Habitat for Humanity®

Terwilliger Center for Innovation in Shelter

# The Impact of Housing Microfinance:

## An Independent Institutional and Social Impact Evaluation of Two Housing Microfinance Products in South India

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# Contents



# Summary of Key Findings

**Habitat for Humanity International's Terwilliger Center for Innovation in Shelter** commissioned an impact assessment study of two microfinance institutions, ESAF Microfinance and Investments Pvt Ltd (EMFIL) and Growing Opportunity Finance (India) Private Ltd (GOF). These two organizations received investments from MicroBuild India, a housing finance company established by Habitat for Humanity International, to fund the development of housing microfinance product lines.

This assessment is qualitative in nature and is intended to help Habitat, its partners and industry stakeholders to understand the impacts, both positive and negative, on low-income households that access housing microfinance loans and chart a future course of action. Additionally, the assessment evaluates the financial and operational performances of the housing microfinance products of EMFIL and GOF.

A Qualitative Impact Protocol (QuIP) evaluation methodology was used to measure the social impact of housing microfinance and an institutional assessment was conducted to understand the performance of the housing microfinance product. This document is an abridged version of the study findings.

The impact evaluation demonstrated clear evidence of ways home improvement loans contributed to a range of outcomes in the lives of urban and rural clients of EMFIL and GOF. Impacts are particularly evident in the domains of: (1) housing conditions, (2) housing microfinance and services, (3) health, safety and security and (4) relationships.

- In both MFIs, clients took out home improvement loans to undertake a variety of home repairs and improvements that had knock-on effects in other areas of their lives. Improving the physical condition of their homes led respondents to report they **felt an increased sense of security**. For example, clients in **rural areas** from both MFIs were better shielded during the monsoon season and could live in their homes without fear of being flooded.

- Improved housing conditions also engendered an **increase in social status**, and as a result, **increased feelings of self-worth and pride**, **garnering more social inclusion**, particularly in the **urban context**.

- **Extending the dwelling** provided some of EMFIL's **urban and rural clients, particularly those younger**, with enough space for all family members, resulting in **improved family relations**. For several of GOF's clients, housing improvements i**ncreased their privacy and provided children with their own space for sleeping and studying**. In addition, a few of GOF's urban respondents could **start or expand their home-based small businesses**, resulting in increased income and more financial security.

- Taking a loan out with EMFIL and GOF enabled women to be part of a savings group and this also yielded other personal and social benefits.

Several EMFIL **clients from urban and rural locations, particularly those older**, reported having **increased their confidence** by being a member of a self-help group and felt that they had an opportunity to discuss and share problems with others. Similarly, for GOF's clients, being part of a group made them **feel more confident of themselves and in managing financial matters.** In addition, there were more opportunities to socialize with other members of the group, creating a **greater sense of solidarity, mainly in urban areas**.

- Majority of respondents from both MFIs, **particularly from the urban cohorts**, felt that **they had better access to funds and/or credit**, which brought distinct benefits. On the one hand, several of EMFIL's clients said that having better access to loans **engendered feelings of increased financial security**, as it was simple and easy to take out loans and the fact that no security was needed to access them. On the other hand, the majority of GOF's clients from both urban and rural cohorts pointed out that an increased presence of MFIs in the area and the greater availability of loans had **resulted in changes in their borrowing habits as they had stopped borrowing money from local moneylenders.**

While there is evidence that home improvement loans from EMFIL and GOF are achieving positive outcomes, there are several factors that could be used to inform future program design. First, it was found that **greater availability of loans could also lead to more debt and anxiety about repayment and losing an asset.** Secondly, **ill health and the reduced ability to work and subsequent loss of income** placed further strain on low-income households. Thirdly, significant differences were found in the housing quality level between EMFIL's and GOF's clients. These findings can guide future credit policies and housing microfinance product design, taking into account factors that are unique to specific geographies and locations.

The institutional assessment revealed the following:

- Both EMFIL and GOF offer a single housing microfinance product (which is essentially a home improvement loan[1]) to their clients, which are similar in features. The main difference is that GOF treats the home improvement loan as a non-qualifying asset and have hence priced it comparatively higher than EMFIL's home improvement loan. For larger loan sizes, especially for home construction, both MFIs work with leading housing microfinance companies/non-bank finance companies under business correspondent model.

- Between the two MFIs, EMFIL has demonstrated consistent growth in its housing microfinance portfolio with well-priced loans (which is generally at par with other microfinance products), lower operating cost, lower financial cost, excellent portfolio quality and higher profitability ratios. EMFIL's housing microfinance portfolio has steadily grown over the years and has better economies of scale. EMFIL's net spread is very close to its general microfinance portfolio whereas for GOF, the breakeven point was achieved very recently.

- GOF has not been able to achieve the desired growth rate under its housing microfinance portfolio. During the pilot test of the home improvement loan product, GOF had to stop offering the home improvement loans as it was severely impacted during the Andhra Pradesh crisis. GOF has restarted the product recently in February 2016. Despite these challenges and with just one source of capital for housing microfinance portfolio, GOF was able to achieve break even recently. The sustainability of the product now depends on GOF's ability to source additional funding for housing microfinance portfolio.

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[1] A home improvement loan is one of the variants of housing microfinance and is provided for undertaking small repairs and additions in the house such as plastering, flooring, adding a room, bathroom construction, etc.

- In both MFIs, housing microfinance is integral to the microfinance strategy for both EMFIL and GOF and such products align well with the MFIs' vision and mission.

- In general, findings reveal that housing microfinance could be as profitable as general microfinance loans because MFIs are able to leverage the existing infrastructure for the delivery of new products and are able to achieve economies of scale as they gain experience and reach out to more clients.

**The following recommendations are made based on the findings of this study:**

- At the client level, continued emphasis on financial management, education and counselling will be important as low-income households increase access to more financial products and services and are dealing with multiple loans with multiple tenors.

- At the institutional level, strengthening of staff capacities, simplification of documentation, having a dedicated cadre for portfolio development will position the MFIs for growth of the housing microfinance portfolio.

- At the sector level, stakeholders such as Habitat for Humanity, financial institutions, regulators, etc. need to focus on innovation within housing microfinance that will respond to the needs and preferences of clients based on their region, location, type of housing activities and customer income flows. Households obtaining housing microfinance loans need to be supported by a thriving housing market with the availability of various support services such as design information, innovative products and services, linkages made between quality suppliers of construction materials and the low-income communities, and access and information to acquire a land title.

# Introduction

Habitat for Humanity International's Terwilliger Center for Innovation in Shelter (Terwilliger Center) commissioned an impact assessment study of two microfinance institutions, ESAF Microfinance and Investments Pvt Ltd (EMFIL) and Growing Opportunity Finance (India) Private Ltd (GOF), and their housing microfinance clients in 2016. These two organizations received investments from MicroBuild India, a housing finance company established by Habitat for Humanity International, to fund the development of housing microfinance product lines. Bath Social and Development Research Limited conducted the research with the assistance of Micro-credit Ratings International Ltd. (M-CRIL), on behalf of the Terwilliger Center. The research was conducted from September 2016 to March 2017. This document is an abridged version of the institutional and impact evaluation study.

This assessment is qualitative in nature and is intended to help Habitat, its partners and industry stakeholders to understand the impacts, both positive and negative, on low-income households that access housing microfinance loans and chart a future course of action. Additionally, the assessment evaluates the financial and operational performances of the housing microfinance products of EMFIL and GOF.

This study's overall objective was to evaluate the impact of housing microfinance products and services offered by EMFIL and GOF. The specific objectives of this evaluation were:

- To understand the social impact of housing microfinance and how such loans are changing social, economic and housing conditions of low-income households; and
- To assess the performance of the housing microfinance portfolio and the sustainability of housing microfinance operations at the institutional level.

## Background

Habitat for Humanity International is an international NGO which has helped more than 9.8 million people meet their affordable housing needs across the globe. Habitat incorporated MicroBuild India with the objective of increasing access to housing microfinance for low-income households across India. MicroBuild India offers wholesale loan financing for shelter-related microfinance products and works closely with Indian financial intermediaries serving low-income populations, thereby filling a critical funding gap for affordable housing.

MicroBuild India's business model is based on its theory of change, which states that providing debt capital and technical assistance (inputs) to MFIs will increase their provision of housing microfinance loans and housing support services such as construction technical assistance (outputs) to poor and low-income households, who in turn will improve their housing conditions (short-term outcomes). Improved housing conditions are expected to lead to the following medium-term outcomes:

- improved safety from hazards;
- better health and security;
- increased educational security and
- improved economic security.

In the long-term, the theory of change is expected to lead to improved wellbeing and happiness for low-income families.

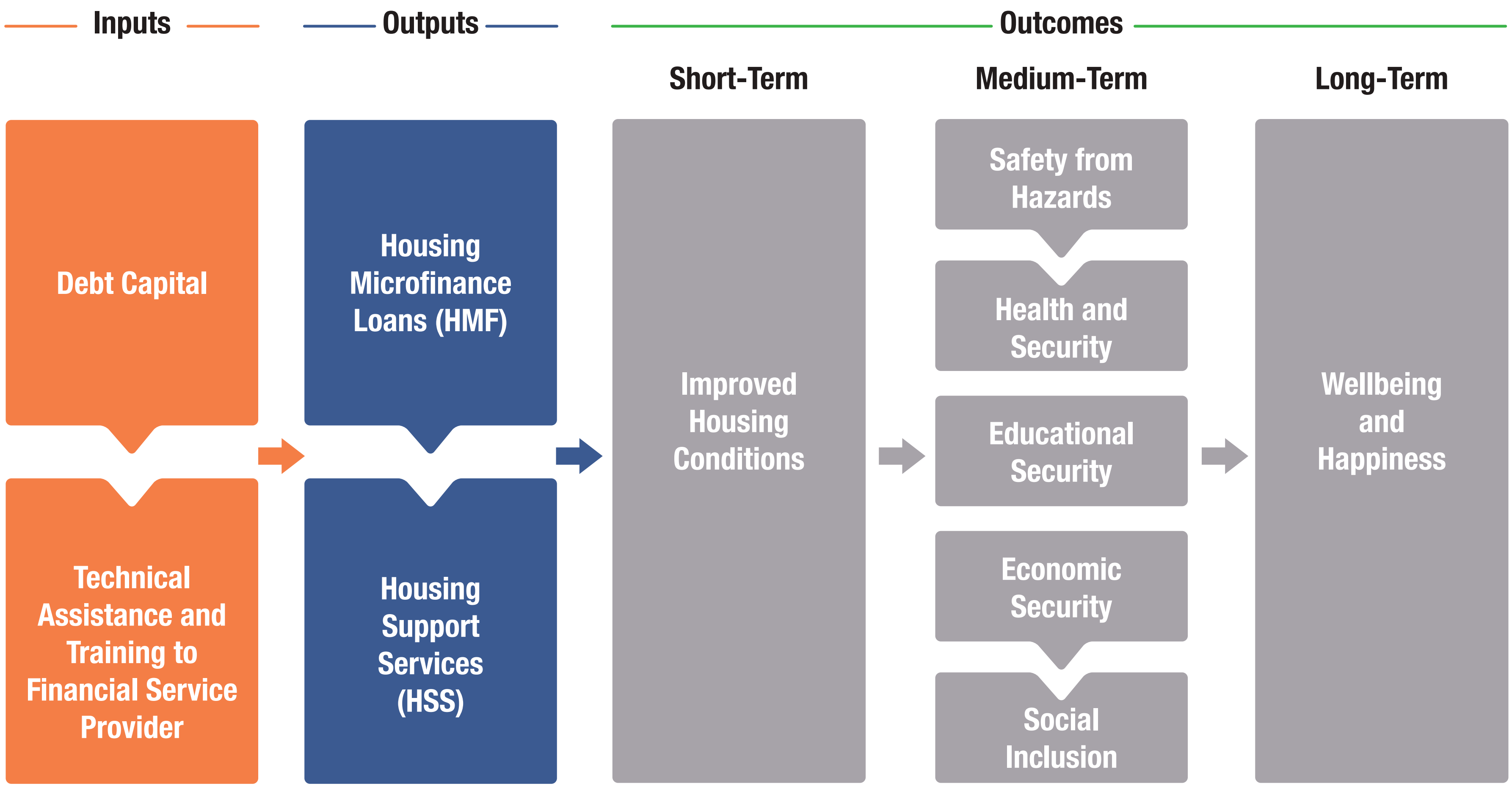


Figure 1: Habitat for Humanity's Theory of Change for Housing Microfinance Programs

# Methodology

This evaluation was carried out between September 2016 and March 2017 by Bath Social & Development Research Ltd. in partnership with M-CRIL using two approaches to data collection and analysis.

**Qualitative Impact Protocol for Measuring Impact of Housing Microfinance:** To assess the social, economic and housing impacts of access to housing microfinance, the study used the Qualitative Impact Protocol evaluation methodology. QuIP is a methodology for qualitative impact evaluation considered to be a simple and cost-effective way to gather, analyze and present feedback from intended beneficiaries about significant drivers of change in their lives. This approach is designed by Bath Social & Development Research Ltd, a consultancy founded by researchers from the Centre for Development Studies, University of Bath.

The QuIP studies collected and analyzed qualitative data from 36 semi-structured household individual interviews and four focus group discussions with housing microfinance clients from EMFIL and GOF. A distinctive characteristic of the QuIP method is that the interviews are as far as possible blinded, reducing the risk of 'pro-project' or 'confirmation' bias. This was achieved by managing data collection in such a way that the researchers conducting the interviews were asked to collect information on broad changes in the lives and livelihoods of respondents, without being aware the interview subjects had accessed housing microfinance loans from the corresponding MFIs, or that analysis would specifically assess this. The MFI client samples were purposively selected according to the sub-categories constructed from the variables that provided variation across the data. EMFIL's sample was selected by location (urban and rural) and age groups (younger and older), whereas GOF's sample was selected according to location and maturity of housing microfinance loan borrowers measured by their loan cycle (i.e., first or second).

Table: Sampling Criteria

| MFI | Sub-category | Rural | | Urban | | Total | |
|---|---|---|---|---|---|---|---|
| | | HHIs | FDGs | HHIs | FDGs | HHIs | FDGs |
| EMFIL | Younger (24-44) | 9 | 1 | 8 | 1 | 17 | 2 |
| | Older (45-60) | 10 | 1 | 9 | 1 | 19 | 2 |
| | **EMFIL total** | **19** | **2** | **17** | **2** | **36** | **4** |
| GOF | 1st Cycle | 9 | 1 | 9 | 1 | 18 | 2 |
| | 2nd Cycle | 9 | 1 | 9 | 1 | 18 | 2 |
| | **GOF total** | **18** | **2** | **18** | **2** | **36** | **4** |
| | Grand total | 27 | 4 | 35 | 4 | 72 | 8 |

Note: Household individual interview (HHI); focus group discussion (FDG)

Qualitative data was gathered according to impact/well-being domains related to the program's Theory of Change (see Fig. 1). The responses from HHIs and FGDs were coded according to:

- **explicit drivers** (attributed to the project or project-linked activities);
- **implicit drivers** (mechanisms by which the project aims to achieve impact, but with no explicit reference to the project or named project activities); and
- **other drivers** not related to activities included in the project's theory of change (e.g., pay raises, death, or diseases).

**Cautionary note:** The QuIP samples are not statistically representative of the wider population; thus findings cannot be extrapolated across wider project target areas, nor is that the intention. The aim of a QuIP study is to conduct a 'deep dive' assessment with a purposively selected group of people that captures diversity of respondents in the project target area in order to understand whether, and if so, how different aspects or 'domains' of their lives have changed in recent years. The report provides the frequency of recurring responses in order to give a sense of magnitude of the changes reported within the samples. These numbers *should not be interpreted with statistical purposes or generalised to a wider population.*

**Institutional Assessment Methodology for Measuring Institutional Performance and Sustainability:** Regarding the institutional performance and sustainability of the housing microfinance operations for EMFIL and GOF, the study used an institutional assessment methodology of data collection and analysis based on a desk review and key informant interviews with the MFIs' staff and stakeholders.

The findings are split into an assessment of the social impacts achieved by the housing microfinance programs, which include most significant outcomes, housing quality standards and factors related to negative outcomes; and a loan portfolio and a sustainability assessment of the housing microfinance programs of both EMFIL and GOF.

| Method | Objective | Target | Tools & resources |
|---|---|---|---|
| QuIP (Qualitative Impact Protocol) | To understand the social impact of housing microfinance and how such loans are changing social, economic and housing conditions of low-income households | Low-income Household | Semi-structured interviews<br>Focus group discussions |
| Institutional Assessment | To assess the performance of the housing microfinance portfolio and the sustainability of HMF operations at the institutional level | Financial Institutions | Desk review<br>Key informant interviews |

Figure 2: Methodology Framework

# Social Impact Analysis of Housing Microfinance Portfolio of EMFIL and GOF

## Social Impact Analysis of EMFIL's Housing Microfinance Portfolio

### Snapshot of EMFIL

EMFIL is an offshoot of the NGO Evangelical Social Action Forum (ESAF), which was formed in 1992. ESAF initially focused on promotion of livelihood activities among the marginalized sections of the society and gradually diversified to microfinance, micro-enterprise development, natural resource management, education, health and relief and rehabilitation. EMFIL was established in 2007 when ESAF's microfinance program expanded. Kerala is the main area of operation, with presence in eight other states and a union territory.

EMFIL offers a wide range of products (15), including both credit and non-credit products. Almost all of the products are being provided through a group lending methodology, except the home improvement loans and business loans that are individual loans within groups but without joint liability.

The overall outreach of EMFIL is about 1.47 million members serviced through 264 branches. Home improvement loans are offered in 140 branches across Kerala, Tamil Nadu, Maharashtra, Chhattisgarh, and Madhya Pradesh. However, approximately 83 percent of the loan portfolio is concentrated in Kerala. As of 30 September 2016, EMFIL had 31,073 active borrowers (1.8 percent of total active borrowers) with portfolio of 1,525.48 million Indian rupees (US$23.4 million, 6.4 percent of gross portfolio).

The QuIP study demonstrated clear evidence of how EMFIL's home improvement loans had contributed to a range of different outcomes on the lives of the clients sampled in Kerala. The most significant positive outcomes fell under the following four domains: (1) housing conditions, (2) housing microfinance and services, (3) health, safety and security and (4) relationships.

**Most significant outcomes:**

- The most reported outcome of taking out a home improvement loan was improved living conditions with 24 respondents reporting this positive impact, particularly the rural cohorts.
- Over half the clients (22) interviewed in urban and rural localities, particularly older clients, reported that having access to home improvement loans through their groups contributed to improved social relations with their peer members.

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[2] EMFIL recently transformed into a small finance bank and all the activities are now carried out by this new entity. Please note that during the time of institutional assessment, EMFIL was still operating as a Non-Banking Finance Company-Microfinance Institution/NBFC-MFI entity.

- An important outcome of home improvements was the increased feeling of security cited by 22 respondents particularly from the younger and older rural cohorts.
- Home improvement loans also contributed to increased access to loan credit, which over half of interviewed clients (20) cited as a positive outcome, particularly those in urban localities. Respondents chose EMFIL loans for several reasons that included:
    - easy loan application process;
    - more money that could be borrowed;
    - no security required to access loans (i.e., house was not a guarantee);
    - savings group offered an opportunity for women to socialize; and
    - EMFIL has been working in the area for a long time and has a good reputation.
- The main reasons for taking out a home improvement loan were to: construct a new concrete house, repair an existing house, repaint the house, extend the house or to purchase household goods.
- Generally, respondents took out more than one loan from different financial organizations to undertake home improvements and/or to cover other expenses. EMFIL was favored for home improvements and also Kudambasree – a Kerala government microcredit program based on women self-help groups. Co-operative banks' loans were also used to repair or build houses. Gold loans[3] were, on the other hand, primarily utilized for emergencies and everyday expenses. A few respondents stopped using different financial providers and consolidated multiple loans or paid off expensive loans by taking out one large loan from EMFIL due to the lower rate of interest.

[3] Gold loans are financial transactions using gold as the guarantee or deposit against an amount of money lent to the customer. One of the key characteristics of gold loans is that they are disbursed quickly and without the hassle of loan appraisal and checks. Gold loans in Kerala are mainly provided by Muthoot Finance Ltd., which is an Indian financial corporation that claims to be the largest gold financing company in the world.

## The most significant positive outcomes fell under four domains:

### Housing Conditions

*"...earlier times in this area, majority of the houses were constructed by clay and sand but now the houses are reconstructed with cement and concrete roofings. People think that concrete houses are safer and it is one of the symbols of their dignity and command respect and honors from others in the society."*

### housing microfinance and services

*"Now we get more money on credit, people begin to have faith in us that we can repay...the organizations like ESAF and others give more credit these days."*

### Health, safety and security

*"Safety and security has improved in the last two years because we constructed a new wall in my house and this wall gives me and my family security and private space in our home from neighbours, and this wall gives me more security for my daughters."*

### Relationships

*"With these groups like ESAF...there is a better co-operation among the women members as they get more time to socialize with each other."*

**These quotes are based on interviews with EMFIL's housing microfinance clients.*

## Housing quality standards

During household interviews, field researchers observed the nature and quality of the home improvements undertaken by the clients and recorded whether the changes and characteristics of the dwelling met the criteria of Habitat's housing quality standards. All 36 of EMFIL's clients who were interviewed used locally sourced materials and labor to maintain and upgrade their houses. Similarly, all respondents met the sanitation criteria, i.e., they all had access to properly constructed, safe and hygienic toilets sufficiently close to their dwellings at all times with proper drainage systems. However:

- five households, particularly older respondents, had problems accessing sufficient water, and three urban households had water that did not meet the water quality standard;
- four households, three of which were urban, did not meet the minimum standard for usable space in their dwellings, i.e. ,the "covered area" housing condition; and
- three older respondents' houses were not safely located to protect their families against natural hazards.

Breaking this down further:

- all rural houses (including young and older respondents) had access to good quality water;
- at least one household in each cohort did not have durable structural materials to allow for safe refuge and exit in case of a natural disaster;
- all houses of young rural and urban respondents were safely located; and
- particular attention should be paid to the older urban respondents among whom the lowest housing standards were found.

## Factors related to negative outcomes

The results did not show explicit evidence of negative outcomes as a result of the program activities. However, some factors appeared to have negatively affected some of the outcomes which the program had aimed to improve. Although these factors were not all caused by the program and **some were outliers**, references to indebtedness across urban and rural clients and housing quality particularly amongst the older urban clients may merit attention in future program design.

- The majority of respondents — primarily from the older rural cohort — reported **reduced income** mainly due to **reducing or stopping work because of ill health** and, to a lesser extent, **family members moving away or business failures**.
- **Ill health** was generally related to personal or family health conditions and/or the water contamination caused by a local gold factory in Cherpu.
- Some interviewed clients (8), particularly the younger rural and urban ones, cited that they were **less economically secure**, often because of **increased debts** from different borrowing sources.
- Several respondents (7) across the urban and rural sub-categories reported higher levels of debt and consequently **increased stress** levels as they were worried about making loan repayments, particularly those with multiple loans.
- **Water contamination** caused by a local gold factory in Cherpu and **jealousy** between neighbours for having improved their dwellings in rural localities were the main factors affecting **community relations**.

# Social Impact Analysis of GOF Housing Microfinance Portfolio

## Snapshot of GOF

Growing Opportunity Finance (India) is an implementing partner of the Opportunity International Network involved in women's empowerment and microfinance around the world. GOF was formed through capital contributions from four Mutual Benefit Trusts promoted by Inter-Mission Industrial Development Association which currently holds a 49.40 percent share in GOF. In 1996, IIDA started a Micro Enterprise Development Program with the help of Opportunity International Network to offer employment and income-generation opportunities to the poor through microfinance lending. GOF was incorporated in February 2006 and obtained the non-bank finance company (NBFC) registration in November 2006.

GOF's microfinance operations are spread across two states and one union territory through 21 branches. As of 31 December 2016, GOF had 60,078 active borrowers with gross portfolio of 1,119.15 million Indian rupees (US$17.2 million), including a 198.2 million-rupee (US$3.04 million) managed portfolio[4]. GOF offers two loan products to its customers, income generating loans and home improvement loans, through a group lending methodology. The home improvement loan does not rely on joint liability.

Out of 21 branches, home improvement loans are offered in 12 branches in Tamil Nadu. GOF had 556 active home improvement loans (0.9 percent of total active loans) with portfolio of 33.33 million Indian rupees (US$512,769, 3.0 percent of gross portfolio) as of 31 December 2016.

[4] Managed portfolio refers to the portfolio which is in the books of another financial institution but serviced by the MFI.

## Lasting positive changes as a result of housing microfinance*

- **A family feels secure despite flooding**
  Compared to their old home made of hut and straw, their new house with concrete walls prevented flood waters from entering their dwelling.

- **A self-help group member now has easier access to finance**
  Borrowing patterns have undergone a drastic change in the past few years, as she started relying on self-help groups and private financial providers more and more instead of borrowing from moneylenders.

- **A woman develops greater self-confidence after making home improvements**
  With an increased sense of dignity, she is able to lead her neighbors to act on concerns around cleanliness, water and electricity. From time to time she calls for neighborhood meetings to deal with local issues. She is seen as a thalavai, a leader.

**These are based on the interviews with GOF's housing microfinance clients.*

The QuIP study showed that GOF was the most dominant MFI in both areas sampled and that GOF's home improvement loans have a positive impact on the lives of first- and second- cycle clients across urban and rural localities in Tamil Nadu, India in a variety of ways. The most significant positive outcomes relating to GOF's home improvement loan program were reported in four domains: (1) housing conditions, (2) housing microfinance and services, (3) health, safety and security and (4) relationships.

## Most significant outcomes of home improvement loans

- The most cited positive outcome was **improved living conditions**, with 32 of 36 respondents in both urban and rural areas explicitly stating that they had taken home improvement loans from GOF for making home improvements.
- Majority of respondents (30), particularly urban second-cycle clients, reported having **extended their house or built more rooms.** For several urban clients, building extensions helped to house small businesses; for rural clients, the extension **helped to better accommodate the whole family**.
- A large proportion of interviewed clients (26), particularly rural second-cycle clients, **no longer borrowed from local moneylenders**, demonstrating a significant change in their borrowing habits. These changes were due to the increased presence of GOF and other MFIs in the area, greater availability of more reliable loans with lower interest rates and the easy and simple procedure for accessing loans.
- A further positive contribution cited by 24 respondents, particularly those in their second cycle, was that **having a house with enough space for all family members** meant, in particular, that children had their own space to sleep and study.
- Majority of clients (23), particularly second-cycle clients (urban and rural), said that home improvements, in particular, building compound walls had provided greater protection for their children. In addition, respondents reported that they felt **more secure**, especially from natural hazards such as floods and monsoon. These home improvements also contributed to an **increased sense of privacy, social status, pride, dignity and respect from others**.
- **Expanding or starting a new business** due to home improvement loans was a further positive outcome for 18 respondents, particularly second-cycle clients. As people started or expanded a business and diversified their livelihood activities, they also experienced **increased income** in their household that made them feel **more financially secure**.

## Housing quality standards

The housing quality standards of GOF's clients who were interviewed in the Tamil Nadu areas had a scope of further improvement because of the fact that most of the clients lived near disaster-prone areas. A relatively larger number of households who were interviewed met the quality standards in water and sanitation. Good quality water was accessible to 30 of the 36 households interviewed. Similarly, 28 households across urban and rural localities had access to toilet facilities properly designed and constructed with proper drainage systems. Nevertheless,

- only a third of these households were built with durable materials to protect them in case of a natural disaster;
- only two clients (one rural and one urban) who were interviewed lived in houses built with appropriate construction and material specifications to mitigate the risks associated with living in disaster-prone areas; and
- over half of the respondents had met the covered area quality standard, i.e., each person in the household has a usable covered floor area of no less than 3.5 square meters.

### Factors related to negative outcomes

The negative outcomes cited by five people, from the rural cohort, were related to **reduced income and savings**, as well as **ill health** caused by illness (diabetes) and accidents. These outcomes were interrelated as clients reported that being ill affected their ability to work or prevented them from working and that led to other problems such as:

- worrying about loan repayments;
- reduced ability to buy enough food;
- using their savings to pay loans; and
- increased levels of debt.

The researchers **did not find explicit evidence of negative outcomes** because of GOF's home improvement loans. However, the issues of increased levels of debt, using savings to repay loans and worrying about loan repayments, together with the lower housing quality standards found among GOF clients, suggest that special attention should be paid in future design and provision of home improvement loans.

## Comparative Analysis of Social Impact of EMFIL and GOF

While both QuIP studies have demonstrated evidence that the home improvement loans of EMFIL in Kerala and GOF in Tamil Nadu have contributed to a range of different outcomes in the lives of their clients, there are important contrasts and patterns that deserve analysis.

### Perceptions of overall change

Generally speaking, GOF's clients reported more positive changes compared to EMFIL's clients, particularly in the housing conditions, economic security, community relationships and overall wellbeing domains. This is an interesting finding, particularly in the housing condition domain, given that housing quality standards of GOF's interviewed clients were markedly lower than the EMFIL clients.

Interestingly, the urban clients from both MFIs perceived more negative changes in their safety and security compared to the rural clients. While access to housing microfinance was generally perceived as leading to positive changes among rural and urban GOF clients in Tamil Nadu, three EMFIL clients, particularly from rural Kerala, experienced that their access to housing microfinance services got worse. Finally, there was a marked similarity between the two samples in the perception of health: overall, respondents from both MFIs across all cohorts felt that their health got worse, with more than half of respondents from EMFIL and a quarter from GOF, particularly the urban clients, expressing concern. As discussed above, EMFIL client's ill health was related to personal or family health conditions and/or the water contamination caused by a local gold factory in Cherpu, whereas GOF clients generally attributed ill health to illness (diabetes) and accidents.

### Outcomes and drivers of positive change

Respondents from both EMFIL and GOF revealed important patterns and trends concerning the most commonly cited drivers of change that led to positive outcomes. Respondents cited that **taking out a repair loan from an MFI**, constructing a new concrete house, extending the existing dwelling or improving the housing conditions were the most important factors that led to positive change in their lives. For respondents from both MFIs, the driving force behind decisions to take a loan and improve their homes were: **insufficient space in the house** as the family size had increased; **children growing up** and needing their own space to sleep and study; the

**forthcoming marriage** of a son or daughter; and an aspiration to live in a concrete house in order to increase their **social status**.

Achieving improved living standards **increased the sense of security** of both EMFIL and GOF respondents, particularly the rural, as they were better shielded during the monsoon season and could live in their homes without fear of being flooded. In addition, while EMFIL respondents, particularly from the younger rural cohort, reported that extending their houses resulted in **improved family relations** and increased socializing, GOF respondents across urban and rural localities felt that they **increased their privacy** and provided their children with their own space for sleeping and studying.

Taking a loan from EMFIL and GOF also meant that women were able to be part of a savings group, which yielded other benefits to the respondents, such as having **increased confidence** by being a member of a self-help group and opportunities to discuss and share problems with others. This is important as women across rural and urban areas not only had a better social life but also developed a **greater sense of solidarity**, which is crucial for lending methodologies based on joint liability.

The increased presence of MFIs in the area and the **greater availability of loans** yielded different patterns. The majority of GOF's respondents, particularly those in their second cycle of home improvement loans, cited that having a greater availability of loans had resulted in **changes in borrowing habits** since they had stopped borrowing money from local moneylenders and instead preferred to borrow from GOF. This led to increased feelings of financial security and the knowledge that they would be better able to repay the loans as the interest rates were lower and they could pay the principal amount and interest rate at the same time. Similarly, the majority of EMFIL's respondents, in particular from the urban cohort, felt that having better access to funds and/or credit increased a feeling of **financial security** since the simple and easy process of taking out loans and the fact that no security was needed were enough reasons for taking out loans with EMFIL.

While a degree of improved financial security was realized because of better access to credit, it would be overstating the case to say that economic security had been achieved as a result of EMFIL programs. On the other hand, the economic security of a number of rural and urban women in second cycle of home improvement loans had been positively affected by GOF project activities. Four women stated that they had been able to start or expand their own home-based businesses after they had extended their houses, increasing their income. In addition, the increase in access to credit had also improved their financial security, adding to overall economic confidence.

## Outcomes and drivers of negative change

Although clients from both MFIs reported far fewer drivers of change that led to negative outcomes, there are important issues that need to be addressed.

**Increased levels of debt** and subsequent **worries and stress about repaying loans** were reported by urban and rural respondents, particularly the older cohorts as being implicitly attributed to EMFIL activities, but also to other MFIs and informal money lenders in the sample sites. Interestingly, as discussed earlier, the majority of respondents from both MFIs felt that their financial security increased as a result of having more available and accessible loans. However, a few people also felt that having debts and having a **fear of not being able to repay** them and **losing an asset** were increasingly affecting their health and sense of economic security. One older EMFIL rural respondent pointed out that having debts was the main problem in her family; several respondents, particularly the younger urban cohort, reported being very worried about repaying multiple loans and becoming increasingly stressed about their level of debt.

These contrasting views address the important issue in the microfinance sector of increased availability of credit facilities leading to **multiple loans and over indebtedness**. The difference between access to and use of financial services needs to be addressed for future program improvements in the sense that any effort to expand the access to more credit products should be accompanied by other support services such as consumer education programs, including financial management and financial education. With this, MFIs would help people make more informed decisions about how to use their financial service options more wisely.

Similarly, several of GOF's clients reported that they experienced a **reduction in income and in savings** as a result of increases in their level of debt or in the amount of loan repayments. Although these negative drivers were not solely attributed to GOF loans, particularly home improvement loans, it is important to take into account that multiple borrowing was the major reason of negative impacts in the Indian context.

It is worth noting that the main negative impact associated with GOF project activities was that business loans were being **used for other purposes**. These included paying for home improvements, paying off debts and other existing loans and using the money to cover everyday living expenses. While this is not directly attributed to GOF's home improvement loans, it addresses the issue of fungibility in the use of credit. This brings an opportunity to adopt or improve verification practices in the lending process carried out by the MFI. Finally, ill health and the reduced ability to work and subsequent loss of income were other negative impacts reported by EMFIL's and GOF's clients that were attributed to other factors outside of the MFIs' project activities. Nevertheless, these negative impacts may affect MFIs' operations by decreasing the repayment rates, clients using loans for other purposes i.e. health, and becoming over indebted. Ill health may be a good opportunity for MFIs to introduce targeted and specialised credit products to deal with health issues and help people to cope with this problem.

# Institutional Analysis of the Housing Microfinance Portfolio of EMFIL and GOF

## An Institutional Analysis of EMFIL Using a Housing Microfinance Lens

### Housing microfinance program of EMFIL

The origin of the program of EMFIL dates to 2002-2003 when ESAF partnered with Habitat for Humanity for its tsunami response. A pilot commenced from December 2013 based on a market study that showed high demand for home improvement loans among EMFIL's existing borrowers. Initially, the loans provided were up to a maximum limit of 50,000 Indian rupees (US$769) and a tenure of 30 months on a weekly repayment frequency.

During the pilot phase, EMFIL realized that the loan amount was not sufficient and the weekly repayment frequency was burdensome for the borrowers so the product was redesigned and rolled out in September 2015. The maximum loan size was reset to 75,000 Indian rupees (US$1,153) and the product tenure was increased to 36 months for good standing members with two years of good credit history and with monthly repayment frequency. The main loan utilization purposes include plastering, tiling, kitchen maintenance, parapet maintenance, roof fencing, room or house extension and toilet construction.

EMFIL also lends as a Business Correspondent (BC)[5] through its tie-up with MicroBuild India in Kerala and Swarna Pragati in Maharashtra. Under the BC model, EMFIL provides high ticket size loans for house construction with loan sizes varying from 50,000 to 500,000 Indian rupees (US$769 to US$7,692), with monthly repayment and loan tenure of up to five years. The funding agencies complete the loan assessment and disbursement, while EMFIL's responsibility is limited to sourcing, documentation and collection, for which it receives a fee. ESAF began lending under the BC model because of the overall lending limits set by the Reserve Bank of India for an non-banking financial company-MFI entity.  MFIs cannot lend more than 100,000 Indian rupees (US$1,538) to any second cycle client or beyond, thus limiting the scope of loans.

The housing microfinance portfolio has grown from 0.48 million Indian rupees (US$7,384) in March 2013 to 1,525.48 million Indian rupees (US$23.4 million) in September 2016 with CAGR of 899 percent (with base value as that of 31 March 2013). Similarly, the number of borrowers in the same period grew at a CAGR of 570 percent from 40 to 31,073. EMFIL does not have a separate structure for delivering the housing products to the clients. The same set of

[5] Business Correspondent: RBI has allowed banks to appoint entities and individuals as agents for providing basic banking services in remote areas where they cannot practically start a branch. These agents are called business correspondents. BCs are considered as practical solutions to extend basic banking services to the nearly 600,000 villages in the country.

branch staff members are deployed for delivering all the microfinance products, including home improvement loans.
The competition for EMFIL is limited to local cooperatives and banks but EMFIL feels that home improvement loans complement the loans provided by these institutions as they provide loans in tranches and the borrowers need additional funds to complete the initial stage of construction.

EMFIL has recently received final approval from the Reserve Bank of India to launch a Small Finance Bank and it started its operations as a bank from March 2017. In the future, the housing microfinance loans would be handled by the retail assets vertical of the SFB. It is expected that the home improvement loans will vary from 100,000 to 200,000 Indian rupees (US$1,538 to US$3,076) and the house construction loans will range from 100,000 to 1,000,000 Indian rupees (US$1,538 to US$15,384). The focus in the future is also likely to shift from home improvement to financing new house construction. The goal of EMFIL is to reach 10,000 crore Indian rupees (US$1.5 billion) by end of 2020, of which around 10 percent would be its housing microfinance portfolio.

## Performance of the Housing Microfinance Portfolio

The performance of the housing microfinance portfolio over the past 4.5 years (until September 2016) was analyzed in the following areas.

*a) Portfolio productivity, which analyzes the earning capacity of housing microfinance portfolio*

- EMFIL has reduced its rate of interest from 26 percent per annum to 22.99 percent
- For home improvement loans, a higher processing fee was charged (two percent) in comparison to other loans (one percent), resulting in a higher Annual Percentage Rate (APR).
- Changes in the interest rate had an effect on the yield of housing microfinance portfolio but EMFIL is earning the expected income in the last couple of years, which is an indicator of a healthy portfolio quality.
- In the pilot phase, the portfolio quality was relatively weak with PAR 60 of 3.8 percent in March 2014, but EMFIL has since significantly improved it to Portfoilo At Risk (PAR) 60 of zero percent as of September 2016.

*b) Operating efficiency, which analyzes the costs for managing the housing microfinance portfolio*

- The Operating Expenses Ratio (OER) was around 6.3 percent for the period April to September 2016 whereas it was around 6 percent for the overall portfolio. This shows that the home improvement loan portfolio has the same cost structure as the income generation/regular portfolio of the MFI.
- Housing microfinance portfolio is around 6.4 percent of the gross portfolio of EMFIL and its contribution to total operating expenses was around five percent, indicating good operating efficiency.
- Financial costs were high initially, but with the expansion of housing microfinance portfolio and increased use of funds from common resources, the Financial Cost Ratio (FCR) for both housing and other products have nearly become equal at around 10 percent, as of March 2016.

*c) Margin analysis, which provides an overall picture of the profitability of the housing microfinance portfolio*

- EMFIL's Operating Self-Sufficiency (OSS) is 150.9 percent as of March 2016 and has a positive Return on Assets (RoA) at 1.8 percent as of March 2016. Since the housing microfinance product was rolled out in September 2015, it can therefore be inferred that the housing product is profitable and sustainable.

# An Institutional Analysis of GOF using a Housing Microfinance Lens

GOF was one of the first MFIs to pilot test a housing microfinance product with funding support from Habitat for Humanity and Opportunity International USA (2.5 million Indian rupees or US$38,461) in 2011. Before the pilot, a market study revealed the need for home improvement loans among GOF's existing clients. During the pilot, loans were provided to third- or more cycle clients up to a maximum limit of 25,000 Indian rupees (US$384) and a tenure of 24 months on a monthly repayment plan at an interest rate of 28 percent per annum, with a processing fee of two percent. During the pilot (2011-2013), GOF disbursed 324 loans worth of 9.2 million Indian rupees (US$141,538) and stopped in June 2013 due to limited funding and high PAR due to the Andhra Pradesh Crisis[6].

The home improvement loan product was re-introduced in February 2016 with funding support from MicroBuild India, with a maximum loan amount of 75,000 Indian rupees (US$1,153), a processing fee of one percent of the loan amount and an interest rate of 28 percent per annum on a declining basis. The main uses of the home improvement loans include room extension, roofing, flooring, plastering, tiling, septic tank construction, toilet construction, bore-well and compound wall construction.

GOF has also tied up with MicroBuild India under the Business Correspondent model to provide high ticket loans for house construction (150,000 to 500,000 Indian rupees or US$2,307 to US$7,692) and for improvement purposes (50,000 to 300,000 Indian rupees or US$769 to US$4,615). The loan tenure for these products ranges from two to three years with monthly repayments. It is expected that lending under the Business Correspondent model with MicroBuild India would commence soon (as and when GOF is able to generate a pipeline of prospective customers.)

After the re-launch of home improvement loans, and with funding from MicroBuild India, GOF has disbursed 436 loans worth 32.33 million Indian rupees (US$497,384) from February to December 2016. The housing microfinance portfolio has grown from 2.71 million Indian rupees (US$41,692) in March 2012 to 33.34 million Indian rupees (US$497,384) in December 2016, with a compound annual growth rate (CAGR) of 69.90 percent (base value of 31 March 2012). The number of borrowers grew from 80 to 556 in the same period with CAGR of 50.4 percent.

The key challenge faced by the staff is to find eligible clients for housing microfinance loans. Some of these issues include: false demand arising because of the higher loan size of home improvement loans (GOF uses a cost estimation technique, which helps in determining the right loan amount), unavailability of proper documents (title deed) and unwillingness of guarantor to produce their bank statement or Know Your Customer (KYC) documents. GOF plans to reach a housing microfinance portfolio of about 100 million Indian rupees (US$1.53 million) in the next two years using both approaches: the Business Correspondent model and direct delivery of home improvement loans.

[6] Andhra Pradesh Crisis: To stem the alleged abusive practices adopted by the MFIs, the state government of AP promulgated an ordinance on 16 October 2010. The stringent regulations set by the ordinance, such as no door-to-door collection, registration of branches with government and monthly repayments, eventually affected the microfinance sector, bringing the sector repayment down to less than 20 percent

## Performance of the Housing Microfinance Portfolio

The performance of the  home improvement portfolio for almost five years (until December 2016) has been analyzed in the following areas:

*a) Portfolio productivity, which analyzes the earning capacity of housing microfinance portfolio*

- APR for other products is 27.0 percent per annum (declining balance method) and 29.1 percent per annum for housing.
- GOF also charges a loan processing fee of one percent of the loan amount for all microfinance loans including home improvement loans since financial year 2015-16. Before then, the processing fee was two percent for the housing microfinance portfolio.
- Higher cost of funds and higher LPF are the main drivers for higher annual percentage rate (APR) for housing microfinance portfolio. APR for housing microfinance portfolio was around 2 percent higher than the other loan portfolio. Housing microfinance portfolio does not form part of the qualifying assets criteria for GOF and therefore their APR goes beyond 26 percent for the housing microfinance portfolio.
- Housing microfinance portfolio of GOF has maintained excellent credit performance since inception (PAR60 is zero percent).  The quality of other portfolio is also very good with very few delinquent loans.
- As of 31 December 2016, the PAR60 of other portfolio was 0.1 percent and PAR60 was zero percent for housing microfinance portfolio.

*b) Operating efficiency, which analyzes the costs for managing the housing microfinance portfolio*

- OER for the period from April to December 2016 stood at 12.7 percent. The OER of other portfolio has also been improving steadily for the last four years and is at six percent at present.
- The Financial Cost Ratio (FCR) for housing microfinance (13.5 percent) was higher than the other loans (13.2 percent) during fiscal year 2015-2016 and 2016-17 (until December 2016). This was mainly because of higher cost of funds for the housing microfinance portfolio as compared to the general portfolio.

*c) Margin analysis, which provides an overall picture of the profitability of the housing microfinance portfolio*

- During the pilot phase, the home improvement loans loan portfolio reported negative returns because of initial infrastructure related costs.
- After gaining scale, the housing microfinance portfolio of GOF crossed the break-even level and is reflected in the operational self-sufficiency (OSS) of more than 100 percent in fiscal year 2016-2017 (until December 2016).
- Other GOF’s portfolio has recorded good positive returns over last five years with return on assets (RoA) of around two to three percent every year.

# Comparative Analysis of Housing Microfinance Program of EMFIL and GOF

While both EMFIL and GOF are partners of MicroBuild India and offer housing microfinance products to their clients, there is a vast difference between the size and scale of operations between the two institutions. EMFIL operates in nine states with a gross portfolio of around 23.8 billion Indian rupees (US$366 million) whereas GOF is active in two states and has a much smaller gross portfolio of 1.1 billion Indian rupees (US$17.2 million). The table on the right charts the evolution and size of the two MFIs.

In terms of outreach, EMFIL has a much larger scale of operations. However, both EMFIL and GOF have concentrated in their home states--Kerala and Tamil Nadu, respectively--for home improvement loans due to the larger number of mature clients and stronger client relationships. EMFIL's housing microfinance portfolio is around 1.5 billion Indian rupees (US$23 million) whereas GOF's housing microfinance portfolio is of 33.3 million Indian rupees (US$ 0.5 million). GOF's growth of housing microfinance portfolio has been patchy as it was severely impacted during the Andhra Pradesh crisis and had to stop offering home improvement loans from 2014 to 2015, only restarting recently, in February 2016.

| | EMFIL | GOF |
|---|---|---|
| Year of establishment | ESAF formed in 1992;<br>EMFIL (NBFC-MFI) formed in 2007 | Incorporated in February 2006 NBFC registered in November 2006 |
| Pilot of housing microfinance products | 2013 | 2011 |
| No. of loan products | 15 | 3 |
| Primary/major loan product | IGL (64.1 percent of gross portfolio) | IGL (97 percent of gross portfolio) |
| Operational area | nine states and one union territory (Kerala, Tamil Nadu, Maharashtra, Madhya Pradesh, Chattisgarh, Karnataka, Jharkhand, West Bengal, Bihar and one UT of Pondicherry) | two states and one union territory (Tamil Nadu, Chhattisgarh and UT of Pondicherry) |
| Number of branches | 264 | 21 |
| Total Active Borrowers | 1,772,628 | 60,078 |
| CGAR of borrowers (base year 31-Mar-2013) | 49.3 percent | 17.3 percent |
| Total portfolio (Rs million) | 23,784.01 (US$366 million) | 1,119.15 (US$ 17.2 million) |
| CGAR of portfolio (base year 31 March 2013) | 63.1 percent | 50.7 percent |

Note: EMFIL data as of 30 September 2016 and GOF data as of December 2016

The outreach and growth pattern of the housing microfinance portfolio of the two institutions is captured in the table below:

| Housing microfinance product | EMFIL | GOF |
|---|---|---|
| Who are eligible? | At least two years of association with the MFI, with good credit history of existing clients | Successful completion of first cycle of loans with good credit history |
| Lending method | Individual | Individual |
| Purpose of loans | Plastering, tiling, kitchen maintenance, parapet maintenance, roof fencing, room/house extension and toilet constructions | Room extension, roofing, flooring, plastering, tiling, septic tank construction, toilet construction, bore-well construction and compound wall construction |
| Location | Urban/Rural | Urban/Rural |
| Loan size (Indian rupees) | 25,000 (US$384) to 75,000 (US$1,153) | 50,000 (US$769) to 75,000 (US$1,153) |
| Interest rate (p.a. declining) | 23.0 percent | 28.0 percent |
| LPF | 2.0 percent | 1.0 percent |
| Repayment frequency | Monthly | Monthly |
| Loan term | 24 months for loans up to Rs 50,000 (US$769) and 36 months for larger loans | 24 months |
| Collateral/ Substitute | Group recommendation and a guarantor | External guarantor |
| Moratorium | One installment | One installment |

Apart from their own products, both institutions also have tie-ups with Housing Finance Companies (HFC) under the BC model. A comparison of products is shown below:

| housing microfinance products facilitated | EMFIL | GOF |
|---|---|---|
| Tie-up with housing finance company | MicroBuild India in Kerala and Swarna Pragati (SP) in Maharashtra | MicroBuild India (no disbursements so far) and MAS Financial Services |
| Launched | Fiscal year 2013-14 | 2016 |
| First Loss Default Guarantee (FLDG) | Five percent | Five percent |
| Types of loans | • House construction loans from 175,000 to 450,000 Indian rupees (US$2,692 to US$6,923)<br>• House improvement loans from 75,000 to 300,000 Indian rupees (US$1,153 to US$4,615). | • House construction loans from 150,000 to 500,000 Indian rupees (US$2,307 to US$7,692)<br>• House improvement loans from 50,000 to 300,000 Indian rupees (US$769 to US$4,615). |
| Interest rate (p.a. declining) | 22.0 percent for MBIND<br>23.0 percent for SP | 22.0 percent |
| Loan Processing Fee (LPF) | One percent | One percent |
| Repayment frequency | Monthly | Monthly |
| Loan term | Up to five years | Up to five years |
| Collateral/Security | Mortgage of property and personal guarantee | Mortgage of property and personal guarantee |
| Insurance | Cover for life and property | Cover for life and property |

In terms of operational practices, the processes used for delivering housing microfinance services to the clients are part of the general microfinance processes for both MFIs. While there are dedicated managers to monitor the housing microfinance program at the field level, the conventional staff who are in charge of group lending are mainly responsible for the promotion and delivery aspects. Both MFIs are of the opinion that competition in the housing microfinance space is limited at present and the main challenges are in ascertaining the genuineness of the needs of the borrowers as the home improvement loan size is much larger than the general microfinance loans. GOF also faces an additional documentation challenge as it treats the home improvement loan as non-qualifying asset, which requires land title documents and bank statements of the guarantor.  A comparison of the performance of the housing microfinance portfolio of EMFIL and GOF is on the right.

It is evident that the performance of EMFIL's housing microfinance portfolio is better in comparison to GOF's, with lower priced loans, lower operating cost, lower financial cost, excellent portfolio quality and higher profitability ratios. This is mainly because EMFIL's housing microfinance portfolio has **steadily grown over the years and has better economies of scale** while GOF had a setback during 2014 and 2015 when it had to discontinue the housing microfinance products and rebuild the product starting in February 2016. However, GOF has progressed well since then and has already attained operational self-sufficiency for home improvement loans. Funding from MicroBuild India and appropriate client selection for home improvement loans (only to existing clients with good repayment records) enabled GOF to expand its housing microfinance portfolio while maintaining its good quality. EMFIL plans to reach a housing microfinance portfolio of 10 billion Indian rupees (US$153 million) by 2020 (fuelled by its recent transformation into a Small Finance Bank) and GOF aims to reach 100 million Indian rupees (US$1.5 million) in a couple of years.  Housing microfinance is integral to the microfinance strategy for both EMFIL and GOF and such products align well with the MFIs' vision and mission.

| Performance of housing microfinance portfolio | EMFIL Fiscal year 2016-2017 (April to September 2016) | GOF Fiscal year 2016-2017 (April to December 2016) |
|---|---|---|
| Earnings/expenses & portfolio quality | | |
| Yield* | 21.4 percent | 25.7 percent |
| APR | 24.9 percent | 29.1 percent |
| FCR* | 12.0 percent | 13.5 percent |
| OER* | 6.3 percent | 12.7 percent |
| PAR >60 days | Zero percent | Zero percent |
| Profitability | | |
| Spread | 5.2 percent | 0.3 percent |
| OSS | 128.3 percent | 101.2 percent |
| ROA* | 4.8 percent | Three percent |

* Ratios annualized for the fiscal year 2016-2017

# Recommendations

# Recommendations

## Client level

- **Financial management and financial education:** it is strongly recommended that both MFIs provide assistance or training in financial management or financial education to their clients. Dealing with several loans and managing different loan tenures, frequency and size of loan repayments require more financial sophistication to cope with multiple debts given their income flows. It is crucial to provide these support services to help people make more informed decisions about the use of financial services.
- **Financial counselling:** greater availability of and access to loans have resulted in an increased sense of financial security and changes in the borrowing habits but they could also lead to other negative outcomes such as taking on more debts, becoming increasingly stressed about their level of debt and having a fear of not being able to repay them and losing an asset. There is a need for financial counselling to help these clients reduce the health and social effects associated with their high levels of debts. This assistance can be provided during group meetings or through community activities where debt problems have been identified.
- **Technical assistance:** home improvement loans alone may not be enough to improve housing quality and should be complemented with a thriving housing market that can aid clients to make informed decisions about appropriate construction and material specifications as well as the best use of their home improvement loans so that they can plan for long-term investments rather than short-term events.
- **Improvements in product design and program policy:** in the rural context, improving the living standards meant an increased sense of security, whereas in the urban one, it engendered an increase in social status and social inclusion that creates a greater sense of solidarity. Moreover, gaining access to home improvement loans through groups has helped urban and rural respondents, particularly the older group, to increase their confidence and feel that they can discuss and share problems with others and even feel more confident in managing financial matters. These aspects should be taken into account for further product design and targeted program policies.
- **Promoting income-generating activities via home improvements:** only four of GOF's urban respondents reported that extending their homes enabled them to start or expand their home-based small businesses, resulting in increased income and more financial security. Despite the low number of cases reporting this, it is relevant to promote the use of home improvement loans for income generating activities among clients.

## Institutional level

- MFIs need to strengthen their staff capacities on loan origination, underwriting techniques, disbursal and collections procedures.
- The MFIs need to review the documentation requirements and categorize them into non-negotiable and negotiable documents in terms of regulatory requirements. Simplification of the documentation is required.
- There is a need in both MFIs for a separate staff structure as the expanded operations call for effective monitoring and supervision of housing microfinance products.
- Separate housing microfinance loan tracking system needs to be developed and integrated with the existing management information system.

## Sector level

- Stakeholders such as Habitat for Humanity, financial institutions, regulators, etc. need to focus on new product development within housing which is in line with the needs and preferences of clients based on their region, location, type of housing activities and customer income flows.
- Households obtaining  home improvement loans need to be supported by the housing market with the availability of design services, construction estimates, advice on low-cost construction, linkage with quality suppliers of construction materials, and land title verification.

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