



HABITAT FOR HUMANITY DOMINICAN REPUBLIC

Masons work on a home improvement in the Dominican Republic.

ARTICLE 2:

Housing Support Services: Do They Add Value to Housing Microfinance?

January 2013

Microfinance has grown dramatically over recent decades, now reaching more than 200 million clients worldwide, of which approximately two-thirds are considered among the poorest. Recent challenges to the industry, such as the global financial crisis and the microfinance crisis in Andhra Pradesh¹, have prompted microfinance institutions to focus more intently on the clients they seek to serve by improving responsible lending and ensuring social outcomes. The inclusion of training, technical advising and other related support — typically referred to as “nonfinancial services” — is a tangible expression of the development

community’s dedication to pursuing deeper, lasting results among microfinance clients and their families. In addition to increasing value to the clients, nonfinancial services and products can be advantageous to the financial institutions, especially when the added services increase the client’s ability to repay. These services and products might represent a new profit opportunity for the institution or generate increasing client loyalty. But not all financial institutions have the ability to offer nonfinancial services that could benefit clients, either because they do not have the expertise and skills in-house to do so or because they cannot provide such services and cover their cost. In that case, even social-mission microfinance providers might do better to focus on sustainable delivery of client-focused financial services, while leaving other services to those who have a comparative advantage and expertise

1. 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.

in providing them. Moreover, it's not about stacking just *any* nonfinancial services on top of the financial services but rather identifying the ones that clients really need and finding a way to deliver them powerfully.²

Nevertheless, the added value of these services is difficult to quantify, and providing them effectively alongside the delivery of efficient, demand-driven financial services is highly challenging.

Microfinance for housing (commonly referred to as “housing microfinance”; see box below) faces this same challenge. Loans intended for building home improvements are frequently disbursed to clients who have no relevant construction experience or knowledge and who, seeking to minimize costs, undertake projects without a proper design or qualified oversight. Lacking sufficient preparation to adequately oversee construction work, low-income households — often headed by single mothers — find themselves at the mercy of their hired builders, unable to ensure construction quality or validate pricing. Of particular concern is the risk of inappropriately built structures, such as when roofs or second stories are added, which may present hazards to residents, especially in disaster-prone areas.

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.

In an effort to help families achieve durable, safe and low-cost housing solutions, institutions such as Habitat for Humanity have sought to develop housing support services that complement housing microfinance. Housing support services may be broadly defined as nonfinancial services intended to equip families or the suppliers of housing materials or services with knowledge, connections or other resources that will improve the quality or reduce the cost of solutions built. These services are extremely context-specific and may range from a very light touch, such as an informative handout delivered punctually by a loan officer, to a much more involved participation, such as an on-site visit from a civil engineer to oversee construction progress. Thus, the definition of these services — and the evaluation of their benefits to families and financial institutions — is difficult to generalize. Furthermore, demonstrated successes in linking these services to the provision of sustainable and scalable housing microfinance have yet to emerge.

This document summarizes insights from nine microfinance institutions from around the world that have partnered with Habitat for Humanity to provide housing microfinance coupled with some form of housing support service. Their initial experiences point to emerging lessons and suggest priorities for future research in the provision of nonfinancial services accompanying housing microfinance.

Classification of housing support services

As mentioned previously, housing support services are extremely varied depending on contextual factors and institutional priorities. With respect to the services provided by the nine institutions studied, a classification may be made in terms of the type of service offered, the level of intensity of the approach, and the method of delivery. This typology was borrowed from previous studies of nonfinancial business development services, and is quite easily adapted to housing support services³. The types of services are grouped into three basic categories: educating families in construction-related themes, providing technical advice in the construction process, and facilitating access to construction materials (see Table 1 on page 2-3).

2. “State of the MicroCredit Summit Campaign Report,” Jan Maes and Larry Reed, 2012.

3. “Synergies Through Linkages: Who Benefits from Linking Microfinance and Business Development Services?” Merten Sievers and Paul Vandenberg, 2007. linkinghub.elsevier.com/retrieve/pii/S0305750X07000691.

Table 1 - Housing support services: Type, intensity and delivery

Type	Intensity (examples)		Modes of delivery
	Low	High	
Construction-related education for families.	Handouts describing common tips and errors to avoid in specific types of improvements.	Financial education course training families in how to plan and manage home improvement projects.	Loan officer interactions. Training workshops. Loan group meetings.
Technical advising or oversight.	Assistance in developing a project materials list and budget.	Direct oversight of construction projects.	Loan officer interactions. On-site visits by in-house or external construction specialists.
Access to construction materials.	Negotiated discounts with local hardware stores.	All materials purchased from and delivered directly by selected providers (no-cash loans for materials).	Partnerships with hardware stores, cement companies and other materials suppliers.

Do clients value housing support services?

Of primary interest is how clients view housing support services, and whether they perceive that these add value to their housing loans. The attitudes expressed by clients in the nine case studies varied widely, depending on the context and perceived need for these services, as well as the types of services envisioned or received.

The following observations emerged regarding client satisfaction with housing support services:

- For the most part, clients positively affirmed a perceived value in the services received.
- The most appreciated services were those that educated the clients and contributed to their ability to successfully undertake the desired improvement project.
- With respect to technical advice, clients frequently affirmed the value of support received in preparing construction plans, materials lists and budgets (relatively low-intensity services). Guidance in selecting materials and laborers and cutting costs was also highly valued. While in certain cases clients mentioned appreciating having access to more qualified technical advice, they generally preferred to rely on their own social networks to carry out the actual construction work. This might suggest that more involved support is most valued when it's optional rather than mandatory.

- Regarding access to construction materials, clients valued price discounts.
- Housing support services were highly valued by communities where construction projects were predominantly overseen by women, who often felt less confident or qualified to prepare plans, select materials or laborers, or oversee progress. A specific example was in Tajikistan, where men were off in Russia during the construction season (spring and summer), engaging in temporary labor.

While perhaps obvious, it is worthwhile to note that the most favorable responses came from clients of microfinance institutions that had been intentional in seeking their perspectives in designing housing support services. Seven of the nine microfinance institutions included inquiries regarding housing support services in their market assessments, and these results informed how services were designed and priced. Furthermore, evidence suggests that where housing support services were developed at the same time as the housing microfinance product, there was greater likelihood of an effective integration between the two.

Perhaps the most relevant test of clients' appreciation of housing support services is whether they're willing to pay the full cost of these services. In three of the institutions studied, a specific, mandatory fee was already being charged for these services. Responses were varied in terms of clients' satisfaction with the fees being charged. Interestingly, in none

of these cases were the fees sufficient to cover the full cost of the housing support services rendered. Other institutions had yet to add a fee but had inquired and initially received verbal confirmation of clients' willingness to pay for services. Clearly, reaching a convergence between what a client values and what he or she can and is willing to pay remains a frontier issue in the provision of housing support services alongside housing microfinance.

Do financial institutions value housing support services?

Financial institutions must also perceive a benefit from providing housing support services in order to make the needed adjustments to accommodate these additional services and, ultimately, to ensure the efficient provision of those services alongside housing microfinance as it reaches scale. The nine financial institutions studied presumably entered into a partnership with Habitat for Humanity with the understanding that some form of housing support services would be included alongside housing microfinance. In the case from Peru, the addition of housing support services was the main draw for the microfinance institution in partnering with Habitat, as the institution was already offering housing finance without housing support services within its portfolio. Furthermore, at least three of the microfinance institutions were already providing training or other types of nonfinancial services to their clients; therefore these institutions were apparently conceptually and operationally well equipped to add housing support services to their offerings.

The nine financial institutions valued housing support services for a variety of reasons, which may be grouped into the following three top categories:

1. **Social impact:** The strongest appeal for the microfinance institutions studied was the conviction that housing support services linked to housing microfinance were contributing to the social impact of the institution, assisting clients in undertaking desired improvements, raising construction quality and potentially reducing costs. Particularly in institutions where nonfinancial services were already being delivered to clients for other purposes (business development, women's empowerment, health training, etc.), housing support services were perceived as a natural complement to undertaking housing loans.
2. **Reducing loan risk:** Housing support services were frequently seen by microfinance institutions as a valuable support to the lending process, serving as part of the necessary due diligence. Most common was the perceived value of the project budgeting support offered by trained staff, whereby clients' proposed home improvement projects were validated along with their corresponding loan requests. Microfinance institutions also perceived that construction quality might ultimately affect housing portfolio quality, as projects left uncompleted or completed unsatisfactorily might have a negative bearing on clients' willingness to repay their loans.

"We learned from the pilot phase the true value of the technical services to our clients, and it was important that we continue to offer those services to improve the housing of the clients."

— Lyn Onesa, director of programs, Tulay Sa Pag-unlad Inc., the Philippines

The microfinance institution in the Philippines was an interesting case in this respect. Its housing microfinance product had already been scaled up to 128 branches around the country, achieving a cumulative disbursement of more than 11,000 housing microfinance loans since November 2006. Its housing support services were of relatively high intensity, involving project-based foremen to oversee construction progress, and direct disbursements to materials suppliers and construction laborers. Although these represented significant costs to the institution, management felt that these services helped ensure a low-risk portfolio. Notably, its housing microfinance portfolio was extremely sound, boasting only 1.6 percent PAR⁴ (July 2012), compared with its overall portfolio's PAR of 4.4 percent (September 2012).⁵

In India, in particular, housing support services were seen as contributing to responsible lending, assisting clients in segmenting desired improvements into small steps and manageable loan sizes. Research undertaken by a microfinance institution in India revealed that

4. PAR means portfolio at risk over 30 days.

5. The total portfolio PAR is based on MixMarket data (mixmarket.org).

up to 90 percent of clients were unable to correctly estimate needed loan amounts because they were unable to properly calculate project costs⁶. The microfinance institution also appreciated that the follow-up housing support services visits to clients helped to both confirm and encourage appropriate loan use, thereby potentially reducing lending risk.

3. **Competitive advantage:** For several of the microfinance institutions, housing support services were perceived as a differentiating feature within the market, allowing them to compete with other providers of housing microfinance with a more attractive product. For example, the microfinance institution in Tajikistan perceived that housing support services strengthen its image as a socially oriented institution that cares for its clients. The expectation is that this would, in turn, result in higher client satisfaction and retention.

It is also worthwhile to mention that the microfinance institution in the Dominican Republic valued the benefit that delivering housing support services had on its field staff. Loan officers expressed satisfaction in being able to assist their clients with basic construction advice and budgeting support, in addition to loans. Providing housing support services also strengthened relationships between loan officers and their clients, contributing to both staff effectiveness and client loyalty.

Linkages between housing support services and financial services

An important consideration in determining how to deliver housing support services is creating an effective link between the provision of these services and housing microfinance. While it has already been demonstrated that housing microfinance, as a solely financial product, can be offered sustainably and at scale, this is less evident when it is linked with housing support services. Several of the key questions that must be resolved when designing these links include:

1. Are the housing support services delivered as an optional service or as a mandatory component of the housing microfinance loan?

2. Are these services provided by the microfinance institution or by a separate organization?
 - a. If by a separate organization: How will the two organizations operate effectively to deliver both services to the same clients?
 - b. If the microfinance institution directly delivers the housing support services: Will the existing field staff assume these functions, or will new positions be created?
3. In either case, how will these costs be covered?

One helpful way to design housing support service delivery is to determine whether the services are to be conducted as an essential component of the housing microfinance loan, or whether they are seen as optional or occasional. The former might imply services that are required and relatively standardized steps in the loan due diligence and follow-up processes. These services are likely to be delivered by the microfinance institution's staff, and their costs are usually included in the price of the loan. The second suggests relatively customized services that are delivered by a separate business unit that charges on a fee-for-service basis. Clearly, a microfinance institution may offer both types of housing support services, employing multiple linkages.

Regarding the nine microfinance institutions studied, a variety of staffing configurations were employed for the delivery of housing support services. The two most common positions to be assigned housing support service responsibilities were:

- **Loan officers:** Members of the microfinance institution's field staff who offer housing microfinance loans within their portfolio of products.
- **Construction specialists:** Staff members of the microfinance institution or partner organization who provide more qualified technical support.

Table 2 (see Page 2-6) contains an example of how housing support service roles might be divided between these two positions for the delivery of specific services.

6. "Housing Microfinance in Southern India: A Case Study from Growing Opportunity Finance and Habitat for Humanity India's Technical Assistance Centre," Habitat for Humanity International, 2013.

Table 2: Example of housing microfinance and housing support service division of labor

Loan officer	Construction specialist
<ul style="list-style-type: none"> • Conducts initial site visit and takes photo. • Creates home improvement development plan with client. • Distributes relevant printed materials with information on the type of improvement selected. • Assists client in preparing a list of needed materials and a budget for the selected project. • Prepares loan application. • Conducts loan utilization visit and takes photo of completed project. • Oversees loan repayments. 	<ul style="list-style-type: none"> • Prepares designs or floor plans of more structurally complex projects. • Provides on-site supervision to these projects. • Reviews all project plans and budgets prior to loan approval.

Another helpful way to understand the links between housing support services and housing microfinance is to classify them according to the institutions involved in delivering the housing support services. Three classifications of linkage methods emerged from the nine cases studied:

- **In-house:** Housing support services are delivered by the staff of the microfinance institution, whether via loan officers or construction specialists.
- **Linked:** Housing support services are delivered by the staff of another organization⁷ operating in partnership with the microfinance institution.
- **Embedded:** Housing support services are delivered by the staff of another organization but are placed within the offices of the microfinance institution.

7. In all the cases, “another organization” refers to a national organization of Habitat for Humanity.

Masons work on the home improvement of a house in Bolivia.



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The following table classifies the housing support service linkages for the nine cases studied.

Country	Method	Staff involved		Observations
		Loan officer	CTA specialist	
Peru	In-house	X	X	
Bolivia	In-house	X	X	
Brazil	Linked		X	Partnership discontinued.
Dominican Republic	In-house	X		Tested linked delivery with Habitat for Humanity Dominican Republic's team but was too difficult to manage effectively.
Philippines	In-house	X	X	Was previously linked during the pilot project in Metro Manila.
India	Linked		X	
Tajikistan	In-house and embedded	X	X	
Bosnia	In-house	X	X	
Bulgaria	Linked			Only offered financial education courses.

It's important to note that the majority of these services were considered "mandatory" in the sense that they were offered to housing microfinance clients regardless of whether they wanted these or not. Certain services were tied closely into the loan process, such as the creation of project budgets, while others were offered only in specific situations. For example, in several cases, a visit from a construction specialist depended on whether the project involved structural changes to the house.

Noteworthy is that none of the "linked" housing support service partnerships listed above reached projected outreach goals, signaling the difficulty of linking services between organizations. One of these partnerships has already been discontinued, and two others were still struggling to conclude pilot project objectives. The microfinance institution in the Dominican Republic also temporarily pilot tested specialized housing support service delivery in partnership with Habitat Dominican Republic, but results were well below set targets. Although the Philippines case initially involved linked services between the microfinance institution and Habitat, all these were later transferred to the microfinance institution once it decided to expand nationally. Habitat simply did not have the operational capacity to

provide housing support services at that scale.

From the cases studied, one of the most valued services provided by Habitat was equipping microfinance institutions to deliver services themselves. Microfinance institutions repeatedly mentioned the importance of the loan officer trainings received from Habitat, along with the tools and guides provided to assist them in delivering housing support services. In several cases, Habitat assisted the microfinance institution in hiring, training and overseeing the initial work of an in-house construction specialist. The intention was that as the housing microfinance portfolio grew, these positions would be financed by income from loan interest rates or fees.

As the institutions studied look toward scaling up housing microfinance, the tendency is to seek increased efficiency in providing housing support services so that they will not hold back financial product growth but enable sustainability to be reached. Given this, microfinance institutions generally appear to favor offering housing support services in-house, and expect to rely most heavily on simplified services that can be delivered by their loan officers. This trend is consistent with the recognition that the majority of improvements undertaken are not structurally complex and therefore do

not require highly specialized technical advice.⁸ For example, in Bosnia, the microfinance institution hired Habitat to train its loan officers to provide loans specifically for the three most common improvements: door and window replacements, bathroom and kitchen repairs, and flooring. Another interesting trend is the expressed desire to negotiate discounts with materials suppliers, capitalizing on the projected increase in volume to attract optimum deals for clients.

Lessons and trends in housing support service delivery

Although successful models, clear guidelines and best practices have yet to be identified, lessons and trends are beginning to emerge in the area of housing support services and their effective delivery alongside housing microfinance. The following key lessons were identified from the cases studied, and may inform future design of housing support services:

What clients value: Evidence suggests that clients place a high value on training and technical services that inform and guide them in planning and carrying out their intended home improvement projects, such as:

- Segmenting and sequencing desired improvements into financially feasible steps.
- Creating a basic plan for specific improvements, including an estimate of materials and costs.
- Receiving guidance in avoiding common errors associated with the type of improvement.
- Receiving guidance in how to select materials and construction laborers.

Clients also appreciate having access to more qualified technical services when needed, and in many cases they are willing to pay for these, provided they are not mandatory but optional. This suggests the need for creating a demand-driven method of providing more specialized and customized services.

Furthermore, clients value alliances with materials suppliers

that result in price discounts, product delivery services, and other forms of preferred treatment.

Illustrative cases from the Dominican Republic: Alliances with hardware stores⁹

Home improvement initiatives may find natural allies among construction materials suppliers, such as hardware stores. In the Dominican Republic, two microfinance institutions reached favorable negotiations with hardware stores operating in the same areas where they were extending housing microfinance loans.

FIME, a member of Vision Fund International, negotiated with hardware stores in the south of the country and also in the province of El Seibo, obtaining discounts for its clients. These stores also assisted in pricing materials for clients, producing an actual budget based on the improvement project being proposed, which then supported clients' loan applications. Some of the hardware stores offered free transport of materials to the construction site. Moreover, the hardware stores helped promote FIME's housing microfinance product by displaying marketing materials and banners in strategic locations.

ADEMI Bank, a member of ACCION network, negotiated with hardware stores in the communities surrounding Santiago, where they were extending housing microfinance loans. The alliance allowed the bank to directly deposit to hardware stores the portion of clients' loans that were to be used for construction materials. This spared clients from having to handle cash to buy materials, thereby reducing the risk of robbery or diversion of loan use. The stores also helped ADEMI market its housing microfinance loans by distributing promotional fliers.

What microfinance institutions value: Microfinance institutions tend to value linking housing support services to housing microfinance for any or all of the following reasons: the perceived social impact this generates, the contribution

8. A study in India revealed that 60 percent of clients' construction projects could be classified as medium to low complexity.

9. Taken from "Sistematización de los proyectos pilotos de Microfinanzas para Vivienda en la República Dominicana," Habitat for Humanity International's Center for Innovation in Shelter and Finance-Latin America and the Caribbean, July 2012.

this makes in reducing loan risk, and the increased competitive advantage this earns them among clients.

Moreover, lessons emerging in housing support service delivery from the cases studied are consistent with many of the principles adopted by institutions that provide business development services linked to microfinance. The following guidelines, slightly adapted, apply well to housing support services.¹⁰

- **Assess the market:** Learn about existing supply and demand of services in the low-income housing markets, including informal and indigenous sources. Determine what clients already have, including sources of financing, and what they need to improve their homes with quality and at low cost.
- **Determine a core competency:** Providers of housing support services must determine what specific services are to be delivered efficiently alongside housing microfinance. “Have a broad vision, but a narrow specialization.” Without this, housing support service provision will not reach sustainability.
- **Be client-driven:** In order to remain relevant, housing support service providers need to keep a pulse on clients’ needs and preferences with respect to services offered, delivery methods and pricing.

From the nine cases studied, along with other research undertaken by Habitat over recent years, the following trends in housing support services can be identified:

Housing support services as an integral component of housing microfinance: One of the increasingly common ways of viewing housing support services is as a crucial component of doing good housing microfinance. Socially minded microfinance institutions offering housing microfinance are often eager to differentiate their product from consumer lending, ensuring that loans actually contribute to building a safe and durable home for their clients. Services directed toward equipping clients to make a wise investment in improving their homes, such as financial

education oriented to homeowners, may be considered responsible lending practice. Similarly, housing support services that support the loan process are often justified as contributing to portfolio quality.

In these cases, housing support services are likely to be carried out by microfinance institution staff, primarily loan officers. Thus, the complexity of services provided is limited by the educational level and time availability of these employees. The cost of these services is generally covered by loan charges (interest rates or fees). While additional tasks associated with housing support services delivery may have an impact on loan officers’ productivity, and ultimately on the product’s profitability, microfinance institutions may feel this is offset by the added benefits of having a sound housing microfinance portfolio and satisfied clients.

Housing support services as a social enterprise¹¹: Housing support services that extend beyond the realm of what loan officers are able to assume are increasingly being conceived as a social enterprise, whether managed within the microfinance institution or by a separate partner. In other words, these services are becoming increasingly demand-driven, more in line with financial services, and sold to clients who value and can pay the cost of their delivery. This business-oriented dynamic may imply that these kinds of housing support services have a “softer” link with housing microfinance, as services are optional and may even be sold to clients who choose not to avail of a housing loan.

Clearly, these types of housing support services frequently require greater technical specialization than those provided by loan officers, are more customized, and are typically more costly. Examples include designs drawn by a qualified engineer, supervising a complex improvement, and directly overseeing a construction project. While attempts are underway to deliver housing support services as a sustainable enterprise, demonstrated successes have yet to emerge. Nevertheless, practitioners are driven by the increasing awareness that if housing support services are not managed sustainably they will not reach scale alongside housing microfinance.

10. Lessons adapted from “Synergies Through Linkages: Who Benefits from Linking Microfinance and Business Development Services,” Merten Sievers and Paul Vandenberg, 2007.

11. Mohammed Yunus defines social enterprise as a “nonloss, nondividend company designed to address a social objective.” en.wikipedia.org/wiki/Social_business.

Conclusion

In conclusion, evidence suggests that housing support services are increasingly becoming accepted as an important component of and complement to sound, responsible, socially oriented housing microfinance. While strong examples are emerging in the provision of integrated services, the delivery of more complex, specialized housing support services as a scalable social enterprise alongside housing microfinance is an area of continued exploration and study. Similarly, the creation of links with materials suppliers and other existing service providers to the low-income housing markets is an area of needed research, as growing housing microfinance portfolios become able to attract and leverage new types of partnerships that benefit the shelter needs of the poor.



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This family in the Philippines received a housing microfinance loan to improve their home.