This family in Tajikistan renovated their home with the support of a housing microfinance loan.

MIKEL FLAMM/HABITAT FOR HUMANITY

ARTICLE 4:

Taking Housing Microfinance Products to Scale: Institutional Commitment and Capacity

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The demand for housing finance among lower-income households is vast. Looming housing deficits throughout the developing world reveal the need both for new units to house growing populations and for improvements to bring the existing housing stock to "adequate" status.[1] Global urbanization trends and natural and human disasters heap more burdens onto already stressed housing conditions.

Meanwhile, the supply of appropriate financing to help close this gap is extremely constrained. Mortgage markets reach only a small segment of the population (usually less than 10 percent of populations in developing countries) and are hampered by deficient land titling systems, families' fluctuating incomes, and unsupportive legal and regulatory frameworks. The outreach of government

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.

1. "Getting to Scale in Housing Microfinance," by Nino Mesarina and Christy Stickney, ACCION Insight #21, May 2007.

programs is generally limited by short-term political support or restricted budgets. Thus, the majority of the world's population is confined to building their homes incrementally as financing becomes available, whether from savings, remittances, or costly loans such as store credit or funds from local loan sharks.

Within this context, housing microfinance has emerged as an attractive proposition. Microfinance institutions have recognized for years that 20 to 30 percent of loans intended for business activities have been used for housing. The rise of housing microfinance as a product distinctly tailored to the incremental building and financing patterns of the poor is a natural response of microfinance institutions to their clients' priorities. Growing experience in housing microfinance over the past decade has paved the way for broader industry acceptance, confirming that housing microfinance is an attractive product that builds bonds with families and contributes to customer loyalty and retention, in addition to a diversified, well-performing portfolio for the microfinance institution. Moreover, the careful development of housing microfinance products has enabled microfinance institutions to reach new markets and find competitive niches.

Despite the compelling advantages, housing microfinance still represents a surprisingly small share of microfinance activity (less than 5 percent of total microfinance portfolios). A study published in 2007[2] revealed that although housing microfinance portfolios were growing at impressive rates within leading microfinance institutions, housing microfinance was still not being fully embraced as a core product central to the institutions' mission. As a result, housing microfinance's growth was being overtly or implicitly confined, as institutions continued to focus on microentrepreneurs and their income-producing activities. This analysis highlighted two related subthemes:

- If microfinance institution management tended to classify housing microfinance loans as a type of "consumer" loan, viewing them as an investment in an unproductive (or non-income-producing) objective, this would harm housing microfinance's acceptance as a strategic product. However, this perspective has evolved within the industry, as empirical evidence has revealed that improved housing often results in increased income (e.g., host microenterprises, room rental)[3] or cost savings (e.g., energy efficiency, better health)[4]. Furthermore, housing is now recognized as a form of savings, representing a family's greatest financial asset and contributing to financial stability.
- Although microfinance institutions' original mandate was to serve microentrepreneurs and their families, restricting housing microfinance to existing clients and even microentrepreneurs would ultimately compromise the product's outreach.

This earlier study concluded with the assessment that if housing microfinance portfolios were to thrive and reach their potential scale, microfinance institutions would need to move beyond the constraints of their original mandates (target groups and products) and assume a broader commitment to addressing clients' financial needs and priorities. Fortunately, emerging trends in microfinance suggest that housing may be entering a new era, as financial inclusion and a renewed dedication to client-focused services rise as industry agendas. Moreover, the growing recognition of housing as one of the three top priorities of poor families, along with food and children's education, signals a hopeful shift[5]. Certainly, the search for new products and markets in the face of competition will further stimulate microfinance diversification.

The following report is intended to shed light on contemporary issues related to taking housing microfinance to scale. It will also highlight institutional factors that facilitate reaching scale. The report is based on an analysis of recent case studies written of 10 different microfinance institutions around the world that partnered with Habitat for Humanity in the development of housing microfinance

2. "Getting to Scale in Housing Microfinance," by Nino Mesarina and Christy Stickney, ACCION Insight #21, May 2007.
3. For example, see "Building the Homes of the Poor – One Brick at a Time," by Warren Brown, ACCION Insight #4, January 2003, p. 6.
4. One example of this is found in the evaluation of the Piso Firme program in Mexico, documenting the positive impact of concrete floors on children's health. See "World Bank Policy Research Working Paper 4214." Cattaneo, Matias, et al. World Bank, April 2007.
5. "State of the Microcredit Summit Campaign Report," Jan Maes and Larry Reed, Microcredit Summit Campaign, 2012.

products coupled with housing support services[6]. These cases were selected to represent a diverse range of approaches to housing microfinance within a variety of contexts. In particular, seven of these cases described scenarios where the product development process had been completed, including the pilot testing stage, and microfinance institutions were either looking to scale up their housing microfinance products or had already begun that process.

Observations from cases

With respect to the seven cases studied, six microfinance institutions were poised to scale up housing microfinance, and the seventh (in the Philippines) was already engaged in a nationwide rollout of its housing microfinance product. Table 1 on page 4-4 summarizes the scale-up scenario of each of the seven microfinance institutions in terms of their growth vision, key contributing factors, and challenges or constraints faced. The sections that follow provide analysis of this table.

The Karovik family's daughter plays in front of their home, which the family was able to improve thanks to housing microfinance assistance.

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6. Housing support services refer to nonfinancial support that is intended to equip families or the suppliers of housing materials or services with knowledge, connections or other resources that will ultimately improve the quality or reduce the cost of solutions built.

Table 1: Housing microfinance scale scenarios by country/microfinance institution					
Country	Microfinance institution	Housing microfinance loans disbursed[7]	Housing microfinance scale projections or vision	Contributing factors	Constraints
Uganda	UGAFODE	1,629	Expand both housing microfinance products to all branches	$500,000 loan secured from MicroBuild. Recent granting of their MDI[8] license will contribute to public image and growth potential.	Access to capital at favorable terms. Role of housing support services is still undefined.
Peru	EDYFICAR	1,138	Expand to all branches; reach 16,000 clients over next three years.	Large microfinance institutions with a national presence – 112 branches in 16 regions. Owned by a large commercial bank, facilitating access to capital.	Current housing support services are not financially sustainable and difficult to scale nationwide (relying on recruiting and managing a team of specialists).
Bolivia	CRECER	196	Housing microfinance tied to strategic plan. Project 822 clients during first phase of scale up.	Access to capital through MicroBuild. Experience delivering nonfinancial services facilitates housing support service provision at scale.	Cost-recovery for housing support services has yet to be worked out.
Dominican Republic	ADOPEM	465	Intend to expand housing microfinance to all branches. Estimate 5,000 housing microfinance clients within next five years.	Registered microfinance bank with national presence.	No existing scale-up plans. Access to capital.
The Philippines	TSPI	11,000	Have expanded to 128 branches (75 percent of total), and plan to cover 100 percent in 2013. Could lend more than $5 million if it had access to funds.	Large microfinance institution with a national presence. Sole provider of housing microfinance loans in the market.	Product costs related to housing support services compromise sustainability. Access to capital.
Tajikistan	IMON	4,419	Considered a core product, and intend to scale nationally. Project 2,000-4,000 additional housing microfinance clients per year.	Largest microfinance institution in the country. Funding secured from MicroBuild ($2 million).	Access to capital. Housing support service costs are constraining product sustainability.
Bosnia	LOK	1,985	Grow housing microfinance from 6 to 15 percent of overall portfolio.	Institutional capacity and commitment to scale housing microfinance.	Access to capital. Housing support service costs have yet to be taken into account in calculating sustainability.

7. Dates figures were reported: EDYFICAR, ADOPEM and LOK – September 2012; UGAFODE – June 2012; TSPI – July 2012; IMON – August 2012; CRECER – October 2012.
8. MDI stands for microfinance deposit-taking institution.

Challenges to reaching scale

As may be noted from the comments in the table above, two primary constraints were faced by microfinance institutions as they sought to scale housing microfinance. These may be summarized as follows:

- **Covering costs of housing support services:** Microfinance institutions seeking to scale housing microfinance were concerned about guaranteeing product sustainability, particularly with respect to the housing support service costs. Five of the seven microfinance institutions stated that the costs associated with providing nonfinancial housing support services to housing microfinance clients were not being entirely recovered, thereby compromising sustainability. A sixth microfinance institution (in Uganda) had yet to design its housing support services and determine associated costs. Although in most cases either the microfinance institution or Habitat (or both) had subsidized a portion of these costs during product development and testing, the prospect of scaling up housing microfinance was driving both institutions to revisit housing support service design and cost-recovery mechanisms.

  A tendency among microfinance institutions that were moving from pilot testing to scaling housing microfinance was to streamline and standardize housing support services by pulling them in-house while relying more heavily on loan officers to provide the bulk of services. The microfinance institution in the Philippines had initially depended on Habitat to provide more specialized housing support services to clients during the pilot testing in Manila, but once the microfinance institution rolled the product out to its branches around the country, these responsibilities were assigned to housing microfinance loan officers and project-based foremen. The microfinance institutions in Peru, the Dominican Republic and Bosnia all chose to train loan officers in providing basic support for home improvements as part of their strategies for scaling up their products.

  Cost-recovery for housing support services was assumed within the loan interest rate for only two of the microfinance institutions. The majority were either currently charging or expecting to add a specific fee for housing support services. While clients were generally reported as being willing to pay these fees, in none of the cases were the fees considered sufficient to cover all associated costs. Another important consideration is whether specialized housing support services, such as advising more complex and structural improvements, could be provided as an optional service, charging clients on a fee-for-service basis. Clearly, the provision of more customized housing support services at scale remains a frontier issue for housing microfinance practitioners.

  Also noteworthy is the possibility of creating links with material suppliers, hardware stores and other providers of goods and services to local low-income housing markets when scaling up. The microfinance institution in the Philippines relies on selected suppliers to deliver construction materials directly to families. Because of bulk purchases and the efficiencies gained by batching clients into groups of 10, suppliers are able to extend 5 to 10 percent price discounts to the microfinance institution's clients. The microfinance institution in Peru is considering building links with a construction materials supplier to negotiate favorable prices for

Taking housing support services to scale: The case of EDYFICAR in Peru

Upon conclusion of housing microfinance pilot testing, EDYFICAR conducted an evaluation of housing support service sustainability by calculating the costs associated with providing specialized services directly to clients via a hired engineer. It estimated housing support service costs of approximately $59 per loan, but felt it could charge only $40 in fees to clients for these services. In light of this cost-recovery gap along with the institutional challenge that hiring and training a fleet of engineers would imply in preparation for product scale-up, EDYFICAR determined that a new model of housing support service delivery was necessary. It is now seeking an approach that gives loan officers added housing support service responsibility in providing basic assistance, and that forges alliances with materials suppliers and technical training facilities to create a local supply of qualified construction support.

its clients, and providing qualified technical support to clients undertaking structural improvements. The microfinance institution also hopes to partner with a technical training facility to train and certify local construction foremen.

- **Access to capital:** As institutions seek to grow their housing microfinance portfolios, capital is needed at conditions that match their products. Most important is that financing accommodate housing microfinance terms, which are generally longer than working capital loans, in some cases extending three to five years. Several microfinance institutions also have sought favorable rates to finance housing in order to keep prices low for their clients, recognizing that improved housing might not directly result in increased income but rather in longer-term benefits for the family, such as improved health, safety and education, and a financial asset.

  Five of the seven microfinance institutions mentioned access to capital as a primary constraint, and three of the seven have been approved for financing from Habitat's MicroBuild facility[9], providing them with resources to help finance the next stage of their housing microfinance product's rollout. No other outside sources of capital were mentioned, but the Peruvian microfinance institution is owned by a large commercial bank and didn't express any concerns about finding capital to expand housing microfinance. Although the microfinance institution in the Philippines was scaling up housing microfinance with its existing resources — already offering housing microfinance in 128 branches (75 percent of its total branches) — the institution's leadership projected that they could absorb at least $5 million if external capital were to become available for housing microfinance.

Factors that facilitate scale

Housing microfinance products appeared to flourish in institutions that were characterized by the factors listed below. These may be considered criteria for determining where housing microfinance has the best potential for reaching scale.

- **Microfinance institution's existing outreach and growth trajectory:** Microfinance institutions with a national presence and a history of strong growth were well poised to scale up housing products through their existing operational structure. For example, the microfinance institution in the Philippines was able to expand housing microfinance outreach to 11,000 clients in six years by leveraging its presence in 167 branch offices. Furthermore, microfinance institutions with a strong commitment to growth are generally more open to venturing into new products and markets with the necessary dedication (and related experience) to overcome initial hurdles.

- **Microfinance institution's legal figure facilitates access to capital:** Although specific funds for housing microfinance are uncommon, regulated microfinance institutions with access to savings and other sources of domestic and foreign capital were better equipped to fund housing microfinance portfolio growth within their existing range of resources. For example, the microfinance institution in Peru had been purchased by a large, local commercial bank, facilitating access to resources needed to fund growth. Similarly, the microfinance institution in the Dominican Republic is a registered microfinance bank with access to a broad range of financial resources, including savings.

- **Housing's "fit" within the microfinance institution's mission:** Microfinance institutions that embraced broad social missions and actively sought to pursue these were most eager to engage in housing microfinance and integrate housing as a core product. These institutions' mandates tended to incorporate a more extensive target group than microentrepreneurs and their families, and supported engagement in a wide range of financial products and services. For example, the mission statement of the microfinance institution in the Dominican Republic begins as follows: "Promote the development of the Dominican family through their

9. MicroBuild is a social investment fund to mobilize capital to invest, primarily debt, in sustainable housing finance products designed for the lower-income households in developing countries. The fund is a separate company (LLC) and is majority-owned by Habitat for Humanity International.

incorporation into formal economic and credit systems." That focus is aligned with broader financial inclusion and clearly welcomes a variety of products and priorities, including improved shelter.

- **Microfinance institution's culture embraces learning, innovation and credit-plus:** Microfinance institutions that could be characterized as "learning organizations" — placing a high value on training staff, listening intently to their clients, and welcoming innovation — are particularly ripe environments for scaling up robust housing microfinance products. Furthermore, microfinance institutions that were already engaged in providing nonfinancial services such as women's empowerment training (in Bolivia) and business development training (in Tajikistan) alongside financial services were particularly well-equipped to deliver housing-related training and support to housing microfinance clients.

  As housing microfinance is expanded to new branches and regions, field staff must be equipped to constantly test and innovate loan products and support services, because housing is very context-specific. For example, the microfinance institution in the Philippines designed a "branch profiling tool" to equip branch staff to research potential markets and project loan demand before launching housing microfinance, enabling them to fine-tune the product for new settings.

  Also noteworthy is that as microfinance institutions ventured further into housing finance, they often sought greater diversification, whether in response to business opportunities or clients' demands. This led to the development of specialized housing products for distinct market segments that were not being served, or products uniquely tailored to specific types of improvements. For example, the microfinance institution in Uganda designed a micromortgage product that was launched alongside its housing microfinance loan but serves a slightly higher-income population. The microfinance institution in the Philippines ventured into a variety of specialty products as it scaled its housing microfinance nationwide: loans for toilets, septic tank installations, and water and electricity connections. As the microfinance institution in Tajikistan positioned itself to scale up its housing finance product, it contemplated expanding its offerings to include financing of starter homes and a form of mortgage.

In addition to microfinance institution characteristics that facilitate scale, analysis of the seven cases highlighted the following specific practices that supported housing microfinance growth:

- **High level of appropriation of housing microfinance throughout the organization**: The majority of the microfinance institutions commented on the importance of winning institutional commitment to the new product at all levels, from the board to the loan officers, thereby supporting its continued development and expansion. The social outcomes resulting from housing loans and the increased contact with clients that is entailed by housing support services both contributed significantly to the field staff's commitment to the product.

- **Housing microfinance growth incorporated into institutional growth plans**: Housing microfinance has a much greater chance of receiving needed attention and support to reach scale when its growth is tied into the broader plans of the microfinance institution. For example, the microfinance institution in Bolivia has incorporated housing microfinance goals into its strategic plan, and the board of the microfinance institution in Tajikistan has now embraced housing microfinance as a core product, projecting housing microfinance growth within its business plan. Important aspects to be included in the plan are (a) criteria for determining staging and prioritization of branches for housing microfinance product expansion, (b) staff training in housing microfinance product delivery and support, and (c) the role of the central office in supporting product rollout.

- **Staff incentive schemes promote housing microfinance rollout**: Of critical importance to housing microfinance growth, particularly during product rollout, is the incorporation of supportive incentive policies among field staff to promote product uptake in new locations. These frequently include setting product benchmarks in terms of number of housing loan clients, loan amounts and repayment rates, and may be applied to individual staff (as in Tajikistan) or to entire branches (as in the Philippines). Another way the microfinance institution in the Philippines addressed this challenge was by assigning the housing portfolio to loan officers dedicated exclusively to selling and supporting housing microfinance products. This has promoted greater focus and specialization in housing within the microfinance institution's team, and allowed them to reach aggressive growth goals in housing microfinance.

- **Access to dedicated capital to fund housing microfinance growth**: As mentioned above, the limited access to appropriate capital to finance housing microfinance is one of two principal stated barriers to reaching scale. Nevertheless, three of the microfinance institutions have been approved for financing from Habitat for Humanity International's MicroBuild facility, largely because of their robust financial and operational capacities and readiness to grow housing microfinance. It is expected that these resources will help fuel the next stage of their products' expansion.

- **Extending housing microfinance to new client groups**: Although two of the microfinance institutions have restricted housing microfinance to their existing clients —and at significant scale in the Philippines — the more common practice among the studied microfinance institutions is to open access to new market segments, allowing for expansion into these markets and further diversification of their portfolios. Examples include extending housing microfinance loans to salaried workers (in Uganda) and informal wage earners (in Peru). Clearly, more competitive lending environments will push microfinance institutions to venture further in this direction.

- **Financial reporting tracks housing microfinance performance:** Study findings highlighted that the ability to separately track loan products' performance, both in terms of portfolio data and relative to sustainability calculations, is critical to scaling housing microfinance. This latter requirement is constrained by microfinance institutions' capacities to provide cost-accounting figures along product lines, particularly when the field staff is engaged in selling multiple products, thereby complicating an accurate assessment of product-specific operating costs. For example, during its pilot project evaluation, the microfinance institution in the Dominican Republic commented that loan officers spent more time preparing housing microfinance clients and their loan applications than it spent on other types of loans. However, these costs were not explicitly tracked, nor were the benefits of longer-term, high-performing loans (0.4 percent PAR[10]) on financial outcomes clearly assessed. Evidently, these types of analyses are necessary for accurately evaluating product performance.

Conclusion

Housing microfinance appears to be entering a new era, as microfinance institutions are increasingly eager to develop new products and services that respond to clients' needs and priorities, thereby improving business and social outcomes. Within this context, housing microfinance arises as an attractive proposition, responding to a vast market opportunity and demonstrating a growing track record of success. A study of seven microfinance institutions sheds new light on factors contributing to reaching scale in housing microfinance. Furthermore, study findings highlight that the following characteristics of microfinance institutions tend to facilitate scaling housing microfinance:

- Extensive outreach and a steady growth trajectory.
- Regulated institutions with access to a range of financial resources.
- A clear fit for housing within the institution's mission.
- A culture of learning, innovation and social performance within the institution.

Once microfinance institutions have carefully designed and tested housing microfinance products, evidence suggests that one of the principal barriers to taking these products to scale is ensuring the sustainable provision of housing support services alongside housing microfinance. Hence, the supply of value-added nonfinancial services coupled with housing microfinance at significant scale remains an area of continued innovation and learning. Moreover, as housing microfinance portfolios continue to grow, access to appropriate capital will likely remain a key priority for microfinance institutions.

10. PAR means portfolio at risk over 30 days.