offering housing microfinance loans with housing support services, it is important to ensure that housing support services and advice form part of the loan appraisal process so that the client benefits from both bundled products.

- Partnerships of this kind require clearly defined roles and responsibilities if any measure of success is to be achieved. Frequent meetings are relevant in ensuring that everyone sticks to their roles and that there is an opportunity to address very quickly any emerging challenges that could be a threat to smooth operation.

- Meeting the operational costs of housing support services by both parties is important to ensure sustainability of the bundled services.

- Loan clients must be educated on the type of housing support services they will receive and how much these services will cost them. Any additional charge for advanced housing support services must be laid bare to clients so they can decide whether they need these services.

- Both parties in the partnership need to establish a monitoring system that will track the correlation between housing support services and improved quality of housing interventions. Information gathered on this correlation will go a long way toward devising appropriate strategies to scale up housing microfinance bundled with housing support services.

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HOUSING MICROFINANCE WITH CONSTRUCTION TECHNICAL ASSISTANCE CASE STUDY:

Tulay Sa Pag-unlad Inc.

This TSPI client was able to improve her kitchen.

JENNIFER OOMEN/HFHI

Executive summary

TSPI's housing microfinance loan began as a loyalty program for longtime borrowers. But in six years, it has expanded to 75 percent of TSPI branches throughout the Philippines. TSPI quickly realized that it could reach thousands of poor Filipinos seeking to improve their shelter by offering a loan that responds to the demand of its clients. TSPI is now a recognized pioneer in providing home improvement loan products in the Philippines.

What emerges throughout this case study is the role that institutional commitment from the inception stage has on the success or failure of the product's pilot and institutionalization. Additionally, the case study examines the role of partnerships — specifically in the pilot phase — in the development of products. These lessons are relevant for any microfinance institution considering offering a housing microfinance loan.

I. Introduction and background

This case study presents key lessons arising from the housing microfinance experience of TSPI. Specifically, the study seeks to understand:

1. How TSPI found itself at the forefront of the provision of housing microfinance in the Philippines.
2. Lessons learned from the delivery of housing support services.
3. Considerations for scale.

TSPI,[1] the oldest microfinance institution in the Philippines, is a mission-driven organization that aims to provide individuals and communities the opportunity to experience the fullness of life through a broad range of microfinance services for micro- and small-enterprise development. Upon starting operations in 1981, TSPI's first program was an individual lending program targeting small entrepreneurs and other economically active poor Filipinos, such as tricycle drivers with business expansion plans that could create economic opportunity. Although it began with individual lending, TSPI became a Grameen model[2] replicator in 1992. TSPI's expansion into social development loans such as housing was a strategic move aligned with its mission to help communities improve more than just their businesses.

TSPI soon realized that some clients with successful microenterprises were still unable to raise the capital needed to provide secure and sturdy housing for their families. To celebrate its 25th anniversary in 2006, TSPI developed a housing reward program for high-performing clients. What TSPI discovered from this experiment with housing microfinance was that by investing in these family's homes, the productivity of home-based businesses increased. By this time, TSPI already realized that many families were siphoning off part of their business loans for activities that do not generate income, such as housing, and this was affecting the growth of their businesses.

Table 1: Housing loan product's key financial performance statistics (July 2012)

Total amount disbursed	US$7,000,000
Loans disbursed	11,000
Average loan size	US$732
Percentage at risk over 30 days	1.62%

In 2006, TSPI established a partnership with Habitat for Humanity Philippines to garner its support and technical experience in housing for the poor. Under the partnership, TSPI engaged Habitat Philippines to provide technical assistance in the development and implementation of a home improvement loan product. The partnership combined TSPI's competence in microfinance with Habitat's competence in house construction for low-income populations. Habitat Philippines provided institutional technical support and construction technical assistance to pilot the new product in four branches in Metro Manila: Taguig, Paranaque, Antipolo and Las Pinas. Both organizations worked together for two years until the pilot was completed. From this partnership, TSPI was able to build its internal capacity to provide housing products. Management also realized the effectiveness of combining the financing for housing with nonfinancial support services for the housing and sanitation loan program. TSPI took the product to 128 of 167 branches located throughout the Philippines, a country that comprises 7,107 islands in the western Pacific Ocean.

Response to TSPI's housing products has been good, speaking to the high demand for improved housing throughout rural and urban areas of the Philippines. As Table 1 shows, TSPI has disbursed 11,000 housing microfinance loans worth more than $7 million since 2006.

II. Evaluation of the pilot project

1. Opportunities and challenges for housing microfinance in the Philippines

Several million Filipinos live in substandard housing conditions, and continued migration into the urban areas is aggravating shelter deprivation. There are more than 500,000 informal settlers in metro Manila and 5.8 million throughout the Philippines, yet there is a housing backlog of 3.75 million families. Commercial and business developments in urban areas have not been accompanied by housing development, especially in metro Manila, and it can be assumed that housing development will continue to lag. The poor in the Philippines can access some of the government's social housing projects, but the supply of such projects continues to be insufficient to address the demand. Continued migration to the urban areas, particularly Manila, is raising the price of shelter. The Philippines is the most disaster-prone country in the world, according to the U.N.'s Office for the Coordination of Humanitarian Affairs (2011). It is usually affected by 15 cyclonic storms per year, and in the aftermath of disasters, rebuilding must be both quick and efficient.

Within this context, TSPI is in a rather unique market position as the only microfinance institution providing housing microfinance products in the Philippines. Despite high demand for housing improvements, renovations and repairs, the market is underserved by the housing finance sector. The primary sources of funds for home repair for those with low or very low incomes (known as "the base of the pyramid") are government subsidies and personal savings. Additional opportunities for housing microfinance could include expanding to bundled products such as microinsurance and microsavings. Despite regulatory changes allowing microfinance institutions to lend for housing[3] in the Philippines, the microfinance climate is such that institutions are not moving into this space, mostly because of the focus on reducing overindebtedness and bringing down the PAR[4] of their clients.[5]

2. Product development: Key factors for success or failure

The success of TSPI's housing loan goes back to its mission-driven foundation. TSPI's management studied

1. TSPI is a nonstock, nonprofit development organization registered with the Securities and Exchange Commission.
2. The Grameen Bank is a microfinance organization in Bangladesh that uses a group-based credit approach to make small loans to the impoverished without requiring collateral.

the organization to understand if it was ready to venture into housing loans, being particularly deliberate in the institutional evaluation stage. When looking at the response to its reward program, TSPI realized that social development loans would help the microfinance institution achieve its mission and vision.

The strength of TSPI's housing product starts with careful attention and consideration to product development. Senior management identified a product champion who oversaw the product development process. This person managed the internal process of bringing all the branch staff and management on board and ensuring the systems, policies and procedures facilitated the rollout of the new product. Staff at all levels were closely consulted throughout the process — not just selling the idea of housing but walking alongside — otherwise there would not have been internal buy-in.

JENNIFER OOMEN/HFHI

This family finished their home thanks to a loan from TSPI.

The strength of TSPI's housing microfinance portfolio starts with careful attention to product development.

3. Housing microfinance is regulated by Bangko Sentral ng Pilipinas, which issued Circular 678 on Jan. 6, 2010, recognizing loans for housing to microfinance clients as part of a wide range of financial services to the microfinance institution sector.
4. PAR refers to the percentage of a loan portfolio at risk over 30 days.
5. An ADB Overindebtedness survey revealed that the average microfinance borrower in the Philippines lends from no fewer than four sources.

Table 2: Key features of TSPI's housing loan products

Product feature	Housing loan (includes improvement, repairs, extension).	Sanitation, water and electrical connection loan.
Clients become eligible to apply	2 years	1 year
Amount	US$360-US$2,401	US$120-US$480
Term	< US$480 for 12 months, weekly. < US$2,401 for 36 months, weekly.	US$120- US$480 for 18 months, weekly.
Interest rate	1.5 percent per month add-on or 18 percent per year with 20 percent discount on interest for prompt payment.	
Collateral	Loans less than US$480 require notarized housing loan agreement, two co-signers, and proof of lot ownership. Loans greater than US$480 require a mortgage contract, housing loan agreement, proof of lot ownership, and one to two co-signers.	Two co-signers; notarized housing loan; contract of usufruct if proof of lot submitted is not under the name of the borrower or spouse.
Administrative fee	5 percent of the total materials and labor.	

From the beginning of the pilot, TSPI understood there was tremendous potential for the product. The test at four branches in metro Manila revealed that the product was well-received and the demand would outpace the availability of funds. Within a year, additional branches outside of metro Manila began to request staff to begin offering the home improvement loan. To strategize where to place its limited human resources, TSPI's product development team developed a profiling tool to help interested branches determine whether offering the housing product was financially viable. The branch profiling tool is a simple market study to project demand, develop a client profile and determine if a minimum of 500 clients in the area are interested in the housing product.[6] By equipping the branch managers with an assessment and profiling tool, TSPI achieved a shared ownership over the implementation of the product and ensured careful steps were followed to make it a success. TSPI leadership emphasized this point: "It wasn't the main office who chose where to roll out the product next, but rather we provided a guide to help our branches decide whether hiring a project officer and offering a housing loan will be viable."

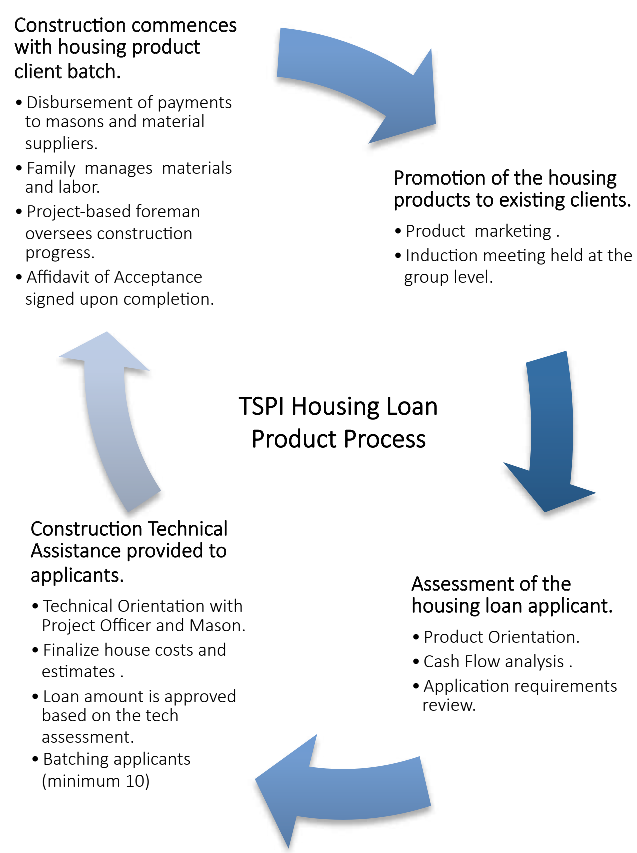
Third, where barriers may have appeared, TSPI found ways to balance risk with product innovation. For example, the product it has developed is highly supervised. Loans are disbursed directly to suppliers, and minimal cash is disbursed to the client to ensure that funds are used as intended for housing improvement and projects are completed on time. Because a high-touch home improvement loan product is potentially constraining TSPI's profitability, the microfinance institution is going through a full profitability review to determine how to best proceed[7].

Finally, synergies with housing specialists helped TSPI navigate the prepilot and the pilot phase of product development. TSPI established a partnership with Habitat Philippines to garner its technical experience in housing for the poor. Habitat Philippines' institutional technical support included developing checklists, brochures and a revised loan application format for housing clients. Habitat Philippines trained TSPI staff in housing microfinance processes and products. Partnering with Habitat Philippines helped TSPI manage its startup risk until TSPI was able to internalize the construction technical assistance features to bring the product to all of its branches, particularly outside of Manila.

3. The value of housing support services: In-house construction technical assistance

The construction technical assistance component of TSPI's housing products is designed to provide the technical advice its high-performing clients need to improve their homes, whether through house repair, renovation, extension or through adding water, sanitation or electrical facilities. Feedback both from clients and TSPI staff reveals that clients are satisfied with the construction technical assistance

Figure 1: TSPI housing product process flow



Piloting demonstrated the value of technical services to our clients.

6. TSPI has calculated that a branch needs to have a pool of 500 clients to reach financial viability in two years, which is the minimum target.
7. Their operational self sustainability is 102 percent.

provided, in terms of both the level of support from the project foreman and the ability to access materials at discounts.

The one-year pilot phase of the housing product helped TSPI management understand the value of construction technical assistance to its clients. "We learned from the pilot phase the true value of the technical services to our clients," said Lyn Onesa, director of programs at TSPI, "and it was important that we continue to offer those services to improve the housing of the clients."

Additionally, TSPI outsourced the construction technical assistance to Habitat Philippines for two years. Habitat Philippines organized project foremen, masons and general oversight of the technical portion of the product in four branches[8] in Metro Manila: Taguig, Paranaque, Antipolo and Las Pinas.

Since 2009, TSPI has brought the construction technical assistance in-house. It now offers the home improvement loan product in 128 of 167 branches. Construction technical assistance is provided with every housing product, and clients pay a 5 percent administrative fee on the total cost of materials and labor to cover the cost of the technical services.

In terms of process flow, the following are three key features of TSPI's product: providing in-house technical support, batching clients and minimizing cash transactions.

TSPI institutionalized the role of the construction technical assistance personnel by focusing on two key construction technical assistance staff members: a project officer and a project-based foreman. This team is integrated within the microfinance institution staff and plays an integral role in the delivery of the housing products by managing the overall process (see Figure 1). The project officer is responsible for running the housing loan process and ensuring customer satisfaction. In some cases, one project officer may service multiple branches in the same province, depending on the population, geography, demand and distance.

Home improvements financed with a housing loan are fully supervised by a project foreman. This is a service many clients would not avail on their own, but in a group setting, it becomes affordable. Follow-up surveys reveal satisfaction with the service and support provided. TSPI uses a batching system for housing loan clients, organizing them into groups of 10 applicants. Similar to the group lending methodology, batching the loans reduces costs to the microfinance institution in terms of loan release. Additionally, delivery of construction technical assistance services to the client is organized around the batch, which TSPI credits with resulting in better construction, and offering access to discounted materials, a savings passed on to the clients. Clients benefit from the administrative, management and technical support provided by a locally accredited foreman at an affordable cost. The batching system also assists TSPI

Box 1: Clearly defined roles to manage the construction technical assistance process are important to integrating technical staff into the microfinance institution structure.

The role of the project officer is to focus on the housing loan process, including:

- Batching the housing applicants and providing product orientation training.
- Coordinating the accredited project foreman.
- Monitoring the progress of the housing product usage.

The role of the project foreman is to focus on the construction batch management, including:

- Conducting a site visit.
- Creating a cost estimate and bill of quantities to inform the loan amount.
- Overseeing the labor during the construction process.
- Closing the batch construction with affidavits of acceptance.

8. Smaller branches that would like to offer a housing product can combine and split costs and resources in order to meet the minimum requirements. The remaining 40 branches are newer and will implement the product in 2013.

in organizing the low-cost delivery of construction materials directly to clients' houses. Even clients in remote and far-flung areas can access affordable supplies.

The loans are disbursed directly to suppliers based on the client's individual project plan. The plan provides a breakdown of costs required to complete the project and specifies how the loan proceeds will be disbursed. Given the batching, suppliers are offering discounts of 5-10 percent because of bulk purchase of construction material. Additionally, this process ensures that the home improvement will be completed within the set period and that the loan is being used for housing. There is a high cost to the institution in terms of internalizing many of the technical service capacities, but it ensures a risk profile the institution is comfortable with for the home improvement products.

4. Taking housing microfinance products to scale: The institutional commitment and the institutional capacity

The past six years have demonstrated that TSPI is committed to housing microfinance product innovation and is looking toward scale. It has internal systems and incentive schemes in place to implement a housing product successfully. Importantly, TSPI continues to see housing microfinance as a priority in terms of supporting its social mission and has backed that up by making the financial and human resources available to support the product.

Toward the goal of building the institution's capacity and commitment, TSPI has integrated the housing microfinance product into its staff incentive scheme. TSPI has set staff benchmarks across all of its branches in the country, and the staff is rewarded based on the number of housing loan clients, loan size, and repayment rate on a trimester basis. More than 65 percent of branches meet their targets. Feedback from the pilot reveals that account officers and branch managers have also bought into the social development loan offerings and appreciate the role that construction technical assistance plays in helping their clients improve their homes.

While TSPI has received sanitation product guarantee funds or corporate social responsibility funds from corporations, TSPI funds the home improvement loan program primarily with existing loan capital. TSPI has projected that with dedicated capital it could scale its operations; currently its outreach is only 5 percent of all active borrowers. The demand of the client base is far larger; TSPI estimates it could absorb more than $5 million[9] to lend for housing microfinance. At the same time, TSPI anticipates expanding the product into its last 40 branches by the end of 2013. TSPI is committed to offering housing support services with the housing microfinance product. After careful analysis at the end of the pilot phase, TSPI determined that to fully realize its vision for the product, it would need to internalize the project officers into its operational structure to support the rollout in its branch network throughout the country. Two main factors contributed to this: cost and efficiency. In the metro Manila area, it was financially viable for both TSPI and Habitat Philippines to partner, but outside of the Manila area, Habitat Philippines' network structure had quite a different reach than TSPI's branches. As a transition strategy, it was agreed that Habitat Philippines would continue to provide institutional technical assistance to TSPI's staff. The result was a viable business model for TSPI to deliver housing microfinance products throughout the country.

Even though the construction technical assistance has been brought in-house, the product continues to be costly to deliver. The batching system is a marketing strategy to retain clients who perform well and to help generate demand from the groups for the housing loan products. However, relying on batching reduces the speed of the loans' release, which might help with cash flow but also could compromise client satisfaction. There may be alternative ways of positioning the graduated loan product for its high-performing clients, and TSPI and other group-based institutions might explore how to graduate clients to individual lending. Institutional technical assistance to promote a pure individual lending strategy could explore this further.

9. MicroBuild Global Fund, an initiative of Habitat for Humanity International, is considering an investment in TSPI.

III. Key lessons

Institutional commitment leads to better product development

Institutional commitment is crucial to the success of new housing microfinance products. One of the best examples of the institutional commitment was that TSPI put forward its own capital to test the product in the early stages. The management team had a high impetus to see the product development through and to launch and structure a well-designed product.

Second, although there was one official product champion at the head office who facilitated the product development process, TSPI's board, management and branch staff all created the synergy necessary to move forward with the pilot. The management team supported the product with the needed policies and procedures. For example, TSPI's incentive scheme and staffing strategy shows a commitment to mainstream housing microfinance into its product mix.

Finally, the continuous cycle of product evaluation and innovation helps promote internal learning and generates ideas. Through feedback from the clients and the branch staff, TSPI diversified to more specialty loan products, including loans for toilet construction, installation of septic tanks, water connection and, most recently, electricity connection. The branch-profiling tool provides ongoing opportunities to understand clients and their preferences. TSPI continues to expand its technical capacity to meet these diversified housing needs and is willing to test new approaches as the demand changes.

Partnerships help navigate new markets

TSPI's leadership believed that incorporating best practices of housing experts would help the new housing microfinance product succeed. "We would have had to spend a lot more time in the research stage before launching the product if it wasn't for partnership," said Lyn Onessa, director of product development at TSPI. "We did not have internal specialization when we started." Training received by TSPI helped build internal capacity and mitigate the risks of launching a new housing microfinance product. TSPI largely credits the pilot phase with the success of offering the product at 128 of its 167 branches. Even five years after the pilot, TSPI continues to engage with experts to improve the product, including Habitat Philippines, materials suppliers, experts in water and sanitation, and local cement companies.

Dedicated project officers for housing

Dedicated project staff for housing has helped TSPI focus on and meet the product targets. Traditionally, many nongovernmental microfinance institutions have not dedicated staff members to housing microfinance, instead adding it to the already-full portfolios of their existing project officers. By focusing on training existing staff but hiring additional dedicated staff, TSPI is communicating to its team that the product is important to its clients. This affords TSPI the focus to develop, refine and scale the product as the demand warrants. TSPI continues to explore how to provide a better service that helps its clients improve their homes. The anchor of that better service is a dedicated team member who is funneling experiences and information back to the head office and who has the time and focus to help clients access improved housing.

IV. Conclusion

This case study presents the experience of Tulay Sa Pag-unlad Inc. in extending housing microfinance to low-income Filipinos. It explores the role of product development, piloting housing support services, and considerations for achieving scale.

A number of key lessons emerge from the experience of TSPI. First, TSPI's organizational culture is committed to its home improvement loan product and sees the value this product has for its clients. This dedication translates into how the product was developed and how it is continually enhanced. Second, partnership with Habitat Philippines and others in the pilot phase offered a unique opportunity to TSPI to test the product while learning from various market actors. Because there is no other microfinance institution offering housing microfinance, TSPI aimed to understand how it could position the product to target the low-income housing needs of its clients while not compromising profitability. Finally, TSPI sees the value in offering technical services to help its clients improve their lives. Within the Philippine context, housing quality standards are low in both rural and urban poor communities, demand is high, and access to housing finance is limited. Microfinance's broad network and community-based approach is an efficient way to reach "the base of the pyramid" with this important product.

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Key links:

TSPI website: tspi.org/

Habitat for Humanity Philippines: habitat.org.ph/site/index.php

TSPI Data on Mix Market: mixmarket.org/mfi/tspi

Microfinance Industry Report — Philippines 2010: microfinancecouncil.org/mcpi-microfinance-industry-report-2010

Banking with the Poor Country Profiles — Philippines 2004: bwtp.org/arcm/Philippines/II_Organisations/Microfinance%20Providers/TSPIDevelopmentCorporation.htm.

UGAFODE client Karemzi Charles and his wife were able to improve their house.

HFH/UGANDA

HOUSING MICROFINANCE WITH CONSTRUCTION TECHNICAL ASSISTANCE CASE STUDY:

UGAFODE

Executive summary

The collaboration between Habitat for Humanity Uganda and UGAFODE highlights lessons about effective housing microfinance solutions. For both partners, this initiative responded to a market opportunity as much as a mission opportunity. Indeed, it shows the potential for each organization to leverage its strengths to achieve greater impact. A clear message arising from this experience is that both the product and the collaboration demand careful design and planning up front in order to be successful. Key points of consideration include defining clear roles and responsibilities, aligning partner expectations around targeting strategy, and managing trade-offs around the delivery of nonfinancial services. The lessons arising from this case are relevant not only to the project partners themselves, but also to the whole microfinance practitioner community.

I. Introduction

This case study presents key lessons arising from the partnership between Habitat for Humanity Uganda and the Uganda Agency for Development Limited, or UGAFODE, to reach out to many low-income communities with affordable and flexible housing finance products. UGAFODE Microfinance Limited was incorporated in 1994 as a nongovernmental organization to provide primary affordable financial services. In September 2010, UGAFODE was incorporated as a company limited by shares in preparation for transforming into a microdeposit-taking institution license, or MDI, with expanded shareholding from local investors. UGAFODE transferred all its assets and liabilities to the new company. The steady growth has culminated into an application for an MDI to meet customers' demands in line with UGAFODE's strategic objectives. Products include micromortgage loans, individual business loans, group loans, loan insurance, agricultural loans, asset-acquisition loans and flexible housing loans.

Habitat for Humanity Uganda is affiliated with Habitat for Humanity International, an ecumenical Christian housing ministry that started its work in Uganda in 1982 in Gulu district. Habitat Uganda has built, rehabilitated, repaired or improved more than 8,731 housing units, helping more than 52,386 individuals secure simple, decent, affordable shelter. The homes are built with ventilated improved pit latrines and adjacent shower stalls. Most homes in Uganda are built using fired mud bricks and sand, which are locally available and easy to make or find. Once building has started, however, most homeowners find that the materials needed to complete construction are too cost-prohibitive. Through home improvement loans and microfinancing, Habitat Uganda helps these families complete their homes.

Both institutions are Christian organizations engaged in providing loans to low-income families. A comparison of the organizations' respective visions shows that each seeks to promote change at the household level. UGAFODE's vision is "Income and godliness in every home." Habitat's is "A world in which everyone has a decent place to live." These missions are compatible, as they seek spiritual and physical transformation in the lives of those with whom the organizations work.

Despite their compatible missions and having previously been partners in a USAID-funded project for orphans and vulnerable children, UGAFODE and Habitat Uganda had not maximized their partnership to the benefit of the poor. Both organizations offer forms of microcredit, but they have used greatly different methodologies in terms of the products and loan terms offered. UGAFODE is committed to providing loans for the economic and spiritual transformation of the poor. Habitat Uganda likewise provides housing loans to transform the basic living conditions of families who lack adequate shelter. By working together, the two organizations could offer a greater range of options to clients so that they may achieve self-sustenance and healthier living conditions. This would certainly support the fulfillment of the vision, mission and goals of each organization.

Based on the above assumption, Habitat Uganda and UGAFODE established a new partnership to reach out to many low-income communities with housing finance products that are affordable and flexible[1].

This case reviews the opportunities and challenges that faced the pilot project, presents details of the housing microfinance product development process, and offers its perspective on key considerations for taking housing microfinance to scale in Uganda. Finally, it lays out those key learning points that will inform similar collaborations.

II. Reviewing the pilot experience

1. Opportunities and challenges for housing microfinance in Uganda

Opportunities

Housing microfinance is on the whole a new product in the country's housing finance sector. It employs a two-way approach in which individuals can either access cash loans for home improvement or get skills and materials to build their own house.

1. Memorandum of understanding between Habitat Uganda and UGAFODE; November 2008.

Box 1: The roles of the partner institutions

UGAFODE

- Test the housing loan product.
- Manage the disbursement and recoveries of individual loans issued to its customers.
- Repay the loan capital back to Habitat Uganda according to the agreed-upon terms.
- Employ a dedicated team responsible for housing microfinance loans, and have a dedicated product champion.
- Share with Habitat Uganda all documentation relating to housing products that have benefited from institutional technical assistance.
- Facilitate access to customers: Allow Habitat Uganda to have access to customers without causing undue disruptions to activities as per the agreed-upon protocol.

Habitat for Humanity Uganda

- Provide institutional technical assistance with the support of Habitat for Humanity International to develop the product.
- Provide training to UGAFODE loan officers, along with marketing strategies for launching the product.
- Provide funding (as a loan) for the housing microfinance portfolio.
- Dedicate a key contact person to the relationship.

Through microfinance deposit-taking institutions, or MDIs; microfinance institutions, or MFIs; savings and credit cooperative societies, or SACCOs; and other support programs, housing microfinance is expected to grow considerably because of a huge demand for the product and services. A good a number of Ugandans, especially middle- and low-income earners, employ the incremental building system, in which home improvements are made gradually rather than through outright new home purchase or construction. Small-scale lenders such as microfinance institutions and SACCOs that target the above income groups have not explored the housing microfinance industry considerably. Although a good number of the loans they issue go unintentionally toward home improvement, housing microfinance products such as loans for incremental building and others that specifically address the housing needs of the poor are lacking.

In terms of demand, Uganda reported a housing deficit of 560,000 units in 2006, predominantly in rural areas.[2] The recent Global Findex Database shows that only 1 percent of Ugandans reported having an outstanding mortgage loan. A consequence of this low mortgage penetration in Uganda has been the creation of a culture of building, including among households that may qualify for mortgages and the purchase of ready-built units. The culture of self-building and the need to improve shelter conditions incrementally are therefore entrenched in many parts of Africa, and contribute to the high potential for housing microfinance.[3]

According to a FinScope study of Uganda, 70 percent of its population is financially included, and about 49 percent of that segment is a potential market for housing microfinance. A study conducted by Bankable Frontier Associates for Habitat for Humanity International highlighted that Uganda's declared homeownership rate is 85 percent, which is extremely high and suggests a significant demand for home improvement financing. Furthermore, Uganda's high urbanization rate (5 percent) signals an increasing demand for urban housing and housing microfinance.[4]

All of the above point to significant opportunities for innovations in housing finance.

The partnership between Habitat Uganda and UGAFODE created an excellent opportunity for the two institutions to reach out to many low-income communities with housing finance products that are affordable and flexible. Leveraging Habitat Uganda's technical know-how with UGAFODE's

Box: 2 Habitat Uganda's interest in retail lending

- Explore the desire to package Habitat Uganda (as a centre of competence) progressively to a second-tier institution that would provide funding and housing microfinance expertise to the microfinance industry.
- Provide a one-stop shop for housing microfinance and related services for the housing sector.
- Realize that most potential partner institutions lack a dedicated research and development function that would require a deliberate and dedicated commitment of resources.
- Realize that most potential partner microfinance institutions are risk-averse and have little stomach for experimentation.
- Provide a platform for learning the basics of engaging and effectively managing multistakeholder collaborations and partnerships.
- Deliberate and continually review the delivery models employed by Habitat Uganda for both housing microlending and housing microfinance partnerships.

financial services infrastructure and outreach has allowed the partnership to react to clear demand that was not otherwise being served, and has led to the development of two housing finance products.

Challenges

Uganda is often recognized as hosting a vibrant and innovative microfinance industry. However, the impacts of extremely high inflation and negative economic growth have challenged the financial sector to seek survival measures, fostering institutional resilience. This has made the cost of loans very high, thereby excluding potential borrowers. There are initial signs of relief, as inflation has dropped slightly but steadily since tighter monetary policies were enacted in recent months.[5]

2. "Access to Housing Finance in Africa No. 4," FinMark Trust, 2008.
3. FinScope Uganda 2009. Launch presentation: "Demand, Access and Use of Financial Services." finscope.co.za.
4. "Capitalizing Housing for the Poor," Bankable Frontier Associates, January 2009.
5. East African Business Week, Feb. 6, 2012.

While microfinance regulatory frameworks have been established, the majority of financial intermediaries (NGOs and SACCOs) continue to operate informally, exposing depositors to increased risk. The high cost of loans and the need for client protection and transparency are of key concern to the industry.

Another challenge is the lack of adequate capital. Uganda attracts both international donors and government funding for microfinance loan capital. New funds have recently been established to further capitalize the industry, which bodes well for introducing new products needing funding to reach scale. However, funding for technical assistance and housing finance product design are currently unavailable, as is adequate capital to scale housing microfinance products. The rural and peri-urban communities do not have individual titling for land. The land belongs to the clan or family through the customary system. Though the families are able to produce alternative ownership proof, such collateral is generally considered weak.

Table 1: Key financial performance of the flexible housing loan portfolio (June 2012)

Area	Result
Microfinance institution loans disbursed	7,508
Loans disbursed for housing	285
Microfinance institution total loan balance	US$4.1 million
Loan balance for housing	US$150,000
Percentage at risk over 30 days – microfinance institution	2.6%
Percentage at risk over 30 days — housing	2.6%

2. Product development: Key factors for success or failure

By June 30, 2012, the number of active microfinance clients for UGAFODE was 7,508, with an outstanding loan balance of US$4.1 million. The flexible housing loan portfolio was then worth US$150,000 with 285 customers. Since the inception of the partnership, UGAFODE has disbursed 1,629 flexible housing loans worth US$980,000.

From the outset, this project involved clear and agreed-upon roles and responsibilities for the collaborators. Individuals were appointed to key roles such as product management and coordination, and a project monitoring and reporting system was developed with tasks, forms, due dates, and responsible people named.

Each institution also drew on its internal strengths to achieve the project aims. Habitat Uganda provided advice on the housing microfinance product design, delivered training to UGAFODE loan officers, undertook product monitoring and evaluation, and marketed the product. UGAFODE drew on its strengths to test new products, along with a strong institutional commitment to providing housing microfinance. The lessons emerging from the flexible housing product (developed in partnership with Habitat Uganda) led to the development of a second product (micromortgage). The micromortgage product was clearly responding to a demand that could not be met through the flexible product. Table 2 details the housing loan products and their distinctive features.

Nuwabine Flavia is one of UGAFODE's housing microfinance clients.

HFH/UGANDA

Table 2. Housing finance product features

FLEXIBLE HOUSING	MICROMORTGAGE
Purpose: • Roofing repairs/replacement. • Utilities such as water, electricity and sanitation. • Finishes such as flooring, plastering and painting. • Fixtures such as ceilings, doors, windows, kitchens, bathrooms. • Site security, fences, gates. **Amount:** US$200 – $1,200 **Average loan size:** US$525 **Term:** Up to 24 months (three-month grace period). **Average loan term:** 12 months. **Fees:** • 2.0 percent declining per month. • 2 percent (of loan amount) processing fees. • 0.85 percent insurance. • $3.75 loan application. **Collateral requirements:** Chattels and sales agreement pledge on movable assets and guarantors. **Percentage at risk over 30 days:** 8.6 percent.	**Purpose:** • Building additional rooms. • Building auxiliary structures. • Building a core house. • Building a house foundation. • Building house walls. • Buying roofing materials. • Purchasing land. **Amount:** US$200 - $10,000 **Average loan size:** US$1,500 **Term:** Up to 36 months (three-month grace period). **Average loan term:** 12 months. **Fees:** • 2.5 percent declining per month. • 2 percent (of loan amount) processing fees. • 0.85 percent insurance. • $3.75 loan application. **Collateral requirements:** Registered securities for loans of US$2,000 - $4,000. Loans above US$4,000 required title to be charged. Pledge on movable assets and guarantors. **Percentage at risk over 30 days:** 3.8 percent

Some of the key factors for the success of the product:

- The market research and product development of the housing microfinance product was carried out through a joint collaboration.
- The institutions jointly pretested the prototype and were therefore able to clearly understand clients' preferences. This was helpful in refining the product.
- The two partners had separate competencies that could only augment each other. Habitat Uganda had strong competencies in housing and had global lessons within the Habitat network that it could draw from, whereas UGAFODE had a good branch network and a solid existing microfinance program.
- Capital was available from Habitat Uganda to pilot the product. The microfinance institution might have found it difficult to pilot with its own funds.
- Competent staff in both institutions were committed to the success of the product.

Some key factors that can lead to failure:

- Both the flexible housing loan and micromortgage products are managed by all the credit officers. This initially was a challenge, because the credit officers were not measured on the performance of the housing microfinance product but for the overall portfolio. Hence they tended to concentrate more on products that were easier to market and had a high concentration of clients. This is reversing with performance benchmarks for housing microfinance products. For example, a credit officer is now required to intake three housing microfinance clients per month.

- Staff turnover has affected the growth of the product. High turnover of staff in microfinance institutions is an increasingly common phenomenon in Uganda, and this slows the pace of outreach and effective portfolio management.
- There are challenges around building the capacity of staffing. Staff members are inadequately equipped to effectively refine the product to make it more responsive to clients' needs, to deliver the product, to monitor the loan's use and to verify that the construction purpose was met. Staff training is a major deficiency.
- UGAFODE feels it does not have sufficient knowledge about the service and is inadequately equipped to effectively market the product.
- The loan amounts are small to some of the clients, especially those in urban areas.
- The grace period was found to be short, especially in villages where there is a scarcity of builders. The limited grace period means prices could increase the risk of misuse of funds and variation in construction costs.
- Flat-rate interest is expensive compared with a declining balance rate.
- There is a risk of diversion, because the interest rate is low compared with other business loans on the market.
- Competitive pricing by competitors such as STANBIC, Centenary and HFCU is a key threat to the continuity of the product.

From the experience, some lessons were extracted on product development.

- It is important to train everybody involved in operations on the product. It is very risky to limit the product training to a select group of officers because of frequent staff turnover.
- There needs to be a very clearly appraisal tool for the housing microfinance product. Without such a tool, loan officers are likely to end up with wrong justifications for recommending loan approval.
- Skills are currently inadequate to operationalize the product and grow it to scale.
- The management information system cannot respond to the unique product features of a housing loan. It is unable to take care of discounted interest rates for loans that are not diverted.
- The management information system also has other limitations. You cannot track the changes in the housing conditions, and therefore at the management level you might not have sufficient information to demonstrate impact or change in the client's living conditions.
- The centralized approval system means the turnaround period can be very slow.
- If staff members are not motivated and committed to the product, it could easily lead to failure.
- Inflation rates can make the cost of doing business untenable.
- Do not limit the housing product to residential premises. It is better to open it up to housing interventions that are directly linked to livelihoods, such as construction of extension structures that act as business premises or even low-income rental units attached to a client's residential premises.
- The risk of loan diversion could lead to failure.
- UGAFODE also alluded to operational risks, such as not considering the product a key performance indicator in appraisals of staff performance. If the performance of the product is not measured independently of the other products, the staff will not take it seriously.

3. Housing support services: Construction technical assistance

There was no housing support service component in this process. However, in the discussions with UGAFODE and some of the clients, there was a strong indication that this type of service would be highly appreciated. UGAFODE reported that because of the realization of construction technical assistance's importance, it was in the process of hiring construction technical assistance specialists on a pilot basis and having them based at the branch level. During the interviews with clients used to produce this case study, one of them said, "When left on our own (without construction technical assistance support), we are at the mercy of the local artisan that we can contract."

4. Scaling up housing microfinance commitment and capacity

Habitat Uganda and UGAFODE are both committed to scaling up the housing microfinance product, and have the capacity, financing and incentives required to do this successfully. Importantly, both see housing microfinance as a priority in terms of supporting their social mission. UGAFODE has received two lines of credit from Habitat Uganda to pilot the home improvement loan product. UGAFODE Ltd. has established a good record of repayment for both Habitat Uganda's lines of credit and for the other wholesale lenders, which is coupled with a great desire to meet the needs of Habitat Uganda's target population.

The flexible housing loan and the micromortgage are in stages of growth and require additional funds to meet current demand. The management of UGAFODE Ltd., in collaboration with Habitat Uganda, has thus submitted an application for additional loan funds equivalent to US$500,000 from the MicroBuild Fund[6]. The request has been approved, and the loan was due for disbursement in January 2013.

The two institutions are seeking to expand their offering through the refinement of the existing products. They see the flexible housing loan product as targeting the low-income category while the micromortgage product targets the portion of the lower-middle-income category that is excluded from the formal mortgage market because of affordability issues.

Box 3: Increasing Habitat Uganda's capacity to support microfinance institutions

Habitat for Humanity Uganda aims to:

- Develop housing support service products and bundle them with housing microfinance whenever there is demand by the microfinance institution partners (and clients by extension).
- Increase and develop its internal capacities to support microfinance institutions (both in terms of hiring more staff and providing the staff with more training).
- Increase the number of microfinance institution partnerships to introduce or scale housing microfinance products.
- Increase the number of those served through housing microfinance products and services.

UGAFODE has a relatively large branch network that enables Habitat Uganda to reach out to many more clients than it could reach on its own. UGAFODE's growing reputation as a stable financial institution is evidenced by its being granted a license by the reserve bank to become one of the country's few deposit-taking institutions. This is a huge vote of confidence and helps to inspire trust in current and potential clients. Supervision by the reserve bank also contributes to prudent management.

UGAFODE therefore continues to receive institutional technical assistance based on what has been proven to work in Habitat Uganda's "laboratory."

6. MicroBuild is a social investment fund, majority-owned by Habitat for Humanity International, to mobilize capital to invest, primarily debt, in sustainable housing finance products designed for the low- and very low-income populations (what is known as the "base of the pyramid") in developing countries. The fund is a demonstration fund, the first of its kind to act as a global investment vehicle for affordable housing.

For its part, UGAFODE has fully committed itself to having a significant portion of its portfolio dedicated to housing microfinance. It has integrated the housing microfinance product into its staff incentive scheme. Staff members are awarded based on their number of housing loan clients, loan size and repayment rate. There's also an extra incentive in that the housing finance loans are 0.5 percent cheaper than the standard small-business loans. Feedback from the pilot reveals that loan officers have also fully embraced the new housing loan.

However, there are a number of challenges that will need to be addressed. They include:

- **Loan amounts:** Construction materials are becoming expensive, and this has implications on the loan amounts. There is a further risk that large loans could create delinquency.
- **Housing support services (specifically construction technical assistance):** It was apparent that both UGAFODE and the clients wanted the inclusion of this service by Habitat Uganda. However, it remains unclear how the cost of this service would be met — whether the microfinance institution would pay for it and pass on the cost to the clients or whether Habitat Uganda would fully subsidize it. Commitment will require that the microfinance institution demonstrates the value added and therefore creates demand for it from the clients.
- **Economic challenges:** Inflation has been on the rise. By June 2012, the inflation rate was 18 percent, posing significant challenges for any profitable organization. If it is not stabilized, the inflation will affect the ability of clients to repay their loans.

Before loan

After loan

HFH/UGANDA

Monic Nashemeza displays the improvement made to her house with help from a loan provided by UGAFODE.

III. Key lessons

- UGAFODE built on the lessons learned from this pilot and developed its own product (micromortgage) that could address the needs of clients who want a slightly bigger loan than what is currently offered, but not one big enough to attract the attention of the formal mortgage financial institutions. This category of clients would be categorized as "the missing middle" in housing microfinance.

- In discussions with clients and loan officers, it emerged that the grace period of one month was too short, especially in villages where builders are scarce. To resolve this problem, UGAFODE does not have to extend the grace period but should instead time the disbursement date when clients are very sure that they are ready to start undertaking the construction/rehabilitation.

- The best practice in mortgage financing is to charge a declining interest rate. Currently, UGAFODE charges a flat-rate interest fee, and clients rightly perceive it as being expensive. It would be advisable for UGAFODE to review its pricing regime to either be consistent with or better than those offered by mortgage lending institutions.

- Both the loan officers and the clients reported a delayed loan turnaround period of about 10 days because of the centralized loan-processing system. Though this turnaround is not very long, it can be further shortened if the approval limits are delegated for various loan amounts.

- Some of the delays in loan processing are the result of the need for verification using cameras. A product of this nature perhaps requires that digital cameras be provided to the branches implementing it. This could be part of the technical and marketing support for partners.

- The lack of a technical construction adviser to help clients in projecting prices for bills of quantities reduces the quality of work and increases the chances that they will take advantage of and not be able to complete the project. This also reduces clients' ability to make a proper judgment on whether to undertake a project. However, since the findings of the market research clearly indicated that most clients did not need construction technical assistance, perhaps it is a good idea provide all staff involved in implementing the product with basic house construction cost training.

- A product evaluation should be undertaken to derive more concrete information to make sound judgments about the product and its performance.

- Furthermore, issues of reporting and points of contact should be clarified in partnership agreements to ease communication between organizations.

- Habitat Uganda should build the capacity of existing staff members in conducting compliance in the context of housing microfinance.

- The loan officers need to be provided with continual training that would adequately equip them with the capacity to properly appraise and assess a housing microfinance loan.

IV. Conclusion

This case study was written to review the experience of the housing microfinance collaboration established between Habitat for Humanity Uganda and UGAFODE. The partnership has been in existence for just about four years and has served about 1,600 clients with loans worth about US$1 million. Through this project, both organizations have been able to deliver on their missions and consolidate their market positions by offering a niche product.

A number of key lessons have emerged from this project, which are relevant not only to the project partners but also to the wider housing microfinance community.

- Joint collaboration in market research and product development is the key to the success of the product because both partners truly own the product (and feel that they mutually owned the process that led to the product).

- Partnerships of this kind require clearly defined roles and responsibilities if any measure of success is to be achieved. Frequent meetings are relevant in ensuring that everyone sticks to their scripts and that there is an opportunity to quickly address any emerging challenges that could threaten smooth operations.

- Though this product was never bundled with housing support services (specifically construction technical assistance), we did not see any significant trends that demonstrated or illustrated that the housing interventions undertaken from the loans provided were of any inferior quality. We are aware that the partner institution and clients directly requested the service, but we could not determine any correlation between its absence and the quality of the housing interventions. Perhaps this ensures continued debate on this topic.

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Key links:

MicroBuild Fund:
habitat.org/hw/inside_habitat/MicroBuild_Fund.aspx

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