



**Habitat**  
for Humanity®

Center for  
Innovation in  
Shelter and  
Finance

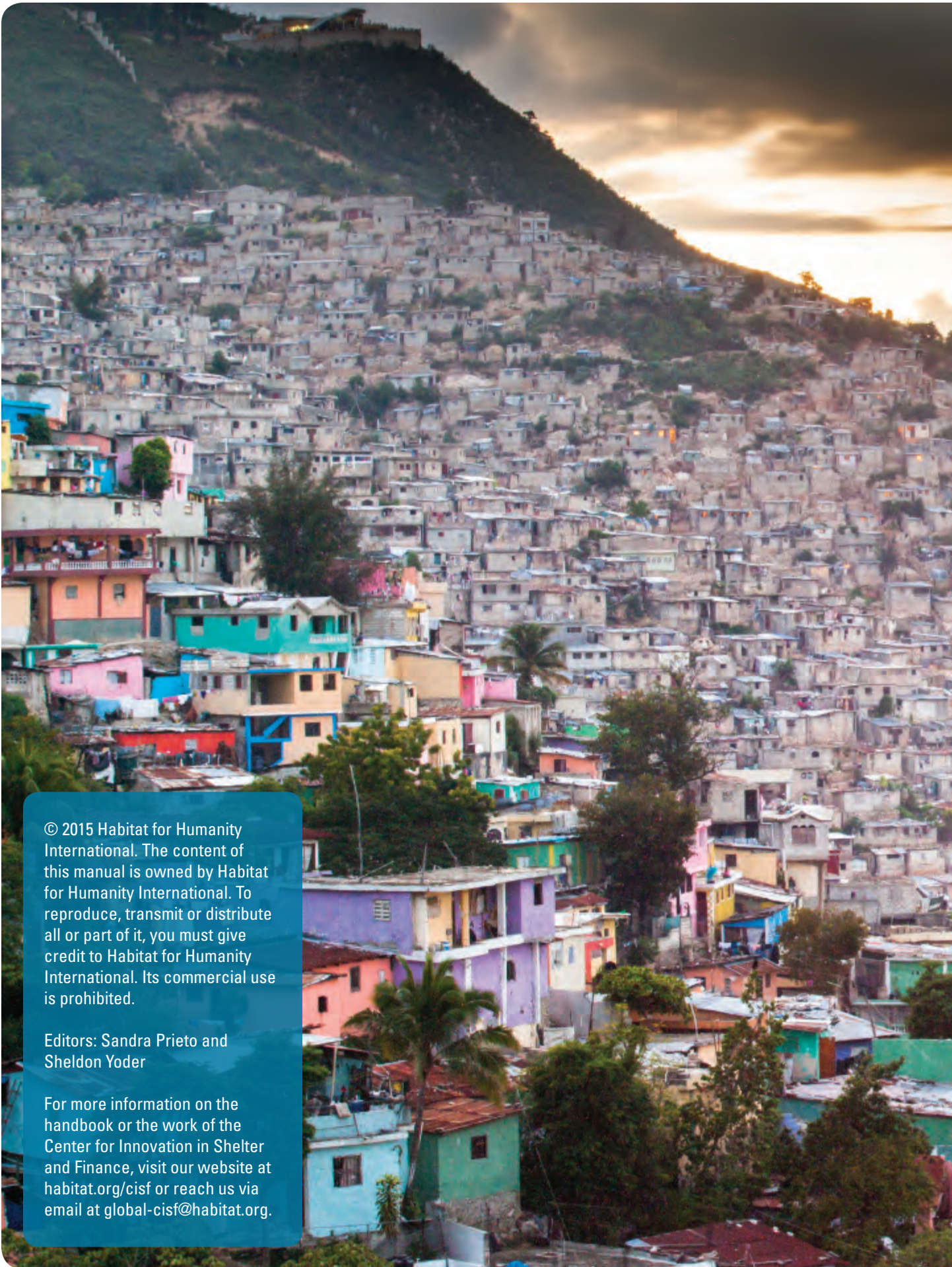
A photograph of a woman and a young girl. The woman, on the right, is smiling and wearing a colorful, patterned top. She has her arm around the girl's shoulder. The girl, on the left, is wearing a red and green striped dress and looking towards the camera. They are standing in front of a stone building. The background shows a landscape with greenery and a cloudy sky.

# HOUSING MICROFINANCE PRODUCT DEVELOPMENT

A HANDBOOK

3rd Edition | 2015





© 2015 Habitat for Humanity International. The content of this manual is owned by Habitat for Humanity International. To reproduce, transmit or distribute all or part of it, you must give credit to Habitat for Humanity International. Its commercial use is prohibited.

Editors: Sandra Prieto and Sheldon Yoder

For more information on the handbook or the work of the Center for Innovation in Shelter and Finance, visit our website at [habitat.org/cisf](http://habitat.org/cisf) or reach us via email at [global-cisf@habitat.org](mailto:global-cisf@habitat.org).



OUR VISION:

A WORLD WHERE  
EVERYONE HAS A  
DECENT PLACE TO  
LIVE 







RAMVANDYA



EZRA MILLSTEIN



STEFFAN HACKER



STEFFAN HACKER



JASON ASTEROS



EZRA MILLSTEIN

## Acknowledgments

**We are indebted** to people from communities around the world who have shared their experiences and ideas on home improvement. We are especially thankful for the institutions in various countries that have received consulting services from the Center for Innovation in Shelter and Finance to design or improve their housing microfinance products; their efforts inform this handbook. We thank them for allowing us to learn with them.

**We wish to acknowledge** the contributions by Habitat for Humanity International colleagues and consultants to make the first and second editions possible. They include Maria Saenz, Belinda Florez, Ed Bland, Sheila Bijoor, Lauren Clark, Carter Garber, Joan C. Hall, Robert Lindenberg, Christine Little, Minor Rodríguez, Christy Stickney, Sandra Prieto and Delphoi Consulting.

**We are grateful** for the contributions made to this edition by Habitat for Humanity staff members at the national, regional and international office levels. Writers include Ryan Smyth (chapters 4 and 12), Christy Stickney and Ed Bland (chapters 5 and 14), and Narine Terzyan (Chapter 13). Contributors and reviewers from HFHI headquarters and our

Europe, Middle East and Africa; Asia/Pacific; and Latin America and Caribbean area offices include Ezekiel Espisu, Marina Yoveva, Elena Milanovksa, Ruth Odera, Maria Morales, Belinda Florez, Adriana Llorca, Guiselle Espinoza, Mario Moran, Juan Carlos Sapien, Patrick McAllister, Jennifer Oomen, Jyoti Patel, Bill Allison, Emmanuella Lamothe and Patrick Kelley.

Some of the content of this handbook comes from previous Habitat for Humanity International publications, in particular the 2014 Shelter Report, and we are thankful for the articulate authors and editors of those documents.

The previous edition was produced in part with financial support from the Citi Foundation. Funds also were contributed by the Multilateral Investment Fund/Inter-American Development Bank to test the methodology in Peru and Bolivia. To them we are profoundly grateful.

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





# 1

## A PRIMER ON HOUSING MICROFINANCE



# Table of contents

Index of tables.....	.9
Index of figures.....	.9
Introduction to the handbook.....	.11
<b>PART I: A PRIMER ON HOUSING MICROFINANCE</b>	
Chapter 1. Overview of housing microfinance.....	.17
Chapter 2. The market opportunity for housing microfinance.....	.25
Chapter 3. Housing microfinance product development.....	.31
Chapter 4. Housing support services.....	.40
Chapter 5. Secure tenure and housing microfinance.....	.55
Chapter 6. Lessons learned in housing microfinance.....	.59
<b>PART II: A PRACTITIONER'S GUIDE TO HOUSING MICROFINANCE.....</b>	<b>.65</b>
<b>ANNEXES.....</b>	<b>.163</b>

# HOUSING MICROFINANCE PRODUCT DEVELOPMENT

A HANDBOOK  **Part 1**

3rd Edition | 2015



## INDEX OF TABLES

Table 1: Housing microfinance product profiles .....	18
Table 2: Comparison of lending models .....	21
Table 3: Key questions for each stage of product development .....	34
Table 4: Example of a housing microfinance product based on the eight P's .....	35
Table 5: Adequate housing definition from U.N. ....	42
Table 6: Common deficiencies found in incremental housing .....	43

## INDEX OF FIGURES

Figure 1: Conceptualizing housing microfinance .....	17
Figure 2: Financial product segmentation .....	27
Figure 3: Use of housing microfinance loan by country income level .....	28
Figure 4: Housing microfinance portfolio growth .....	29
Figure 5: Housing microfinance profitability vs. other products .....	29
Figure 6: The five stages of housing microfinance product development .....	32
Figure 7: The key to sustainable housing microfinance products and services .....	33
Figure 8: Housing as product vs. process .....	41



RAM VADYA



STEFFAN HACKER



ESRA MILLSTEIN



## Habitat for Humanity and housing microfinance

Habitat for Humanity International's vision is a world where everyone has a decent place to live. Since its establishment in 1976, Habitat for Humanity International has served over 5 million people around the world through the provision of better housing solutions. Habitat is working in more than 70 countries as of 2015. Habitat's focus on adequate housing is rooted in the belief that housing plays a central role in well-being. Currently, 1 in every 4 people live in conditions that harm their health, safety, prosperity and opportunities. In addition to having benefits in these areas, adequate housing has been linked to increased stability and a sense of dignity for the home's inhabitants. Habitat is always developing new and innovative ways to expand the influence and impact of its work in housing around the world.

Habitat for Humanity International established the Center for Innovation in Shelter and Finance, or CISF, in 2009 to support diverse market development interventions focused on various components of the housing value chain, with the goal of increasing access to adequate housing. The center's vision is "To serve as a place of knowledge, expertise, advice and innovation, enabling low- and very-low-income households to acquire adequate housing."

The center focuses on facilitating collaboration among public, private and nonprofit actors in the market and provides consulting services to market actors to develop sustainable housing-related products and services for the millions of families without adequate housing. Through its consultative role, the center assists the private sector in the development of housing products and services that are both profitable and accessible to the poor. By serving as a facilitator instead of a direct provider, the center can develop programs that can reach greater scale and will continue to be available on the open market after Habitat's role is complete.

An important area of practice for the center is the emerging housing microfinance field, a sector in which the center has established itself as an innovative leader, having trained over 500 practitioners and supported more than 48 financial institutions as of 2014 to develop and roll out housing microfinance products. Its cross-cutting approaches include the design of financial products for home improvement and incremental building, the design of nonfinancial construction assistance models, and the linking of different housing market actors to support the expansion of affordable housing.

The Center for Innovation in Shelter and Finance's vision is "To serve as a place of knowledge, expertise, advice and innovation, enabling low- and very-low-income households to acquire adequate housing."



JASON ASTEROS

Although the housing microfinance sector shows much promise, the supply of such services still lags far below the natural client demand. Housing microfinance is gaining popularity and earning legitimacy as part of microfinance institutions' business, helped in part by the institutions' desire to not only serve the needs of microentrepreneurs but also focus on health, education and housing — the big three priorities of low-income households around the world.<sup>1</sup> However, housing microfinance's potential for growth is bumping up against the original purpose of these organizations, many of which were designed to support the development of small businesses by providing loans.

A key objective of the CISF is to accelerate the growth of this sector. To accomplish this, the center offers institutional technical assistance to financial institutions and other organizations interested in designing housing microfinance products for low-income households, along with nonfinancial housing technical assistance that is affordable to households and financially sustainable for the provider.

The center offers the following housing microfinance services:

- **Market systems analysis:** The center's team helps institutions understand opportunities and constraints within the housing market system. Key market actors and their roles in the housing value chain are identified, a gap analysis is conducted, and recommendations are provided on potential market-oriented interventions.

---

1 Jan Maes and Larry Reed. "State of the Microcredit Summit Campaign Report." Microcredit Summit Campaign, 2012.



- **Product development:** Through this service, the center's team of consultants helps institutions design housing finance products or develop housing-related funding mechanisms that allow households to build, renovate and extend housing progressively (in stages). This includes institutional assessments and evaluations of existing products for taking these products to scale.
- **Housing support services design:** This nonfinancial housing technical assistance includes off-site services such as providing informational pamphlets and training to households on shelter-related issues; offering advice and training related to a specific construction project; and providing on-site construction technical assistance for households who are actively improving their homes.
- **Planning, implementation and monitoring of pilot tests:** The center supports pilot tests of prototypes, along with the design and implementation of monitoring and evaluation systems that will measure the performance of these prototypes and make adjustments to them during the pilot phase to increase the chance of success when the product is expanded.
- **Advice and assistance in obtaining adequate funding** for testing and taking the products to scale.
- Other activities include:
  - Advisory services on:
    - Financial modeling and projections.
    - Internal processes and systems adaptations.
    - Marketing and promotion strategies.
  - Peer learning opportunities, facilitating practitioner interactions in virtual forums and regional workshops.

## ORGANIZATION OF THE HANDBOOK

We urge practitioners to read the bits of this handbook that are interesting, take what is relevant for the task at hand, and skim what is not relevant.

For ease of use, the handbook has been divided into two parts:

1. **A Primer on Housing Microfinance: Part 1** provides generalists with an accessible overview of housing microfinance and the product development cycle, along with the related topics of housing support services and secure tenure. This section is intended to equip executive directors and managers with the information necessary for deciding whether to add housing microfinance to an institution's portfolio.
  - The first chapter defines and introduces housing microfinance.
  - Chapter 2 covers the market opportunity for housing microfinance.
  - Chapter 3 describes the main stages of product development, providing enough detail to readers wishing to understand the requirements for product design.

Currently,  
**1 out of 4 people**



**live in conditions  
that harm their  
health, safety,  
prosperity and  
opportunities.**

- Chapter 4 offers a description of housing support services, the nonfinancial technical assistance to low-income households that financial institutions can bundle with the loan product as part of their due diligence and follow-up processes.
  - Chapter 5 covers secure tenure considerations, a subject that deserves special attention because of the impact it has on housing microfinance.
  - Chapter 6 details lessons learned by the center and its financial institution advisees over the years.
2. **A Practitioner's Guide to Housing Microfinance: Part 2** is a resource for staff members and consultants who will be part of the product design team. It includes detailed information, illustrations and tools for the steps typically taken to design, test and expand housing microfinance products.
- Chapters 7-11 cover the five stages of housing microfinance product development. Included in these chapters are detailed instructions on how to assess an institution's readiness, prepare for product development, conduct the market research, design the prototype, and test it. Tools and templates for each of these steps are referenced and included as annexes to the practitioner's guide.
  - Chapter 12 pairs with Chapter 4 on housing support services and offers practical advice on designing nonfinancial services.
  - Chapter 13 provides instructions on monitoring and evaluating the housing microfinance pilot test and product expansion.
  - Chapter 14 offers guidelines to practitioners on incorporating secure tenure considerations into the housing microfinance product.

## DEVELOPMENT OF THE HANDBOOK

Habitat for Humanity International, through the Center for Innovation in Shelter and Finance, supports institutions interested in entering the housing microfinance market by providing technical assistance in the design and testing of housing microfinance products and services. This is done through a systematic approach that emphasizes the financial and housing needs, preferences and capacities of low-income borrowers and the capacity of the financial institution to design, pilot and scale up housing microfinance products. The center helps institutions establish themselves in the market for the first time and advises those with housing products on expanding their outreach and refining their existing products.

This handbook is based on the collective experience of the center in providing housing microfinance consulting services globally. Its primary audience is managers and staff members of financial and housing institutions, along with consultants, practitioners and generalists in the housing space who are interested in developing or refining housing microfinance products and services that respond to the needs, capacities and preferences of their clients.



This handbook aids practitioners by:

- Offering an overview and business case for housing microfinance focused on low-income populations.
- Defining some of the drivers of success for a housing microfinance portfolio.
- Describing a structured process for developing housing microfinance products and services that attempt to fill the gap between existing supply and demand.
- Providing field-tested tools for staff members and consultants who are implementing this process.
- Sharing lessons learned from each stage of the process.

In addition to the financial aspect of a housing microfinance product, this handbook discusses nonfinancial technical assistance for low-income homebuilders — called “housing support services” by Habitat — as part of the product development methodology. Habitat’s experience has shown that these services can be an important part of improving housing quality and reducing construction costs, besides creating a powerful marketing tool through which loan officers can promote the product. This topic is included throughout the handbook, and two chapters are dedicated to making the case for sustainable and effective housing support services.

The first version of the center’s methodology for housing microfinance product development in 2009 was based on the MicroSave product development methodology, which was devised in Africa for business microfinance products. The center honed its methods, tools and housing-focused approach, and added them to the first version, resulting in the second edition of the handbook in 2012.

This third edition updates the housing microfinance product design chapters and adds practical advice based on recent engagements with financial institutions. Additional tools, included as annexes, and mini case studies illustrate the work. This edition also expands the discussion of housing support services and adds chapters on secure tenure and monitoring and evaluation of housing microfinance products. It also adds material for a generalist audience, in particular senior managers who want to understand enough about housing microfinance and its market opportunity to decide whether to add it to their portfolio.

The handbook uses the following principles, all of which have focused the center’s technical assistance efforts:

- Listen to the needs, preferences and capacities of clients.
- Adapt an organization’s operations to meet its clients’ needs in a financially sustainable manner.
- Be aware of the external, contextual changes that affect housing microfinance.
- Develop products and services through the participation of the front-line staff.

This handbook is a work in progress. We welcome your comments and suggestions for enhancing it. Please direct your correspondence to [global-cisf@habitat.org](mailto:global-cisf@habitat.org).



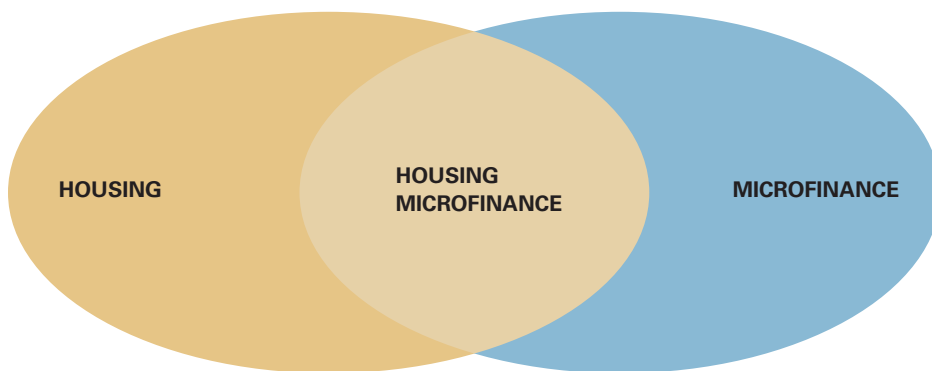


## Chapter 1: Overview of housing microfinance

Housing microfinance is a subset of microfinance designed to meet the housing needs, preferences and capacities of low-income groups, especially those without access to the banking sector or formal mortgage loans. The target population of housing microfinance products is low-income households who wish to expand or improve their dwellings or to build a home progressively.<sup>1</sup>

Housing microfinance takes the same principles applied to other microfinance products and combines them with the progressive, or incremental, housing process that the majority of the developing world uses to build, expand and repair their houses, as shown in Figure 1.

**FIGURE 1: Conceptualizing housing microfinance**



### HOUSING MICROFINANCE IN FOCUS

Housing microfinance refers to a type of microfinance product that consists of small, non-mortgage-backed loans offered in succession to support the existing incremental building practices of low-income populations. It can include a range of financial services that support informal shelter improvements such as home repair and expansions, the addition of water and sanitation services, and energy efficiency upgrades. Housing microfinance can often work where lien-based mortgages do not, and where the improvements are undertaken in a series of small, incremental steps.

Housing microfinance is a subset of microfinance designed to meet the housing needs, preferences and capacities of low-income groups.

---

1 Merrill and Mesarina. "Expanding Microfinance for Housing," Micronote #26. Online USAID publication. 2007. Available at [microlinks.org](http://microlinks.org).

Housing microfinance consists of small, non-mortgage-backed loans offered in succession to support the existing incremental building practices of low-income populations.

Within the category of housing microfinance loans there exists a range of potentially differentiated and diversified offerings, such as loans tailored for common improvements (flooring, roofing) or distinct products (water cistern purchases, septic tank installations).<sup>2</sup> Table 1 shows various housing microfinance examples, including loans for home improvements and community loans whereby a group of people borrow together to complete larger-scale projects, such as utility work, that will benefit the community.

**TABLE 1: Housing microfinance product profiles**

Product	Loan amount	Term	Pricing	Use of funds
Home improvement loan	\$500 - \$3,000	6 months - 2 years	28%*	Repairs; weatherproofing; upgrades; extensions; connections to utilities such as water, sewage, electricity or solar power.
Home completion loan	\$1,000 - \$4,000	12 months - 3 years	28%*	Finishing a partially completed home, adding a room.
Home build loan	\$3,000 - \$10,000	2 years - 5 years	22%*	Building a completely new dwelling.
Group loans	\$500 - \$3,000	6 months - 3 years	28%*	Group loans for sites and services projects (e.g., roads or utilities).

\*indicative pricing for Uganda, declining balance loan.

Source: 2014 Shelter Report, “Step by Step: Supporting Incremental Construction through Housing Microfinance,” Habitat for Humanity International

Generally, housing microfinance lending methodologies follow the principles listed below:<sup>3</sup>

1. **Progressive building, expansion, renovation and repair** of housing are more appropriate activities to finance than the purchase of land or existing or new houses.
2. **Loan amounts should remain small**, generally less than micromortgages but larger than microenterprise credit.
3. **Financing is determined based on clients’ repayment capacities**, which can include other household members’ contribution to the loan repayment, pre-established loan terms, and the costs of an improvement “step.”
4. **Mortgages are generally not suitable instruments** for housing microfinance. In many developing countries, mortgage laws are either nonexistent or weak, the fees associated with taking mortgages are often prohibitive for clients, and liens do not offer added security to the loan because foreclosure procedures are lengthy and difficult. Standard approaches based on the principles of microfinance for soft collateral and guarantees suffice in most cases. Guarantees are tied to alternatives that are within clients’ reach (e.g., co-guarantors and promissory notes).

<sup>2</sup> In the 2014 CISF survey of institutions around the world offering housing microfinance, basic home repair or improvement (plastering, roofing, ceiling, wall painting, floor finishes such as tiling, etc.), and incremental housing (added rooms, latrines, solar panels, etc.) were the main home improvements selected by clients. The full report from the Housing Microfinance Survey (2015) can be found at [habitat.org/cisf](http://habitat.org/cisf).

<sup>3</sup> These principles are adapted from Frank Daphnis, “Housing Microfinance: Toward a Definition.” Available at [housingfinanceforthepeople.com/data/files/housing\\_microfinance%20towards%20a%20definition,%20by%20frank%20daphnis.pdf](http://housingfinanceforthepeople.com/data/files/housing_microfinance%20towards%20a%20definition,%20by%20frank%20daphnis.pdf).



5. **Land title issues require a flexible approach.** Land title is unclear or nonexistent in many countries, but this should not be a barrier to accessing housing finance as long as the client has sufficient land security (e.g., he or she has resided on the land for several years) and is not living on high-value land that may be seized by governments or developers. Tenure security is confirmed via informal documentation (e.g., purchase agreements or utility bills), as opposed to legal title.
6. **Loan terms should remain shorter than mortgage or micromortgage loans but longer than microenterprise credit.** They also should consider the sources and seasonality of incomes of those repaying the loan.
7. **Housing finance products typically leverage client savings.** (This principle is also discussed later in this chapter). Additionally, if the provider is a microfinance institution, credit services for housing can be linked to prior participation in savings or more traditional microenterprise loan services.
8. **Revolving loans** can allow for progressive home improvements.
9. **Loans can be extended to small neighborhood groups** or cooperative housing schemes for simple infrastructure projects such as collective water and sanitation systems or other shared resources.
10. **The loan value should cover the full costs of offering the financial service.**

## Housing microfinance success in Peru

Low-income households in Peru grapple with a serious housing deficit of more than 1.8 million homes. In this context, housing microfinance has high potential to reduce this number.

When EDYFICAR, currently the largest microlending entity in Peru, started working with the CISF, it already had a housing product that targeted low- and middle-income populations. Through the market research conducted by the center's staff as part of the product development process, EDYFICAR considered the possibility that it could offer housing loans to a segment of the population it hadn't reached before: the lowest income group, which earns only one to two times the national minimum wage.

The center worked with EDYFICAR to design and implement a financial product for housing with nonfinancial housing support services that reached this highly vulnerable sector of the market. The purpose of the product was to provide microloans to finance progressive home improvements aimed at microbusiness entrepreneurs and salaried employees from the lowest income segments, with the added value of construction technical assistance.

During the pilot, EDYFICAR disbursed 504 loans, with a total portfolio of US\$323,579, an average loan size of US\$1,840, and a product delinquency of 2.3 percent. Sixty-two percent of the clients were new. As of the end of 2014, Edyficar had disbursed 230,595 loans, with a total portfolio of US\$326,100,844 and a product delinquency of 2.7 percent.

Through the project, EDYFICAR found that housing is a long-term project as well as a household project, where income from children and other household members can be included in the calculation used by banks to evaluate creditworthiness. Housing also represents a different type of risk than the typical microloan; housing loans experience less delinquency because they are directly linked to the place where a household lives.

But perhaps most importantly, EDYFICAR found that improved housing leads directly to a dramatic transformation in the lives of its most vulnerable clients. This is a lesson that it is putting into practice as it continues the massive expansion of its housing microfinance product Edyvivienda PASO A PASO (Step by Step).

### Common collateral alternatives in housing microfinance

An examination of collateral and underwriting best practices in housing microfinance institutions through Asia, Africa and South America reveals the following common collateral alternatives: mandatory savings, fixed assets, deposits, pension guarantee, group guarantee, employer guarantee, co-signers and microenterprise loan history. Additionally, the 2014 CISF survey of institutions around the world offering housing microfinance found that the main requirement for their loans is a co-guarantor. Ninety percent require the client to have regular income, and 58 percent require the client to be a salaried worker. In addition, 63 percent require a budget for completing the project as a prerequisite to extending a loan.

11. **Institutions often require a life insurance component for housing finance clients**, in part because of the longer maturities and the importance of the loan for the well-being of the household. In addition, this could be combined with a construction completion scheme that would ensure that the project is completed even if the head of the household dies; it could, for example, provide additional funds to hire workers to complete the project.
12. **Housing microfinance products can be combined with nonfinancial housing support services to increase quality and lower construction costs.** Support services can include technical assistance during the construction phase, group training workshops, distribution of printed informational materials, and discounts at hardware and home improvement supply stores. Further details on this point are discussed below.

Institutions that provide housing microfinance loans are typically lending organizations, such as microfinance institutions, banks and credit cooperatives. There are also examples of supplier-led financing, in which housing microfinance products are offered by building materials suppliers or service providers. These suppliers have the option to hire lending institutions to facilitate the process. This strategy can also be useful for finance institutions that offer housing microfinance as a secondary product but do not want to commit the resources needed to expand the offering to a larger market. This “supplier credit” technique has been quite successful for companies such as CEMEX and La Farge (both concrete suppliers) because of their broader reach throughout the building community.

### HOUSING MICROFINANCE, MICROENTERPRISE AND MORTGAGE LENDING

A discussion of housing microfinance is not complete without considering the similarities and differences among housing microfinance, mortgage and microenterprise lending.

As mentioned previously, though both housing microfinance and mortgage lending focus on housing, housing microfinance loans are usually not collateralized by the property. This is typically the result of the informal nature of clients’ income or lack of land title, making alternative forms of collateral necessary in most cases. Additionally, housing microfinance loans are smaller and for shorter periods than mortgage loans.

Housing microfinance also has similarities with traditional microenterprise lending, such as the loan approval process, which is generally based on an assessment of the applicant’s ability to pay (cash flow) and assumed willingness to pay (character assessment). However, unlike in microenterprise lending, the other household members are usually contributors to the repayment of the loan, in addition to the client. Since the customers for these incremental finance products generally participate in the informal economy and do not have steady and verifiable income, additional analysis is used to evaluate the creditworthiness of a borrower.

Housing microfinance also differs from microenterprise lending in that it typically involves larger investment amounts and therefore requires longer terms and a closer association with a savings requirement. Adding to that complexity are the implications of land tenure and safe and durable construction methods. Housing microfinance can be tailored to the construction practices and land formalization of the poor, who usually acquire property and shelter incrementally.



**TABLE 2: Comparison of lending models**

Characteristics	Traditional mortgages	Microenterprise loans	Housing microfinance
<b>Purpose</b>	Purchase home	Entrepreneurship	Home improvement, incremental building
<b>Target borrower</b>	Middle to high income, salaried	Low income, self-employed	Low income, self-employed
<b>Impact for borrower</b>	Asset-building (productive only when linked to livelihood out of home).	Income generation	Asset-building (productive only when linked to livelihood out of home).
<b>Loan term</b>	Long term (>5 years)	3 – 12 months	6 – 36 months
<b>Loan amount</b>	Large amount	Small amount	Small to medium amount
<b>Collateral</b>	Land and structure	Income from business venture	Guarantor
<b>Interest rate</b>	Less than microenterprise and housing microfinance	Equal to or higher than housing microcredit	Equal to or lower than microenterprise loans
<b>Scale</b>	Global, large-scale	Regional, limited scale	Regional, very limited scale

## PROMISING PRACTICES IN HOUSING MICROFINANCE

Although there is great market potential in offering housing microfinance products, financial institutions face some hurdles.<sup>4</sup> Best practices have evolved to mitigate many of these challenges, including:

- **Asset liability matching:** There is very high demand for longer-term funding to match the longer terms of housing finance products. Although deposits and savings can sometimes cover the funding needed for these products, guarantees also can be helpful.
- **Fixed rates:** From the borrower's perspective, it is important to know the exact amount they will be responsible for repaying. This transparency promotes a healthy lender-borrower relationship that helps to ensure repayment, especially given lower financial literacy rates.
- **Individual loans:** Generally, there are higher repayment rates among individual housing lending than in group housing lending. Individual lending also helps simplify the analysis of cash flow (an important element of lending to informally paid workers). However, in some cases with extremely poor households or where group lending is the core methodology for the institution, collective loans have been successful, especially in small communities where community peer pressure helps ensure repayment.
- **Client education:** Technical construction training, housing design training and financial literacy training have all proved successful as supplementary education programs by increasing the rate of financial repayment.<sup>5</sup>
- **Women borrowers:** Women have been found to be more reliable borrowers and significantly better credit risks globally.<sup>6</sup>

<sup>4</sup> For an in-depth description of housing microfinance, see Habitat for Humanity International's 2014 Shelter Report, "Step by Step: Supporting Incremental Building through Housing Microfinance." Available online at [habitat.org/advocate/publications-resources/shelter-report-2014](http://habitat.org/advocate/publications-resources/shelter-report-2014).

<sup>5</sup> Daphnis and Ferguson. "Housing Microfinance," Kumarian Press, 2004. p. 11.

<sup>6</sup> Chemonics International Inc. "Development Credit Authority Design and Utilization Task Order" WO 043 Low Income Housing Borrower Sector Assessment, p. 18.

Additional discussions around best practices are included in Chapter 3: An Introduction to Housing Microfinance Product Development and Chapter 6: Lessons Learned in Housing Microfinance.

## HOUSING SUPPORT SERVICES

A defining characteristic of some microfinance products is the provision of nonfinancial services that enhance the capacity of clients to invest their loan wisely. Similarly, housing microfinance products should ideally be linked to nonfinancial services to help the clients make decisions about labor, materials and the process for improving their homes. Habitat for Humanity refers to this assistance as housing support services and defines it as nonfinancial products and services that enable a household to improve their housing on their own. Some institutions view this form of support to the client — in particular, helping with basic construction design, budgeting, and guidance on materials and labor procurement — as an important part of their housing microfinance products. Some institutions use it as a promotional tool to position the product, others as a means to verify the use of the loan, reducing the risk of diversion of the loan. Other institutions do not place great emphasis on this technical assistance.

As Frank Daphnis points out in “Housing Microfinance: Towards a Definition,” if housing support services are not offered, then housing microfinance is essentially a

### Housing microfinance success in Tajikistan

About 40 percent of Tajikistan’s population lives at or below the poverty line, and about 70 percent lives in substandard housing. Because of limited job opportunities, more than 1 million Tajik citizens work abroad, most of them in Russia. Among those who must find work in Russia are the three adult sons of Mamarahimova Nazokat, 59, a widow who lives with her five adult daughters and her five grandsons in a six-room house made of mud bricks.

In early 2011, IMON International LLC, a commercial microlending organization that had made more than 98,000 loans for more than US\$72 million, approached Habitat for Humanity Tajikistan to form a partnership. Together, they set up a pilot program to improve IMON’s housing microloans and add a technical assistance component.

With so many men working away from home, women are often in charge of the household tasks, including repairs and renovations. The technical assistance component was designed to help clients manage their own construction and improvement projects by providing access to Habitat’s expert advice. The clients said the construction

technical assistance improved their knowledge and helped save them time and money.

Nazokat’s family saw their lives improved after they received construction assistance and a microloan to repair her home. “It all starts in the family,” she said. “Children, their upbringing, learning, love, happiness, extension of the family, etc. The family is the small society where people live and share their sorrow, happiness, success, etc., together, and they work all together to achieve their objectives.”

The pilot project was judged a success, and IMON prepared to offer bigger loans over longer terms. Habitat Tajikistan and IMON secured an additional US\$2 million from Habitat for Humanity’s MicroBuild Fund, and by the close of 2014 had US\$12.4 million in its housing microfinance portfolio, with 5,791 clients.

*From Habitat for Humanity International’s 2014 Shelter Report, “Step by Step: Supporting Incremental Building through Housing Microfinance.”*

## Construction technical assistance in Nicaragua

In Nicaragua, PRODEL has been a pioneer in housing microfinance and housing support services since the early 1990s. As in much of the developing world, many lower-income Nicaraguan households who build their homes incrementally use materials that are rudimentary or of poor quality. PRODEL found that this piecemeal construction process is often carried out without technical construction knowledge. As a result, houses are often built in an unorganized way, resulting in awkward use of space and poor ventilation. These factors can jeopardize a household's safety and well-being, especially in a country that experiences frequent natural disasters.

A core part of PRODEL's housing strategy is to introduce technical assistance in construction by working with

microfinance institutions, clients, architects, engineers and master builders who are employed to carry out the building work. PRODEL's advice to households focuses on ensuring safety, appropriate use of space, adequate ventilation and illumination, and use of quality materials. It also provides guidelines on how to optimize the building process to make it cost-effective. For smaller improvements, the technical advice focuses on sound building practices and the choice of good-quality building materials.

*From Habitat for Humanity International's 2014 Shelter Report, "Step by Step: Supporting Incremental Building through Housing Microfinance."*

consumer loan whose purpose is housing but whose ultimate use cannot be determined with certainty. In this case, the proposed construction allows the institution to assess the required loan amount, and repayment performance determines the client's future with the institution. On the other hand, if housing support services are coupled with the credit, they become part of the preloan due diligence and post-loan follow-up that financial institutions often use with other loan products.

The Center for Innovation in Shelter and Finance's experience sheds light on other compelling reasons for considering adding housing support services to a housing microfinance product. The time between acquiring the materials and starting construction can result in a deterioration of the quality of materials (e.g., cement being stored in wet conditions, causing it to solidify). Households with limited resources, few opportunities to obtain adequate and affordable financing, and inadequate access to quality products and trained service providers typically rely on informally trained builders and laborers, who often over- or underbuild. This can lead to problems such as material deterioration, inappropriate investment in costly improvements, and critical structural deficiencies, especially in disaster-prone environments. The potential losses associated with incremental building practices can be mitigated through appropriate housing support services. [Chapter 4](#) discusses these services in greater detail.

## SAVINGS IN INCREMENTAL HOUSING

Developing more effective ways for people and communities to save their own funds allows them not only to have more access to their own money, but also to be seen as less risky by potential financiers. Low-income populations working in the informal economy have been financially excluded because of their perceived high risk. This sector of the population is denied not only credit, but also other types of financial services such as savings.



Because of this, slum dwellers are forced to look for alternative saving mechanisms.

Incremental building has an effective built-in saving mechanism: When people accumulate construction materials until they have enough for their construction project, the materials are a form of savings. This saving mechanism could be formalized through a home improvement savings account, with the following benefits:

- Measuring savings capacity is a good tool to assess a household's cash flow, and thus its payment capacity. This is particularly valuable for people with informal incomes who want to borrow but have no collateral or track record.
- Saving aligns the interests of borrowers and lenders. Requiring a down payment from the borrower (using his or her savings) to qualify for a housing loan ensures the borrower has a financial stake in the incremental housing project. This helps ensure the loan is repaid on time.
- Savings organizations (village savings and loan associations, or VSLAs; rotating savings and credit associations, or ROSCAs; and savings and credit cooperative organizations, or SACCOs) are effective tools that assist households in loan repayment. Many microfinance institutions are familiar with these types of group loan mechanisms, which can add a level of comfort to the lender. Other savings schemes, such as locally managed savings groups, may have a strategic importance as a vehicle for community building and the nurturing of solidarity, particularly among women engaged in the incremental building of their home.

## WHEN IS HOUSING MICROFINANCE INAPPROPRIATE?

Housing microfinance aims to develop longer-term solutions or solutions that fit between relief shelter and the developed mortgage markets of the West. For institutions considering adding a housing microfinance product to their portfolio, however, it is important to keep in mind the contexts in which housing microfinance is not appropriate and subsidized assistance may be preferable. Examples include:

- Crisis or war zones, or areas at risk from natural disasters, where affected populations might need significant housing subsidies or relocation.
- In areas of extreme poverty, where very low-income households are too poor to pay the required amounts for progressive housing because of overindebtedness or failing to meet basic eligibility criteria. These households might need partial or total subsidies to improve their housing.
- In areas lacking basic community infrastructure, such as drinking water, electricity and sewage.

## Chapter 2: The market opportunity for housing microfinance

Housing is often proclaimed to be one of the “big three” priorities for low-income households around the world, along with food and primary education.<sup>1</sup> A comprehensive report on the global housing crisis from McKinsey estimates that 330 million urban households around the world live in substandard housing and more than 200 million households in the developing world live in slums.<sup>2</sup>

The majority of this deficit exists in the developing world among low-income populations, where for many reasons new and formally financed units are unattainable for all but a minority of the population. As a result, there is great demand for improvements and repairs to existing shelters, which are often deemed inadequate. Indeed, in much of the world, the predominant pattern for building and upgrading homes is progressive — by means of small, incremental stages in accordance with a household’s priorities and financing abilities.

Many households work on the improvement and extension of their homes first to obtain the minimum standards in size and quality, and later to accommodate changes in household size or to obtain income from their investment in the house.<sup>3</sup> Incremental housing can be described as an inverted version of the traditional, formal process of building and financing a house. For example, in the traditional process, the complete features of the house are available to the owners from the first day of occupancy. In the incremental construction process, households begin residing in a home with the most basic features and build at the pace their financing capacities allow. However, many of these households do not have access to conventional mortgages, and government-financed housing programs are usually constrained by limited resources.

Meanwhile, microfinance has become an effective tool to increase access to capital for low-income populations, often the same populations lacking adequate shelter. Though originally thought of mainly as credit for microenterprises, the microfinance industry has begun to examine other needs and preferences of its clients and has started to design appropriate financial products to serve those clients better.

For those institutions serving the “base of the pyramid” and committed to positive financial and social results, housing microfinance is emerging as a nimble tool to address substandard housing, being a viable financial product while helping achieve a social mission. Housing microfinance has emerged organically out of the realization that microloans could be a useful method for helping the millions of people living in the world’s slums

Microfinance has become an effective tool to increase access to capital for low-income populations, often the same populations lacking adequate shelter.



Urban households around the world live in substandard housing.

**200 million**  
Households in the developing world live in slums.

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

2 McKinsey “Report on Adequate Housing,” 2014.

3 Green, M. and Rojas E. “Incremental Construction: a Strategy to Facilitate Access to Housing,” Environment and Urbanization, Vol. 20, No. 1, pp. 89-108, 2008.

## Housing microfinance is emerging as a nimble tool to address substandard housing, being a viable financial product while helping achieve a social mission.

to incrementally improve their conditions. This understanding is strengthened by the realization that between 20 and 30 percent of microenterprise loans are diverted into housing, which in turn has led some lending institutions to offer microloans for housing (though because some of these products were repurposed consumer loans, they were not always well-suited to housing).

Providing products and services aimed at mitigating the deficiencies and challenges that arise from the incremental housing process can be an opportunity to both fill a market gap and create immense social impact. This chapter explains how housing microfinance offers significant financial and social justification for entering the market, both as a strategy for addressing substandard housing and as a viable product diversification opportunity for financial institutions and entrepreneurs serving low-income populations.

### FINANCIAL JUSTIFICATION

Microfinance institutions were born in the 1970s as a viable market opportunity to provide unsubsidized financial services to poor people, relying on their capacity to repay their loans. Today the World Bank estimates that more than 16 million people are served by some 7,000 microfinance institutions all over the world.

Some of the lessons that have emerged include the understanding that many of the households benefiting from microenterprise loans conduct their microbusinesses in whole or in part from home, and that part of these loans are being used for home improvements. Despite evidence that up to 30 percent of microenterprise loans are diverted to shelter needs, housing microfinance remains a nascent product in an industry that emphasizes working capital loans, or loans for home improvements that are consumer loans without any housing product differentiation. There is a huge potential for financial institutions to expand the affordable housing market that, according to at least one study, surpasses that reached by the microenterprise market by up to four times.<sup>4</sup>

As housing microfinance continues to grow and expand as a practice, lessons are emerging on the market opportunity for financial institutions designing products and services clearly targeted toward housing. These include:

- Housing microfinance can be seen as a product to increase client retention and satisfaction, an improvement that can translate into a sustainable boost in demand for an institution's products in the long term. The 2014 Housing Microfinance Survey from the CISF was administered to 48 financial institutions and found that 73 percent selected "Response to client demand" as a reason for adding housing microfinance, and 60 percent chose "Retain loyal clients." One respondent wrote, "The majority of our clients use their savings to improve their homes, health and education. This is why we saw the housing microfinance loan as an opportunity to meet their needs."
- Housing microfinance lending can increase stability by diversifying the loan portfolio and attracting new customers beyond microentrepreneurs. Often, people divert microenterprise loans into housing projects, so building a housing microfinance lending program is a way of responding to a household's implicit demand for shelter and housing solutions while reducing the misuse of loan funds by existing clients.

### Testing the market in Kenya

Kenya Commercial Bank, the Kenyan mortgage market leader with a 30 percent market share and approximately 6,000 mortgage loans, felt the need to include housing microfinance as a market opportunity to serve new, potential clients. The bank, with technical assistance from the CISF, started pilot testing the housing microfinance product in 2015 with the aim of expanding it nationally and regionally.

4 JP Morgan. "Impact Investments: An Emerging Asset Class," p.12, November 2010.



Housing microfinance, then, provides a valuable opportunity for the lending institutions to diversify their portfolio and attract new clients.

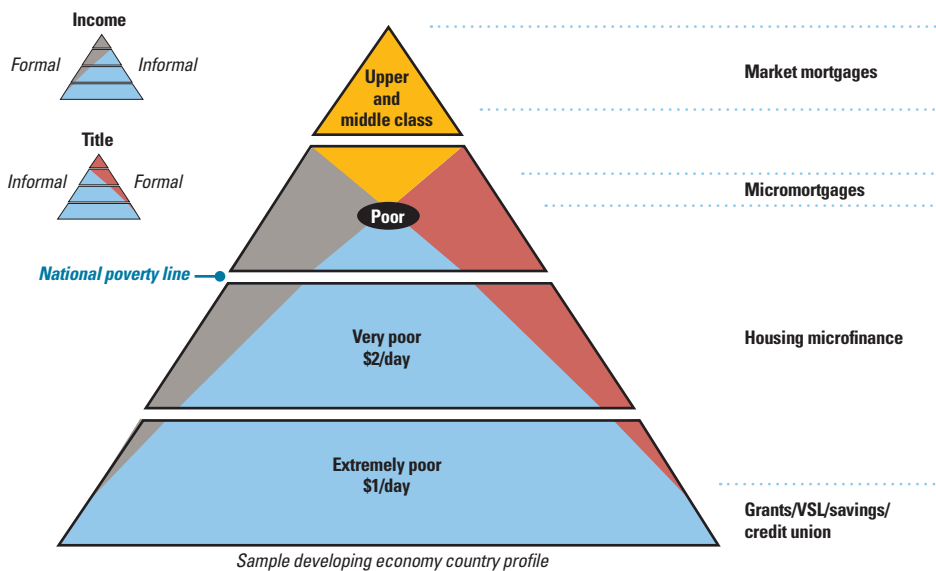
Figure 2 shows that low-income housing finance users are typically salaried workers with documentable income or, in more developing economies, self-employed. Informal workers are generally excluded from access to commercial housing finance because of a lack of verifiable, stable, official income or land title.

The segments in Figure 2 break up the market not only by income type and land situation, but also by most probable type of finance supply. Globally, it is estimated that no more than 3 percent of the population in developing economies has an outstanding mortgage, and in many countries that number drops to 1 percent.<sup>5</sup> Typically, only the upper and middle classes and some low-income households have access to commercial housing finance. This leaves a huge market gap to be filled through housing microfinance products.

Housing microfinance products are readily offered to this segment through microfinance institutions or other nonbank financial institutions that are comfortable with elevated risk and are used to offering noncollateralized loan products. However, banks that are downscaling their operations to cater to a new niche not served by their traditional products and services are also increasingly exploring the inclusion of new products such as housing microfinance.

Providing products and services aimed at mitigating the deficiencies and challenges that arise from the incremental housing process can be an opportunity to both fill a market gap and create immense social impact.

**FIGURE 2: Financial product segmentation**



Note that the brown-shaded area of the pyramid represents the population with documentable income, and the red-shaded area represents the population with formal title to their property.

<sup>5</sup> Demircuc-Kunt and Klapper. "Measuring Financial Inclusion," The World Bank Development Research Group, April 2012.

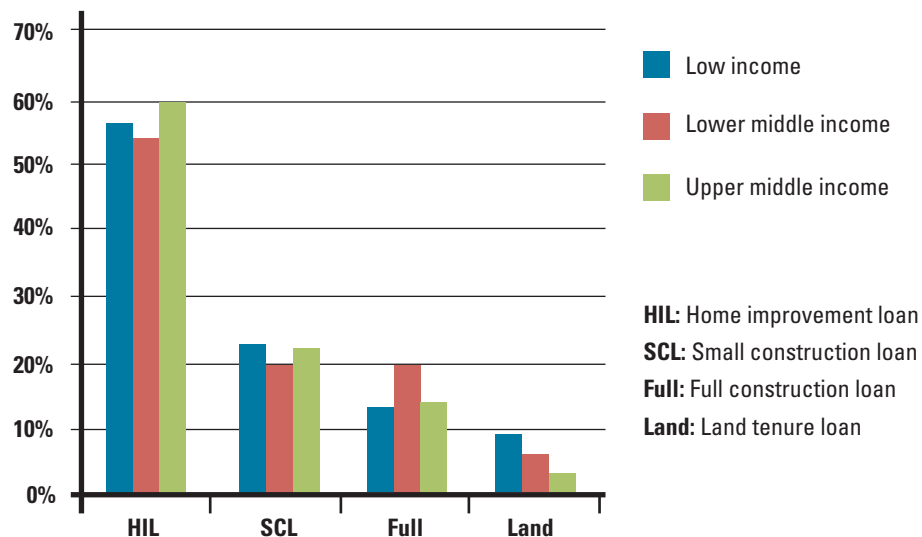


# 60%

of housing loans  
are used for home  
improvement.

- Housing microfinance can become one “product line” with several subproducts that reach different segments of the low-income population. The previously mentioned CISF survey found that the majority of housing loans (60 percent) are used for home improvements (see Figure 3). It also found that 75 percent of respondents offer more than one housing microfinance product, with the plurality (40 percent) offering two products, and 35 percent offering three or more. Common examples of housing microfinance products and their wide range of purposes include:
  - Home improvement/repairs.
  - Expansion (addition of room).
  - Improving or purchasing better appliances (sanitation facility).
  - Weatherproofing.
  - Upgrades (solar panels, energy-efficient appliances, installation of connection to public facilities).
  - Construction of new home.
  - Purchase of new home.
  - Land (acquiring title, security of tenure).

**FIGURE 3: Use of housing microfinance loan by country income level**



Source: CISF Housing Microfinance Survey

- Lastly, financial institutions that dedicate their efforts to the design and positioning of a differentiated housing microfinance product can experience significant growth and have it become one of their leading products.

According to the CISF’s 2014 Housing Microfinance Survey, housing microfinance loans perform well. The quality of the housing microfinance portfolio also has improved; from 2012 to 2013, the average increase in active loans was 28 percent, and the dollar value of these loans increased by 43 percent. The portfolio at risk, or PAR, also improved from

2.17 percent in 2012 to 2.10 percent in 2013. Additionally, almost all respondents believe their housing microfinance portfolio is growing or holding steady (Figure 4). More importantly, institutions are reporting that housing microfinance is as profitable (48 percent) or more profitable (21 percent) than their other products (Figure 5).

Seventy percent of the institutions that responded to the survey see their product growing as a percentage of their overall portfolios, and given its performance and effects, 80 percent of responding institutions plan to expand their housing microfinance offerings. All but three respondents have housing microfinance in their business plan. These findings are promising in relation to the viability and sustainability of housing microfinance portfolios, confirming the potential of a vibrant, untapped market for lending institutions.

Despite the great business opportunity housing microfinance represents for financial institutions, access to capital is an issue that can prevent institutions from scaling up their products. Additional issues include having a real commitment toward the inclusion of this product as part of the overall institutional strategy and allocating the requisite time and human capital toward the design of this product.

## SOCIAL JUSTIFICATION

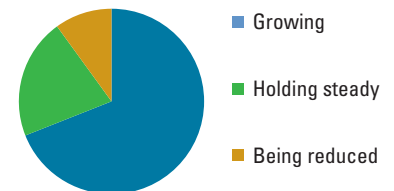
By leveraging the vibrancy of informal markets, incremental shelter practices have great potential to create larger numbers of safe and secure dwellings than conventional approaches. By coupling housing microfinance with tenure and basic services such as water and sanitation, households are able to invest in their homes and future. This reduces the financial burden on governments to subsidize housing, and taking small steps to formalize parts of the incremental process creates the potential to have well-planned communities.

Shelter is a basic human need. Yet unlike the “small doses” of food or clothing that one can take, housing is a major investment and is needed constantly. Providing adequate housing is an effective means of alleviating poverty because shelter is usually the most expensive item for households. It is also a prerequisite for better health and provides savings on medical expenses related to poor-quality shelter. Housing also can be a source of income, either through home-based businesses or renting.

The need for adequate financing for low- and very-low-income populations is made apparent when one considers the rapid urbanization of most developing countries. By 2050, 70 percent of the world’s population is projected to be living in urban areas, according to the U.N.’s Department of Economic and Social Affairs. In this rapidly urbanizing world, decent living conditions are becoming scarce, especially in developing countries, where many cities do not have the capacity to support this influx of new inhabitants.

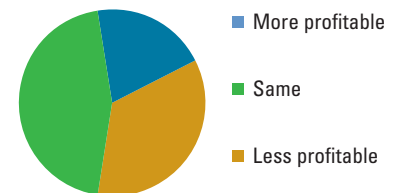
At the same time, traditional mortgage loans are not accessible to the lowest-income populations because of the lack of steady, formal incomes and titles. Because of the lack of formality, financial institutions see these borrowers as much higher risks, and thus charge them higher interest. The high interest rates (in Brazil, for example, rates range from 77 to 257 percent)<sup>6</sup> make financing highly unattractive to potential borrowers. Additionally, borrowers simply lack the information to manage their finances and determine what financial product is appropriate.

**FIGURE 4: Housing microfinance portfolio growth**



Source: CISF Housing Microfinance Survey

**FIGURE 5: Housing microfinance profitability vs. other products**

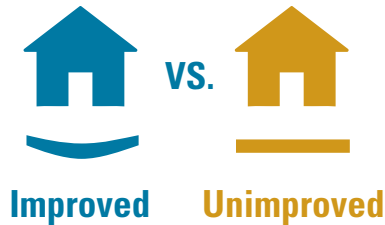


Source: CISF Housing Microfinance Survey

6 Bill Drayton and Ashoka. “Transforming Urban Markets for the Poor Through Collective Entrepreneurship,” *Global Urban Development Magazine*, 2008. Available online at [globalurban.org/GUDMag08Vol4Iss2/Ashoka.htm#Volume\\_1](http://globalurban.org/GUDMag08Vol4Iss2/Ashoka.htm#Volume_1).



## Slum households



**Adults in upgraded homes were substantially happier and experienced lower rates of depression and stress.**

Low-income populations instead rely on their savings to finance their housing projects. When savings are nonexistent, these populations are forced to turn to informal sources such as selling assets, borrowing from relatives and employers, getting remittances from abroad, or taking exorbitant loans from money lenders.

Housing microfinance has the ability to support low-income households in their incremental building process by allowing them to purchase enough labor and building materials to complete an element of their home that will not degrade while they wait for the next phase of construction, therefore decreasing the loss of savings. Building incrementally often represents what the United Nations Human Settlements Programme calls a “delicate expression of poor people’s gradual capacity to climb out of poverty. Like the houses they build, it’s not something that happens all at once. But in cases where housing finance and secure tenure are made available to people, the quality of owner-built housing — even at the bottom end of the economic ladder — can improve dramatically.”<sup>7</sup>

In the 2014 CISF Housing Microfinance Survey, the perceived impact of housing microfinance was overwhelmingly judged to be “Improved quality of life/happiness,” followed by “Improved health/sanitation.” These findings correlate with research conducted by the Center for Effective Global Action at the University of California, Berkeley; Washington University in St. Louis, Missouri; the World Bank; and the Mexican government. The research rigorously evaluated *Piso Firme*,<sup>8</sup> a program created by the Mexican government in 2000 to improve the health and well-being of the urban poor. The program replaced slum dwellers’ dirt floors with concrete flooring, which was more hygienic and prevented the transmission of parasitic infections, particularly in children. Additionally, it compared improved slum households with those left unimproved and found that adults in upgraded homes were substantially happier (as measured by their degree of satisfaction with their housing and quality of life) and experienced lower rates of depression and stress.

“Improved security of tenure” was the third-highest-rated impact of housing microfinance. Evidence shows that recognizing informal tenure makes housing markets more inclusive for marginalized populations while enabling financial institutions to grow robust housing portfolios. (For more on this topic, see Chapter 5).

7 UN-HABITAT and Asian Coalition for Housing Rights. “Quick Guides for Policy Makers 5, Housing Finance,” p. 3, 2008.

8 Cattaneo, Matias, D. Galiani, Sebastian, Gertler, Paul, J, Martinez, Sebastian and Titiunik, Rocio. “Housing, Health, and Happiness.” *American Economic Journal: Economic Policy*, 1:1, 75-1, 2009.

## Chapter 3: Housing microfinance product development

Organizations that have gone through a comprehensive product development process know that it can be a complex, resource-consuming activity that should not be entered into lightly. But as housing microfinance continues to rise as an attractive option for lending institutions seeking business opportunities and social returns, evidence suggests that thoughtful product development is a wise investment.

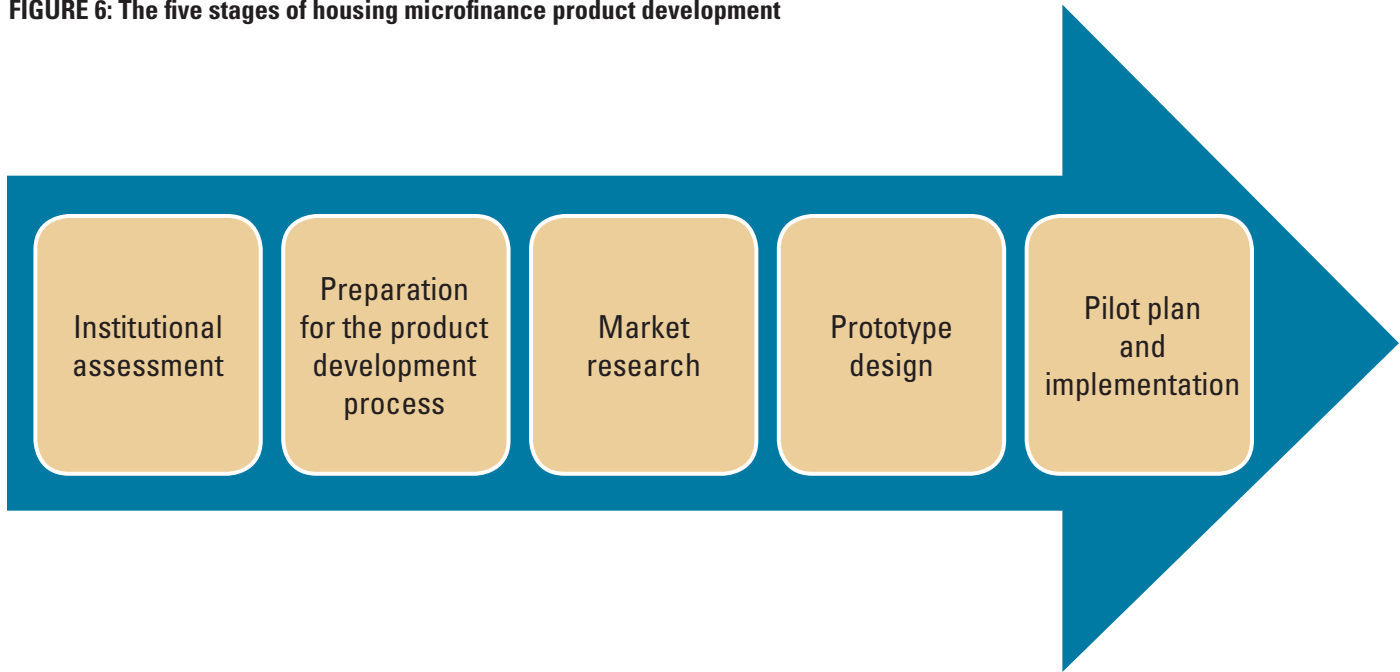
This chapter provides an introduction to the product development methodology employed by the Center for Innovation in Shelter and Finance and is organized into two parts:

1. An overview of the product development process, covering the five stages typically used by the center and key considerations for an institution's management during this process.
2. Product development success factors, covering the lessons learned from the experience of 10 financial institutions the center has advised.

### INTRODUCTION TO PRODUCT DEVELOPMENT

The product development process employed by the Center for Innovation in Shelter and Finance is a systematic, step-by-step approach to developing new products or refining existing ones. It was originally based on MicroSave's approach to product development and subsequently adapted and enhanced for housing products over the course of the past seven years of the center's work. In this approach, the interested institution begins by assessing its commitment and preparedness for adding a housing microfinance product to its portfolio. This is followed by analysis of secondary data and the development of a qualitative market research plan that uses a variety of investigative techniques, including focus group discussions and individual interviews with potential clients and other relevant parties. The research findings allow the product development team to design a product concept that is refined through feedback from stakeholders and costing analysis, resulting in a prototype. To provide a final check of the marketability of the prototype before pilot testing, the prototype is subjected to quantitative and qualitative validation. (The practitioner's guide, included as the second section of this handbook, describes in detail these five stages of housing microfinance product development).

As housing microfinance continues to rise as an attractive option for lending institutions seeking business opportunities and social returns, evidence suggests that thoughtful product development is a wise investment.

**FIGURE 6: The five stages of housing microfinance product development****Stage 1: Institutional assessment**

This stage helps an institution systematically assess its readiness and commitment to undertaking housing microfinance product development.

**Stage 2: Preparation for the product development process**

This stage helps an institution prepare the needed resources to engage in market research, product design, pilot testing and wide-scale rollout.

**Stage 3: Market research**

This stage involves defining the institution's target group for this product and determining their current needs, preferences and capacities to improve their homes, from their perspective. It also includes identifying other suppliers of products and services to the low-income housing sector.

**Stage 4: Prototype design**

At this stage, the institution seeks to define attractive and competitive housing microfinance products and services, backed by quantitative projections of loan volumes, associated costs, revenues and the break-even period. To provide a final check of the levels of acceptance of the prototype and its marketability before pilot testing, the prototype is subjected to quantitative and qualitative validation.

**Stage 5: Pilot plan and implementation**

The pilot stage involves the preparation for and implementation of the pilot test of the prototype. Before testing, the institution assesses its capacity for offering the product and services, and determines how best to adapt systems, processes and procedures and equip the



staff. This is followed by testing clients' response to the prototype, which is offered within a specific zone for a set period. Performance is monitored closely, and observations inform adaptations and further testing. This stage concludes with an evaluation and appraisal of the adjustments needed to scale up the housing microfinance product. (Please see Chapter 12 for further explanation of the monitoring and evaluation process).

Before an institution begins the housing microfinance product design process, its management must decide on a clear objective and reason for developing the product; commit the requisite time, personnel and capital to design and roll out the product; and establish a well-defined beginning and end to the process. The ultimate goal should be to design client-responsive products and services that meet the needs, preferences and capacities of the target market and the institution serving it. This convergence will guarantee the sustainability and affordability of the products and services.

Housing microfinance product development is meant to be implemented as a complete "project" divided into stages. One stage leads to and informs the next and provides the institution with an opportunity to respond to minor issues before they become major problems. Problems that can be avoided with a thoughtful product development process include:<sup>1</sup>

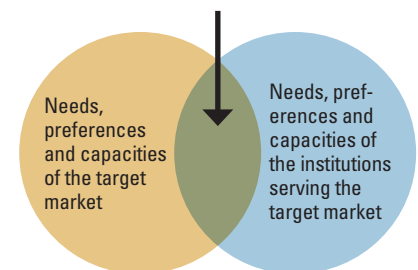
- Limited demand for the new product.
- Diversion of sales from existing products, resulting in no additional revenues for the institution.
- Poor marketing of the new product.
- Management information systems' incompatibility with the new product.
- Staff's inability to deliver the new product.

The two main questions that should be answered during the product development cycle are:

- Which financial products and housing support services fill the gaps between our clients' demands and available supply in the market?
- What changes should our institution make to offer housing microfinance products and housing support services?

Each stage of the process requires the institution and its management to respond to additional questions that guide the product development team. Table 3 highlights the high-level questions.

**FIGURE 7: The key to sustainable housing microfinance products and services**



---

<sup>1</sup> Wright, Graham A.N., Monica Brand, Zan Northrip, Monique Cohen, Michael McCord, Brigit Helms. "Looking Before You Leap: Key Questions That Should Precede Starting New Product Development." *Journal of Microfinance* 4(1): 1-15, 2002.

TABLE 3: Key questions for each stage of product development

Stage	Key questions
<b>Institutional assessment</b>	<ul style="list-style-type: none"> <li>• Is the institution really committed to this?</li> <li>• Why undertake housing microfinance market research and product design?</li> </ul>
<b>Preparation for the product development process</b>	<ul style="list-style-type: none"> <li>• What resources are needed and available, including partnerships with other institutions, and human, financial and technological resources?</li> </ul>
<b>Market research</b>	<ul style="list-style-type: none"> <li>• What housing microfinance products and services are currently in the market, and what external factors affect them?</li> <li>• What is the target market for the new products and services?</li> <li>• What are the needs, preferences and capacities of the target market regarding housing?</li> </ul>
<b>Prototype design</b>	<ul style="list-style-type: none"> <li>• What housing microfinance products and services will the institution offer to satisfy the demand of the target households? What competitive or differentiating advantages will it have over similar products offered by other institutions?</li> <li>• What is the potential demand for the housing microfinance prototype?</li> </ul>
<b>Pilot plan and implementation</b>	<ul style="list-style-type: none"> <li>• Do the housing microfinance products and services satisfy the unmet demands of the target population?</li> <li>• What changes does the institution need to make to scale up the products and services in a sustainable way?</li> </ul>

The CISF uses an adaptation of the “Eight P’s of Marketing”<sup>2</sup> during the five stages to systematically develop housing microfinance products:

- **Population:** Target market for the product and services.
- **Product:** Amounts, terms, guarantees and payments, among other elements.
- **Price:** Interest rates, commissions, penalties and incentives for clients.
- **Promotion:** Strategies to promote the products and services, including media campaigns and slogans, among others.
- **Place:** Physical location where the product is offered. Appearance of the office, including office furnishings, etc.
- **Positioning:** Perception to be cultivated in the minds of the target population (for example, service delivery speed and low monthly payments).
- **Personnel:** The profile and job description of those offering the product.
- **Process:** The organizational structure and process for delivering the product and related services.

During the institutional evaluation stage, it is important to assess the institution using the eight P’s to understand its current practice and offerings. During market research, the data gathered will be compiled and analyzed using the eight P’s to ensure there is appropriate information for designing a prototype that includes the key attributes

2 The Eight P’s of Marketing grew from an original four “P’s.” They serve as an excellent launching pad for any strategic marketing plan.

demanded by the target market. Carefully defining these eight P's based on findings from the market research is integral to successful prototype design, pilot testing and wide-scale product rollout.

**TABLE 4: Example of a housing microfinance product based on the eight P's**

Attribute	Definition
<b>Population</b>	<ul style="list-style-type: none"> <li>• New and existing clients. In the case of existing clients, they can be individual or group borrowers. During the pilot stage, only existing clients will be targeted.</li> <li>• Clients with homes or plots of land in rural and peri-urban areas, who are self-employed and salaried workers. During the pilot stage, only self-employed workers will be targeted.</li> <li>• Age: 18 and above.</li> <li>• Target incomes: US\$200-\$600 per month.</li> </ul>
<b>Product</b>	<p>Credit for all types of home improvements, offered to families at their homes, and discounts to buy building materials in partner hardware stores. Three types of technical assistance are to be offered depending on the complexity of the construction work:</p> <ol style="list-style-type: none"> <li>1) Brief visit to calculate budget. Used when the planned repair is to replace roof and ceiling, plaster walls, install doors and windows, and paint.</li> <li>2) Initial visit to draw up a plan of improvements and budget, with follow-up supervision visit during construction. Used for floor installations and the construction of latrines, bathrooms and corridors.</li> <li>3) Same as 2, with an additional supervision visit during construction work. Applies to construction of bedrooms, kitchens and load-bearing walls.</li> </ol>
<b>Price</b>	<p>Loan amount: US\$500-\$2,000.            Term: 12-36 months.            Payments: Monthly or biweekly; acceptance of anticipated payment.            Guarantee: Guarantor.            Interest rate: 19-22 percent.            Commission: 3 percent, to cover construction assistance.</p>
<b>Place</b>	Peri-urban branch offices.
<b>Promotion</b>	<ul style="list-style-type: none"> <li>• Fliers in branch offices and affiliated hardware stores.</li> <li>• Phone calls or visits to current microenterprise loan clients.</li> <li>• Workshops on financial education for home improvements.</li> </ul>
<b>Personnel</b>	In each branch, two additional staff members will be hired, one construction technician and one loan officer. Customized, in-person training on the product will be provided.
<b>Process</b>	See Annex 27: Example Process Flow Diagram – Loan with Housing Support Services
<b>Positioning</b>	Based on the institution's current competitive advantage, focus on approving and disbursing loans quickly.



**Analysis of the 10 microfinance institutions**  revealed a variety of motivations for seeking carefully designed housing microfinance products that are differentiated from the other types of loans offered by the institution.

**2 primary concerns:**

**Ensuring client-focused, successful products.**

**Seeking social objectives.**

## PRODUCT DEVELOPMENT SUCCESS FACTORS

The following lessons are based on the experiences of 10 microfinance institutions from around the world that partnered with the Center for Innovation in Shelter and Finance to develop housing microfinance products. They serve as a basis for studying what processes were undertaken, the impact these had on product performance, and lessons learned from the product development cycle.

The intricacies of housing microfinance are more nuanced than many financial institutions initially assume. The cases studied suggest that intentional product development is likely to have contributed to more robust products, resulting in strong performance (loan uptake) and increased client satisfaction and retention. Moreover, they equipped microfinance institutions to successfully design niche products, reaching new markets or financing specific products.

## WHY DO MICROFINANCE INSTITUTIONS SEEK HOUSING MICROFINANCE PRODUCT DIFFERENTIATION?

The microfinance institutions studied were all engaged in lending to microentrepreneurs, whether via individual loans, some form of group lending (e.g., the Grameen model, village banking) or a combination of these. More than half of the microfinance institutions had already ventured into other types of financial products and services, such as agricultural loans, fixed-asset loans, savings and insurance products. Analysis of the 10 microfinance institutions revealed a variety of motivations for seeking carefully designed housing microfinance products that are differentiated from the other types of loans offered by the institution. Their two primary concerns were ensuring client-focused, successful products and seeking social objectives.

Furthermore, housing microfinance providers are frequently concerned that home improvements result in safe, durable, cost-effective solutions for clients and their households. These microfinance institutions tend to include services that assist clients in preparing improvement plans and budgets, which are valuable to the client and also validate their housing microfinance loan request. Microfinance institutions may offer additional nonfinancial services, either directly or in partnership with other providers, assisting clients with tasks related to home construction projects, such as drawing up technical plans, selecting materials suppliers, and hiring and overseeing laborers.

It's also important to note that an institution may decide to undertake an intentional product development process when seeking to redesign a low-performing housing microfinance product or when targeting a new segment of the population for its product. Two of the microfinance institutions studied — in Tajikistan and the Dominican Republic — had sought to strengthen their existing housing microfinance products through such a process, and the resulting products achieved increased growth and improved repayments. In Peru, the microfinance institution used a similar development process to design a new housing microfinance product that could reach lower-income households, initially perceived as risky because of those households' informal wages. This process

<sup>3</sup> For the original case studies, see "Housing Microfinance Case Studies of 11 Habitat Partnerships" (2013). For a detailed discussion of best practices, see "Lessons from 11 Partnerships of Habitat for Humanity" (2013), available online at [habitat.org/cisf](http://habitat.org/cisf).

also involved the incorporation of nonfinancial housing support services, which were especially valuable to this target group.

Other institutions employed a product development process to design specialty or focused products. For example, the microfinance institution in Peru developed a loan product to finance water and sanitation connections in one municipality of Lima. In the Philippines, special housing microfinance products were designed to finance septic tank installations and electricity connections. In Bosnia, the microfinance institution affirmed clients' intentions to undertake energy-saving home improvements by creating a distinct loan product to finance projects that result in increased energy efficiency for households, such as changing doors or windows or installing thermal insulation.

Finally, a well-developed housing microfinance product was viewed by several of the microfinance institutions as integral to responsible lending. A product development process should ensure that loans are adapted to the target group's needs and possibilities, and that loan approvals take into consideration the real costs of the home improvements sought.

## PRODUCT DEVELOPMENT OUTCOMES

Of the 10 microfinance institutions studied, eight engaged in intentional processes of housing microfinance product development. The other two relied on secondary sources of information and their existing knowledge of the market to inform product design. Of the eight that underwent systematic product development, the majority undertook all five of the stages listed above with some form of technical assistance from the CISF. Where housing microfinance was being redesigned, the process was modified according to the microfinance institution's specific objectives and needs (determined during the institutional assessment stage). For example, in Tajikistan, the product development process focused heavily on training staff members and improving systems to support housing microfinance and add nonfinancial housing support services.

**Portfolio growth:** Seventy percent of the institutions that responded to the 2014 housing microfinance survey by the CISF saw their product growing as a percentage of their overall portfolios. Given its performance and impacts, 80 percent of responding institutions plan to expand their housing microfinance offerings, and all but three respondents have it in their business plan. These findings are promising when talking about the viability and sustainability of housing microfinance portfolios, confirming the potential of a vibrant, untapped market for lending institutions.

**Portfolio quality:** Of the eight microfinance institutions that undertook intentional product development, all showed high-quality housing portfolios, with reported portfolio at risk over 30 days, or PAR 30s, between 0.0 and 2.6 percent. In general, housing microfinance loans were performing as well as or better than their overall portfolios, which is consistent with industry trends in housing microfinance. This was confirmed by a survey of 48 financial institutions that found that their housing microfinance portfolio had an average PAR 30 of 1.97 percent in 2013.<sup>4</sup>

---

<sup>4</sup> The full report from the Housing Microfinance Survey (2015) can be found at [habitat.org/cisf](http://habitat.org/cisf).

**Loan use:** All 10 of the cases also reported high loan use for intended purposes among their clients. For example, the microfinance institution in India conducted a study confirming that 78 percent of its housing microfinance loans resulted in completed home improvement projects among its clients.

**Client satisfaction and retention:** Nine of the microfinance institutions reported high client satisfaction with the housing microfinance product. Four of these cited clients' specific appreciation of the housing support services received. Most of the microfinance institutions also claimed that clients' favorable responses to housing microfinance have contributed to increased client retention for the institution. As Naimjon Masaidov, credit manager for IMON in Tajikistan, notes, "This product helps us reach out to new clients and serve existing clients better. As a result, our clients stay with us longer."

Also noteworthy is that the product redesigns in Tajikistan, the Dominican Republic and Peru resulted in products that experienced steady growth and gave the microfinance institutions the ability to extend services to previously unreached, lower-income sectors. Furthermore, the product development process used to design the housing microfinance product in Uganda was subsequently adapted by the microfinance institution to create a micromortgage product, offering slightly larger housing loans to a distinct population.

### Prevailing lessons in product development

In addition to specific lessons that emerged within each of the stages of the product development process, microfinance institutions identified the following three critical factors that contributed significantly to the success of their housing microfinance products:

1. **Product champion:** Each microfinance institution was encouraged to select a product "champion" or internal project leader, stationed at the head office, to oversee and guide the housing microfinance product's design and pilot testing. It was also important to establish a process to make changes during the pilot stage. A study of the cases revealed that microfinance institutions that had assigned capable and respected champions in the central office also experienced great success with their products. In Peru, the microfinance institution's wise selection of a leader who believed in the product and had sufficient determination and influence led to the housing microfinance product being quickly accepted and appropriated throughout the institution.
2. **Partnership support:** Several microfinance institutions attested to the value of partnerships — specifically with the Center for Innovation in Shelter and Finance — in helping them navigate initial hurdles in the design and launch of housing microfinance products. To be accompanied by a well-established organization that specializes in low-income housing was a comfort to leadership, often reducing their perception of risk. Lyn Onessa, director of product development at TSPI, stated, "We would have had to spend a lot more time in the research stage before launching the product if it wasn't for partnership. We did not have internal specialization when we started." Moreover, three microfinance institutions specifically mentioned the value of the monitoring and support received during the pilot testing stage, keeping them focused on agreed-upon goals and well-advised in overcoming obstacles.



3. **Institutional learning culture:** Institutions with strong learning cultures were quick to develop successful housing microfinance products, because they kept a close read on their clients' responses and were swift in making needed adaptations and improvements. For example, the microfinance institution in the Philippines maintained a continuous cycle of product evaluation and innovation, even as it expanded housing microfinance to new branches. By creating mechanisms to receive feedback from clients and the field staff, the microfinance institution was able to design and test new innovations, such as products especially suited to improvements in highest demand.

## Housing microfinance success lessons from CRECER in Bolivia

### Leadership

Having a highly committed leader is vital. The efficient and effective level of leadership of the project leader at CRECER, who served as the national business director, was vital to the success of the housing microfinance product development process and pilot test. The leader took control of the project, motivating and providing timely advice to all those involved. The process was well-managed to position the product and take it to the level of growth that it has experienced to date.

### Institutional capacity

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

### Monitoring of the housing microfinance product

A monitoring strategy defined and implemented by the team of CRECER, the CISF and Habitat Bolivia has contributed to the success of the initiative. The timely and adequate follow-up throughout the project minimized cannibalization of existing products, helped control the monthly payments, and identified the needs that arose during the pilot.

### Selection and training of construction technical managers

Because CRECER provided housing support services with its product, the selection and training process for the staff was crucial. The selection focused on skills, not just educational background and work experience. This was followed by a very hands-on training in which the construction technical managers understood not only the housing support services model and how to implement it, but also the importance of inserting it as part of the whole housing microfinance product.

The Center for Innovation in Shelter and Finance uses the term “housing support services” when referring to nonfinancial products and services that enable households to improve their housing on their own.

## Chapter 4: Housing support services

The growing pool of housing microfinance practitioners is evidence of how housing microfinance is becoming an increasingly attractive proposition to institutions seeking to open new business opportunities and retain clients or to achieve greater social impact. As housing microfinance providers increase in number, more are asking about the relevance of tying nonfinancial housing-oriented services to the financial product.

The Center for Innovation in Shelter and Finance uses the term “housing support services” when referring to nonfinancial products and services that enable households to improve their housing on their own. These services aim to help households acquire the basic knowledge to undertake or supervise their home improvements and to make the right decisions in the process.

The role of housing support services can be thought of as similar to that of nonfinancial services such as training and technical advice in the microenterprise lending market. These services are a tangible expression of the desire to pursue deeper, lasting results among microfinance clients and their households. When housing support services are coupled with a housing microfinance credit, they become part of the preloan due diligence and post-loan follow-up used by many financial institutions. The CISF believes housing support services can also extend beyond what financial institutions themselves can bundle on their own, to include market linkages that borrowers can opt into on their own.

This chapter describes the basic elements of the incremental housing process and common housing deficiencies in self-managed construction. It also explains the value that housing support services can provide in the construction process, as well as to the financial product and institution. And finally it lists the various types of housing support services, how they are provided, and the options for financing their provision.

### INCREMENTAL HOUSING AND OUTCOMES

A comprehensive report on the global housing crisis from McKinsey estimates that 330 million urban households around the world live in substandard housing and that more than 200 million households in the developing world live in slums.<sup>1</sup> The authors estimate that by 2025, 1.6 billion people will occupy crowded, inadequate and unsafe housing. It is clear that housing supply has not kept up with the immense growth of demand. Because of this, house construction for most people around the developing world is progressive and informal.

The housing process differs greatly between developing and developed economies. In developed countries and more affluent segments of lower-income countries, the usual process is complete construction of homes by a private construction company,

---

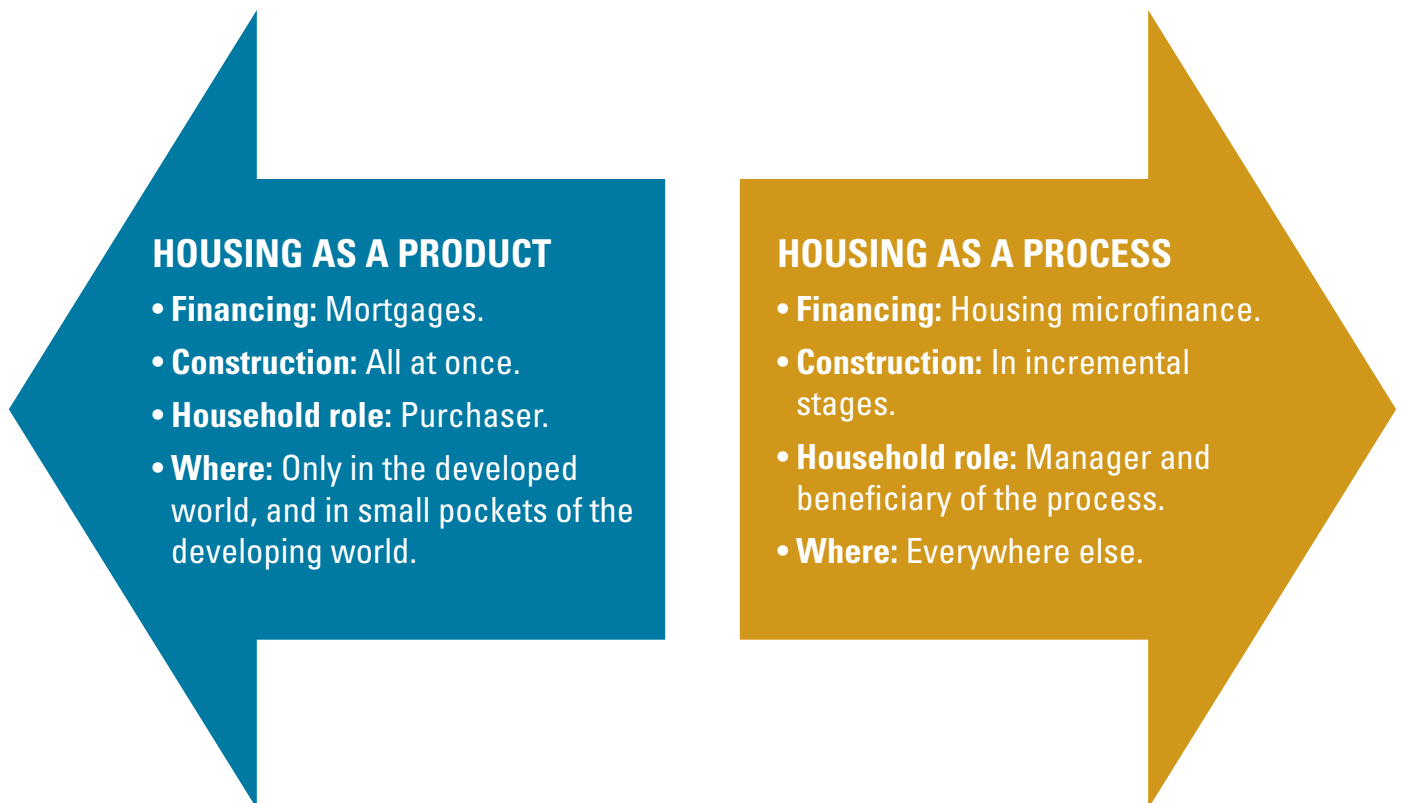
<sup>1</sup> McKinsey, “Report on Adequate Housing.” 2014.

followed by the purchase of the completed home with the assistance of a mortgage from a commercial financial service provider. In less-developed countries, the process can be substantially informal. The predominant pattern for building and improving homes is progressive, by means of small, incremental stages, in accordance with the household's priorities and financing availabilities.<sup>2</sup> Families take residence on available land, often without legal possession, and begin to build. Accordingly, households begin with core components, such as a bedroom and living space, and continue to build as they are able. Many households work on the improvement and extension of their homes first to obtain the minimum standards in size and quality, and later to accommodate changes in household size or to get income from their investment in the house.<sup>3</sup>

Incremental housing can be described as an inverted version of the traditional, formal process of building and financing a house. For example, in the traditional process, the complete features of the house are available to the owners from the first day of occupancy. In the incremental construction process, families begin residing in a home with the most basic features and build at the pace their financing capacities allow.

In part because of the lack of institutional support for this process, households often replace work that was already completed or upgrade to better and safer materials only when they have the opportunity. This can lead to inefficiency and poor outcomes.

**FIGURE 8: Housing as product vs. process**



2 UN-HABITAT, "Financing Urban Shelter," p. 99. 2005.

3 Green, M. and Rojas E. "Incremental Construction: a Strategy to Facilitate Access to Housing," Environment and Urbanization, Vol. 20, No. 1, pp. 89-108. 2008.



TABLE 5: Adequate housing definition from U.N.

## Adequate housing according to the U.N. Committee on Economic, Social and Cultural Rights

- **Security of tenure:** Housing is not adequate if its occupants do not have a degree of tenure security that guarantees legal protection against forced evictions, harassment and other threats. (For more information on secure tenure, please see Chapter 5).
- **Availability of services, materials, facilities and infrastructure:** Housing is not adequate if its occupants do not have safe drinking water; adequate sanitation; energy for cooking, heating and lighting; food storage; and refuse disposal.
- **Affordability:** Housing is not adequate if its cost threatens or compromises the occupants' enjoyment of other human rights.
- **Habitability:** Housing is not adequate if it does not guarantee physical safety or provide adequate space, as well as protection against the cold, damp, heat, rain, wind, other threats to health, and structural hazards.
- **Accessibility:** Housing is not adequate if the specific needs of disadvantaged and marginalized groups are not taken into account.
- **Location:** Housing is not adequate if it is cut off from employment opportunities, health care services, schools, childcare centers and other social facilities, or if it is located in polluted or dangerous areas.
- **Cultural adequacy:** Housing is not adequate if it does not respect and take into account the expression of cultural identity.

## COMMON DEFICIENCIES IN INCREMENTAL HOUSING

Incremental housing is a natural response to the constraints faced by low-income households in the formal housing market. But with limited financial resources, households often make compromises on materials and construction quality in order to solve the urgent need to lodge all household members. This allows them to reside in the core house while they accumulate savings, materials, tools and skilled labor to begin improving the home. However, during this initial period, in which the households get limited services from their shelter, there can be a misalignment of interests. For example, tenure security or sanitation services might have the most impact, but the household members mostly value protection against the elements and some privacy.<sup>4</sup>

Immediately after taking possession of the core house, households expand it using the materials from their previous dwelling or other recycled materials that are easy to install but of questionable quality.<sup>5</sup> (The most prominent example may be poor roofing materials, which are starkly visible in most informal communities).

4 Cities Alliance. "The Case for Incremental Housing," Cities Alliance Policy Research and Working Papers Series No. 1. 2011.

5 Green, M. and Rojas E. "Incremental Construction: a Strategy to Facilitate Access to Housing." Environment and Urbanization, Vol. 20, No. 1, pp. 89-108, 2008.

Another issue arises from the time between acquiring and using the construction materials, which can have a significant impact on the improvement process. Poor construction outcomes can result from a deterioration of the quality of materials, under- or overestimating material needs, or improper storage of cement and wood. This leads to costly improvements and potential structural deficiencies.

Additional challenges are found in the design and location of homes. The design of the house determines its expansion options, and the location defines the overall options for using the property. When the house is not properly designed or thought out beforehand, it limits the growth potential and the ease of extension and upgrading in later phases. In many cases, houses are built in an unorganized way, resulting in higher costs, awkward use of space and poor ventilation. These factors can jeopardize a household's safety and well-being, especially in a country that experiences frequent natural disasters.

In summary, a significant opportunity exists to strengthen and bolster the progressive, incremental process undertaken by low-income households with support that understands this process and its goals. Providing products and services aimed at mitigating the deficiencies and challenges that arise from the incremental housing process can be an opportunity both to fill a market gap and to create immense social impact.

Providing products and services aimed at mitigating the deficiencies and challenges that arise from the incremental housing process can be an opportunity both to fill a market gap and to create immense social impact.

**TABLE 6: Common deficiencies found in incremental housing**

### **In Habitat for Humanity International's experience, common construction issues from incremental housing processes include:**

- Lack of design or planning in initial construction to support future improvements.
- Poor drainage undermining the foundation.
- Improper building materials that are not resilient.
- Lack of lintels or headers or ring beams above windows and doors.
- Nonsquare columns or walls leading to decay or dilapidation.
- Lack of insulation, poor ventilation and lack of screens.
- Lack of disaster resilience, such as hurricane clips or earthquake-resistant structures.
- Mix issues for mortar and plastering, leading to cracks in walls, floors and foundations.
- Unsecure doors and windows creating safety issues.
- Improper specifications for stairs.
- Toilets that are too close to water sources.
- Poorly designed pit latrine toilets that are unsanitary.

*See photos on page 52 for a visual guide to common construction issues.*

## RATIONALE FOR HOUSING SUPPORT SERVICES

Housing support services represent an exciting business opportunity that offers value to both the financial provider and its clients. Linking the housing microfinance product with a nonfinancial housing service is an opportunity to offer critical support right when a household is making the investment. As a result, it can be a mechanism to provide responsible financing, cultivate new markets for “base of the pyramid” services, and further strengthen the homes and communities where housing microfinance clients reside.

## VALUE FOR THE FINANCIAL INSTITUTIONS

Housing microfinance lenders find that the inclusion of training, technical advice and other support can be a tangible expression of their dedication to pursuing deeper, lasting results among microfinance clients and their families. In addition to increasing the loan's value, these nonfinancial housing support services allow institutions to show clients how to properly use the loan through budgeting, financial literacy and education on the end use of the loan. Thus, these services can be advantageous to the financial institutions, especially when the added services increase the client's ability to repay.

In the experience of the center, lenders who incorporate housing support services into their financial products do it for five broad reasons:

1. **Risk management and due diligence:** Housing support services can manage risk in two areas: first, the risk associated with repayment fatigue and default, and second, the risk associated with poor construction and the possibility that the housing investment is not as durable as the loan term and value suggest. When housing support services are coupled with the credit, they can become part of the preloan due diligence and post-loan follow-up that financial institutions often use with other loan products (before the loan to ensure the amount meets the housing need and after the loan to determine whether it was used for its intended purpose, reducing loan diversion). Alternatively, when housing support services are declined, the housing microfinance credit becomes a consumer loan whose purpose is housing but whose ultimate use may be difficult to verify.<sup>6</sup>
2. **Marketing, positioning and differentiation:** Housing support services can offer a useful tool to lenders for articulating the housing aspect of their loan and for marketing this as something that makes their offering distinct from that of their competitors — in other words, a competitive advantage.
3. **Social impact:** Like their investors, many lenders are interested in offering products that create a positive social impact aligned with their mission. Within the overall framework of their commercial objectives, they are intent on offering sustainable solutions to their clients. In the CISF's experience, housing support services can provide customers with better housing outcomes — in terms of construction quality and time or cost reduction — than can financing alone.

---

6 Frank Daphnis. “Housing Microfinance: Towards a Definition.”



4. **Customer satisfaction:** Customers of these services may demonstrate more confidence in their investment and feel that the lending institution is concerned about more than just loan repayment.
5. **Ongoing relationship with clients:** Incremental building projects are by their nature long-term, and the relationship need not be confined only to the term of the loan; it can extend across many loans. Housing support services can help the clients visualize their complete housing project and realize it in stages according to their needs and capacity. These services can be powerful tools to maintain an ongoing relationship, with the clients “buying” not just a loan but the dream of completing their home.

The type of nonfinancial service an institution provides may depend on various considerations: the target clients and their average income, local housing standards, competitors’ products, overall institutional structure, strategy, capacity, current risk levels for the institution’s portfolios, and the implications for the institution’s current processes and procedures. The exact suite of housing support services selected by the financial institution is based on the priority the institution places on each consideration. For example, if maximizing social return is valued most, the institution might choose a more robust and intensive set of housing support services. If marketing and differentiation are prioritized, along with adding local partners, exclusive discounts with a material’s provider could work well.

## Global microfinance institution experiments in housing support services<sup>7</sup>

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

**An Indian microfinance institution** illustrated that housing support services were contributing to responsible lending, assisting clients in segmenting desired improvements into

small steps and manageable loan sizes. Research undertaken by the microfinance institution revealed that up to 90 percent of clients were unable to correctly estimate needed loan amounts because they were unable to properly calculate project costs. The microfinance institution also appreciated that the follow-up visits to clients helped to both confirm and encourage appropriate loan use, thereby reducing lending risk.

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

7 Christy Stickney, “Lessons from 11 Partnerships of Habitat for Humanity.” Available online at [habitat.org/cisf](http://habitat.org/cisf).



**90%** of financial institutions

that responded to the CISF's 2014 Housing Microfinance Survey

note that they offer housing support services and other forms of technical assistance.

The 2014 CISF survey of 48 financial institutions offering housing microfinance found that the institutions recognize the value of nonfinancial construction technical assistance in helping households find the right building materials, budget properly and repay in a timely fashion. It also attracted new clients and improved the institutions' competitiveness.<sup>8</sup>

Ninety percent of financial institutions that responded to the survey note that they offer housing support services and other forms of technical assistance. It is important to highlight that 91 percent of the institutions providing construction technical assistance are actively monitoring the use of the loan. Many acknowledged the value of nonfinancial construction technical assistance in helping families find the right building materials, budget properly and repay in a timely fashion. It also can attract new clients and improve the institution's competitiveness.<sup>9</sup>

### VALUE FOR THE CLIENTS

Loans intended for home improvements, or those that are diverted for home use, are frequently disbursed to clients who have little construction experience or knowledge and, seeking to minimize costs, undertake projects without a proper design or qualified oversight. Lacking sufficient preparation to adequately oversee construction work, low-income households — sometimes headed by single mothers — find themselves at the mercy of their hired builders, unable to ensure construction quality or validate pricing. Appropriate housing support services can provide advice, information, illustrations, supervision and monitoring activities to minimize quality deficiencies and save money and time.

Benefits of housing support services to clients include:

- Helping clients clearly define their housing goals and create a plan to achieve them.
- Improving housing quality in terms of security and functionality.
- Reducing construction time and costs.
- Increasing a household's satisfaction with the improvement.
- Increasing a household's capacity to carry out additional progressive improvements to their housing.

Of the benefits listed above, assistance in defining housing goals and creating a plan to achieve them might be one of the most powerful. A clear plan helps clients appropriately sequence construction, make efficient purchases, conserve materials, and make better choices when choosing products because they have an understanding of price and quality. Additionally, having a comprehensive, long-term plan can help clients assess their building priorities.

In the CISF's experience, clients frequently affirm the value of assistance in preparing construction plans, materials lists and budgets. Guidance in selecting materials and laborers and cutting costs was also highly valued. In certain cases, clients said access to qualified technical advice is critical, especially when construction is being overseen by

<sup>8</sup> The full report from the Housing Microfinance Survey can be found at [habitat.org/cisf](http://habitat.org/cisf).

<sup>9</sup> Ibid.

women, who might feel less confident in preparing plans, selecting materials or laborers, or overseeing progress.

The financial institutions responding to the 2014 CISF Housing Microfinance Survey mentioned that the top three nonfinancial services provided to their housing microfinance clients are personal finance education for repaying the loan, construction advice, and budgeting for home improvement. One survey respondent wrote that “Most clients [feel satisfied] with this service, they get the consultation and experiences of successful construction, budget estimation, better material supply sources, other construction technical assistance and also with affordable fees.” Another respondent succinctly noted, “It’s a competitive advantage for the institution and a useful tool for the borrower.”

The value of nonfinancial housing support services can extend beyond the basics of the loan and construction. One respondent noted the benefits and impact to the client and community, including low-cost earthquake-resistant construction, and improved understanding of sanitation and health.

Given the ongoing nature of incremental construction, housing support services can have continuous impact on a household. When clients are properly equipped to manage contractors, gain maintenance skills and knowledge, and better understand components of the house that lead to health outcomes or make their home disaster-resilient, they carry those lessons into future construction projects.

## HOUSING SUPPORT SERVICES ACTIVITIES AND PROVIDERS

Housing support services generally fall into two categories: preconstruction and construction activities. Financial institutions often think of activities in the preconstruction phase as “pre-disbursement due diligence.” These could include budget verification, guidance on materials and labor procurement for building, and assistance with permits and other legal requirements. Construction activities, also considered “post-disbursement” services, are often focused on providing on-site construction advice, usually from a technical professional. Housing support service activities should relate to the local housing market and needs of local communities, uncovered during market research (see Chapter 9).

### PRECONSTRUCTION

Preconstruction activities provide the necessary planning and guidance to ensure affordable and secure outcomes for a client. As noted in the section on common deficiencies in the incremental housing process, clients can improperly prioritize improvements, choose materials that are low-cost but will need to be replaced, and design the core house in a way that frustrates future growth and improvement. Preconstruction activities help clients avoid these common pitfalls and enable a household to prioritize impactful, disaster-resilient construction options and health-related improvements.

### Customer satisfaction from housing support services

In evaluating products the CISF has helped design, evidence suggests that clients place a high value on training and technical services that inform and guide them in planning and carrying out their intended home improvement projects, such as:

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

Clients also appreciated having access to more qualified technical services when needed, and in many cases they are willing to pay for these, provided they are not mandatory.

Prominent examples of preconstruction housing support services include:

- Construction design from professionals.
- Planning the sequence of improvements.
- Budget development.
- Client education on the impacts of housing, construction quality, disaster resilience strategies, etc.
- Visiting prospective loan applicants to review the proposed home improvements.
- Evaluating the technical feasibility of proposed home improvements.
- Preparing cost estimates, lists of required construction materials, and timetables for proposed home improvements.
- Verifying cost estimates with the approved loan amount.
- Verifying the land title (or land security status) of the applicant.
- Construction skills training.
- Negotiating discounts on materials from providers.

One of the most important preconstruction housing support services is sequencing advice, eliminating waste in future upgrading. Analyzing the implications of each building step with clients, including approximate costs, the design, and the time to complete the construction project can have tremendous long-term impact. The long-term vision for these improvements should be seen as a story the institution is helping the household create. It begins with learning about their home's current state and identifying the final goal. The technical expertise could help provide for the steps in between and transfer ownership of that story to the household.

Preconstruction housing support services are powerful tools for risk management. Additionally, they can ensure long-term relationships with clients through preapproved loans for stages after the first improvement. Training in planning improvements, offered as group workshops or individual sessions, can be a low-cost method to support clients in this process. These workshops often cover the following themes: prioritization of the improvements, adequate budgeting, finding lending options, and criteria to choose a good builder and construction materials supplier. Training in these topics can encourage the target households to obtain successive loans to carry out progressive improvements instead of a single large loan they may struggle to repay. (Annex 21 contains a summary of topics covered during these trainings).

Construction trainings are courses given by a construction technician. The objective is to improve the households' knowledge of home improvements. Training also can teach construction workers about new building technologies and show loan officers how to assist their clients. This service can be provided by a financial institution or building material suppliers in coordination with a financial institution.

Printed information brochures, distributed as teaching materials, can provide advice for households who will carry out home improvements. These information sheets can help the client in negotiating, planning and supervising the works undertaken by a foreman or builder.



Negotiating with building material suppliers to obtain good prices, guarantee the quality of the materials, and secure deals on transport and delivery to the households can be an attractive market strategy for both a financial institution and a materials provider. One example that shows promise is having a private-sector partner take responsibility for providing these services. LaFarge, the multinational cement company, has seen an increase in sales by its local distributors when it provides these services to microfinance institution clients. Private sellers of materials, therefore, may have the best incentives to provide households with this advice.

Similarly, there is value in negotiating with the local municipality to speed up building permits and reduce their cost. A financial institution also might lobby the municipality to build community works to help mitigate the risk from natural disasters and improve basic services for the target market.

## CONSTRUCTION

Housing support services in the construction phase are usually characterized by direct consultation with a household but usually do not involve direct construction management on the household's behalf.

Examples of construction or post-loan disbursement activities include:

- Assisting in materials procurement and delivery.
- Providing technical assistance as needed in home improvement design and construction.
- Monitoring and supervising the construction.
- Authorizing any further loan disbursements.
- Providing oversight to ensure appropriate use of the loan funds.

Activities in this phase could be more expensive if heavy staff involvement on site is required. One common activity is construction technical assistance, in which an engineer or architect travels to the home and oversees parts of the construction process. This can be critical for clients who have minimal experience in construction and are doing a major structural home improvement. On-site construction technical assistance can provide the client with recommendations on how to best use resources to carry out home improvements and can identify problems before they become costly.

Housing support services can be a multistep process, from the initial contact with a household to creating a plan and budget and providing oversight. Examples of these processes are illustrated in the Practitioner's Guide to Housing Support Services (Chapter 12).

## PROVIDERS OF HOUSING SUPPORT SERVICES

There is no rule for who should provide the housing support services. Providers should be linked to the chosen activities and be appropriate for the local environment. In some cases, this might demand a technical professional, such as an engineer or architect. In others, it may call for a promotion specialist or a financial professional.

**A unique example of housing support services** comes from EDYFICAR, the largest microfinance institution in Peru. EDYFICAR has a mason referral program through which masons refer clients to the institution for financing to improve their homes and EDYFICAR refers housing microfinance clients to trusted masons. As part of the program, EDYFICAR also offers lectures and training to masons to improve their technical skills.

**It is always good practice** for institutions considering housing support services to look at local laws regarding liability. Typically, financial institutions do not have any civil liability for the construction process; it is the clients themselves who must decide to apply any recommendations. The clients should be ultimately responsible for contracting and following up on the builder carrying out the improvements.

Preconstruction activities have the most diversity of providers. For example, architects and engineers are needed for proper household design. When training clients or providing information, a range of specialists can be employed or linked to the financial institution, including loan officers, community leaders, volunteers or NGO staff members.

Construction advice often demands a staff with technical capacity. Beyond architects and engineers, construction contractors or laborers can be used for training or oversight. However, if the on-site construction monitoring is less technical, specialists can be trained to monitor the progress and materials being used.

Creative thought should be given to the housing support services provider candidates based on the activities and needs of the clients and how they can be financed. New avenues to providing housing support services can further differentiate an institution's brand and provide clients with services that were previously not accessible.

The decision whether to outsource or to have an in-house person handle the preconstruction activities and construction advice requires the institution to consider its structure, strategy and capacity. Some financial institutions hire personnel dedicated to these activities, and others choose to outsource the services.<sup>10</sup>

## Partnering with other market actors

Three classifications of providers have emerged in the CISF's experience:

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

A financial institution providing housing microfinance loans with housing support services should identify key actors within the housing market system to make links that can enhance the product offering, such as materials suppliers, masons or the local municipality.

Partnerships with materials providers are a particularly prominent linkage. These partnerships can help ensure the quality of purchased materials, negotiate discounts for low-income clients, and make delivery of materials more efficient. Furthermore, upon delivery of materials, a construction professional linked to the materials provider can provide on-site technical assistance.

Housing support services that extend beyond the realm of loan officer responsibilities are increasingly being conceived as a social enterprise, whether managed within the microfinance institution or by a separate partner. A case study in the Practitioner's Guide (Chapter 12) highlights the story of CEMEX, a cement provider, and its use of housing support services to grow its market share and revenue. This business-oriented dynamic implies that even costly and technical types of housing support services are demanded and scalable under the right conditions.

---

10 See the case study of EDYFICAR at the end of Chapter 12 for an example of an institution that experimented with both options.

## Microfinance institutions in the Dominican Republic and Peru offer alliances with hardware stores

Home improvement initiatives may find natural allies among construction materials suppliers such as hardware stores. In the Dominican Republic, two microfinance institutions reached favorable negotiations with hardware stores operating in the same areas where they were extending housing microfinance loans. FIME, a member of Vision Fund International, negotiated with hardware stores in the south of the country and also in the province of El Seibo, obtaining discounts for its clients. These stores also assisted in pricing materials for clients, producing an actual budget based on the improvement being proposed, which then supported clients' loan applications. Some of the hardware stores offered free transport of materials to the construction site. Moreover, the hardware stores helped promote FIME's housing microfinance product by displaying marketing materials and banners in strategic locations. ADEMI Bank, a member of ACCION network, negotiated with hardware stores in the communities surrounding Santiago, where they were extending housing microfinance loans. The alliance allowed the bank to directly deposit to hardware stores the portion of clients' loans that were to be used for construction materials. This spared clients from having to handle cash to

buy materials, thereby reducing the risk of robbery or loan diversion. The stores also helped ADEMI market its housing microfinance loans by distributing promotional fliers.

In Peru, EDYFICAR provides loans for clients to improve their housing. It established a partnership with major materials provider Hatun Sol. When EDYFICAR disburses a loan, some customers have the option to send part of the payment directly to Hatun Sol for materials. Once payment is received, a Hatun Sol engineer visits the EDYFICAR client at his or her home during the delivery of construction materials. The engineer can provide training on how to best use the product and give feedback on work accomplished, among other oversight. The relationship has great value for both institutions, as EDYFICAR can provide clients with services from a construction specialist, and Hatun Sol receives client referrals from one of the largest microfinance institutions in the country. Moreover, research from Habitat for Humanity suggests that this program was more influential in construction outcomes than the basic loan officer preconstruction housing support services provided by EDYFICAR.

## FINANCING HOUSING SUPPORT SERVICES

The practices in financing housing support services vary widely. Global experience and research suggest that although there is demand for housing support services, it is very price-sensitive. Experience demonstrates that housing support service costs that are incorporated into the loan will be accepted only if the cost/benefit ratio to clients is favorable.<sup>11</sup>

Sixty-four percent of surveyed financial institutions in the 2014 CISF survey on global housing microfinance practice are responsible for the housing support service costs, and the remaining 36 percent require the borrower to pay for it. In some circumstances, another private sector actor has found benefit in covering some or all of the costs.

The cost recovery mechanism used for these services is a critical decision. Generally, there are three types of financing mechanisms for housing support services used by financial institutions: fee for service, selling services as a percentage of the loan or including their cost in the interest rate, and recovering the cost of services with subsidies.

11 Daphnis, F. and Ferguson, B., eds. "Housing Microfinance: A Guide to Practice." 1st ed. Bloomfield USA: Kumarin Press. 2004.

### Example of housing support services paid with a subsidy

Until IMON, a microfinance institution in Tajikistan, changed its housing support services model in 2015, it reached significant scale in its housing microfinance portfolio while offering on-site construction technical assistance. IMON's model had engineers employed by Habitat for Humanity Tajikistan sit in their branch offices and meet with clients both in the branch and at their homes. IMON paid half of the engineer's salary and travel through lending revenues, while Habitat Tajikistan paid for the rest. It was a mutually beneficial relationship through which IMON could keep the cost of its service down while offering a comprehensive and attractive service to clients.

### FEE FOR SERVICE

Fee for service is the option that provides the most diversity in the delivery of the services. Providers can structure a menu of services or products for a client to choose from to meet his or her needs. In this scenario, the housing support services are completely demand-driven because customers have a choice of the services they will pay for. The advantage of having transparent options and letting the client make the decision is immediate feedback. If a service is not needed or desired, lack of sales will quickly tell the provider a design change is necessary.

However, providers also can make a standardized package of services mandatory. In this scenario, the fee needs to be acceptable to both the client and the institution. One implication to consider when services are mandatory is that lower-income clients may find it costly, potentially driving their business to a different housing microfinance provider.

### INTEREST RATES OR SALES PRICE

One mechanism for marketing the services differently is to include the housing support service cost in the interest rate or sales price as a percentage of the loan. In this scenario, the housing support service represents a value addition inherent to the product rather than a separate activity. Institutions can use this to differentiate a product from those of competitors that do not offer the extra service. During focus groups that have been conducted as part of market research, clients have mentioned their desire to receive technical support and have stated they are willing to pay for it, but they also indicated that they prefer the cost to be added to the interest rate rather than having a separate fee.

The potential disadvantage of this strategy is a product that appears to be more expensive. If the perceived value of the housing support service is not justified by the additional costs, customers will seek cheaper options. Understanding the demand for the service is therefore paramount when the pricing of the service is less explicit or transparent.

### SUBSIDY

Subsidizing housing support services, either by having the financial provider pay for the service or by finding a donor, is an option when social outcomes are the primary goal. This is especially true when the target market is households with very low incomes. It is uncommon for financial self-sufficiency to be achieved when the target market is the very poor or the cost of housing support services is high.

Mechanisms to address this range from fundraising, whereby funds are sought from donors or other socially minded partners to provide housing support services to the poorest customers, to a cross-subsidization model, whereby a fee for service charged to higher-income earners is used to subsidize the costs of providing the same service to low-income consumers.

Partnerships can be crucial in this model, and there may be private-sector actors for whom the benefit to marketing or brand awareness is enough to justify providing these services to households. Financial institutions also can work with NGOs or local government authorities to provide the subsidized activities. In this scenario, the NGO does not have to be concerned with finding clients or funds for clients and can focus on social outcomes, and the financial institutions receive added value to their products at no cost.





## CONCLUSION

Housing support services, or nonfinancial products and services that enable a household to improve their housing on their own, can be a viable component of and complement to housing microfinance products. These services offer value for both financial institutions and their clients and represent a means to both strengthen a housing microfinance portfolio and show a commitment to the community that the financial institution resides within.

There are many choices in what types of housing support services to deliver, who should provide them, partnerships to strengthen the services, and how to finance them. The market research undertaken to inform the product also should provide direction to a financial institution looking to make the right choice for its business strategy and clients. Chapter 12 provides advice on this topic for practitioners seeking to explore housing support services for their own institution.



## Visual guide to common construction issues



Poor roofing material and ventilation; cracks caused by poor mix.



Foundation weakened from erosion; no header or lintel in window.



Sanitation too close to water; poor materials; poor construction leading to a failing wall.

## Chapter 5: Secure tenure and housing microfinance

Housing microfinance is intimately tied to the tenure status of a client's residence. Land tenure has a direct bearing on several important aspects of housing microfinance, including:

- Whether or to what degree a household is willing to invest in home construction, in relation to the perceived level of secure permanence or rights over the land.
- The physical permanence or likelihood that a client will be allowed to remain at a particular location, which directly affects his or her creditworthiness.
- The capacity of a household to use the home as collateral or as some type of informal or psychological guarantee on loans.

In addition to these considerations, socially minded lenders are becoming increasingly convinced that tenure security is intricately linked with improving housing and is a social goal worth pursuing.

Access to land is a critical component of the housing process of low-income people. Rising land costs make legal purchase or use of desirable properties unaffordable to poorer populations, obliging them to seek residence in distant, marginal and often informal neighborhoods where infrastructure and services are lacking and tenure is uncertain. A household's tenure security is fundamental to their economic and social stability, and it enables households to invest in improving their homes without fear of losing their most valuable asset.

### Land issues of the poor

Property rights are essential to a nation's development, contributing to households' economic growth and stability, access to valuable goods and services, and greater civic participation. Access to land and tenure security are central to the well-being of all households, but the poor are often deprived of these basic rights. Approximately 5 million people worldwide suffer from forced evictions every year,<sup>1</sup> resulting in significant physical and social loss for vulnerable populations. According to Hernando de Soto, a world-renowned economist, the lack of formal land rights among the majority of the world's poor is one of the fundamental underpinnings of continued systems of exploitation and poverty in developing countries.

Socially minded lenders are becoming increasingly convinced that tenure security is intricately linked with improving housing and is a social goal worth pursuing.

---

1 UN-HABITAT. "Secure Land Rights for All." 2008.

### Land tenure terms

- **Access to land** refers to the temporary or permanent right to use land for shelter, production or other purposes.
- **Land tenure** refers to the way in which land is held or owned by individuals or groups. It may involve individual or collective ownership, rental agreements, leases, or temporary rights.
- **Land tenure security** is the degree of certainty that an individual's rights to land will not be forcibly or arbitrarily taken from them.
- **Adverse possession** is the occupation of land owned by another with the intention of gaining its possession.
- **Customary land tenure** refers to land owned and occupied based on local customs, frequently defined by indigenous practices, and often involving common or communal ownership rights.
- **Eviction** is the forcible expulsion from one's place of residence.
- **A registered freehold title** secures full legal entitlement over land to its owner, allowing for uses such as construction, sales or rental, or as collateral.

Population growth and economic development are global forces that drive up land costs, making land less affordable for the poor and increasing their obligation to resolve housing needs informally, exposing them to greater risk and potential exploitation. Specifically, urbanization and the migration of rural populations to cities of the developing world place great stress on urban land supplies, resulting in the formation of informal settlements, often on the urban periphery. Marginal neighborhoods frequently arise from land invasions, where public or privately owned property is informally inhabited by low-income dwellers. Informal settlements or slums tend to be characterized by poor infrastructure, a lack of basic services, high-risk locations (vulnerable to natural disasters) and informal constructions. In 2005, almost 1 billion residents of these informal settlements (approximately 934 million people) were estimated to inhabit shelter without secure tenure.<sup>2</sup>

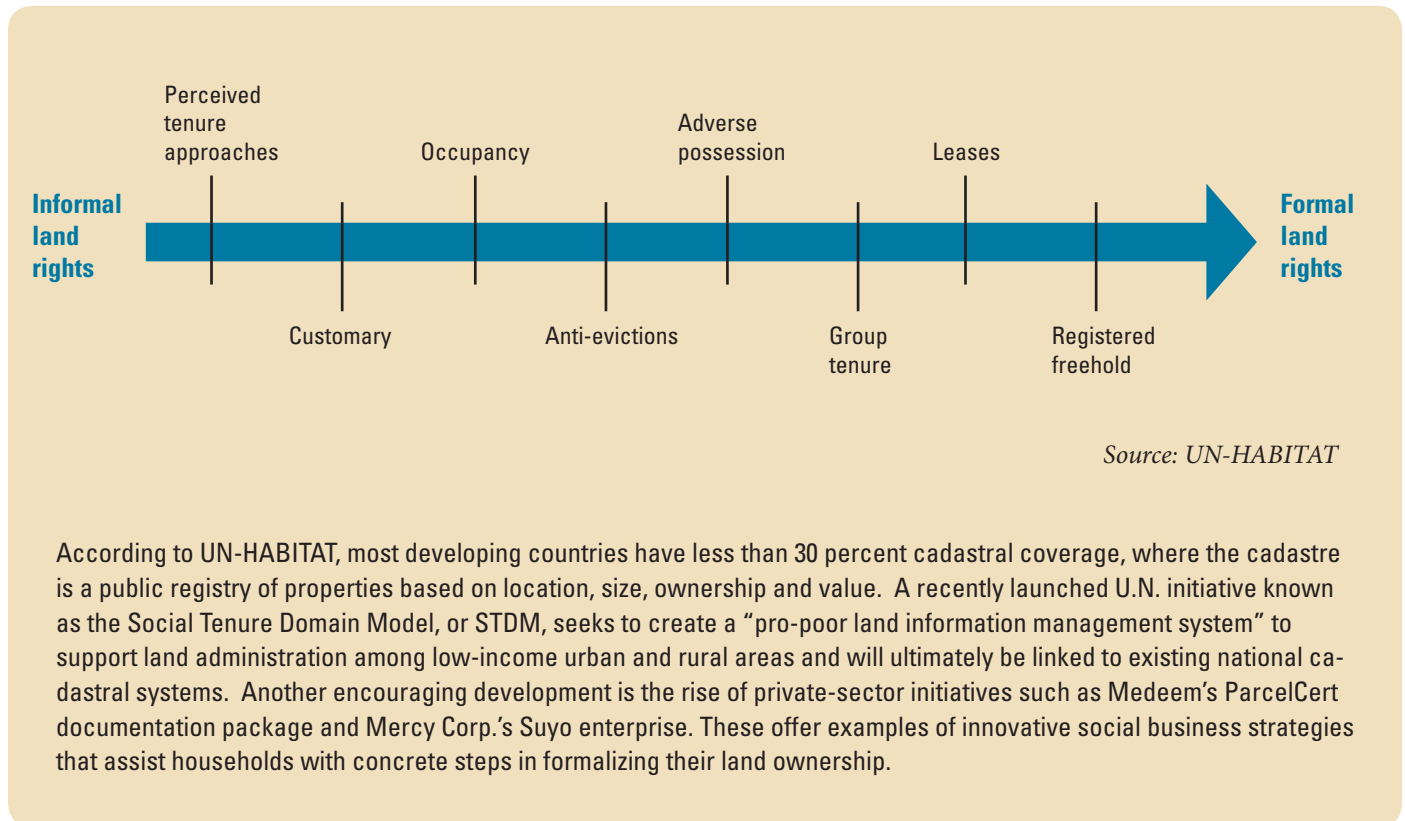
### Classification of tenure types

While the developed world classifies tenure primarily in terms of ownership and rental, tenure status in the developing world tends to fall within a range of options, with formal freehold title on one extreme and highly informal and precarious tenure at the other. This “continuum” of tenure is highly contextual, defined by a mix of local legal regulations regarding land ownership, customary norms and practices, religious norms (in some cases), and recognized informal or extra-legal practices. By assessing the status of a household's residential land, various organizations, including UN-HABITAT, visualize tenure security within a continuum of locally available options. This “Continuum of Tenure Types” is presented in Graphic 1.

---

<sup>2</sup> UN-HABITAT. “Secure Land Rights for All.” 2008.



**GRAPHIC 1: Continuum of tenure types**

According to UN-HABITAT, most developing countries have less than 30 percent cadastral coverage, where the cadastre is a public registry of properties based on location, size, ownership and value. A recently launched U.N. initiative known as the Social Tenure Domain Model, or STDM, seeks to create a “pro-poor land information management system” to support land administration among low-income urban and rural areas and will ultimately be linked to existing national cadastral systems. Another encouraging development is the rise of private-sector initiatives such as Medeem’s ParcelCert documentation package and Mercy Corp.’s Suyo enterprise. These offer examples of innovative social business strategies that assist households with concrete steps in formalizing their land ownership.

As highlighted in the box above, land rights and tenure security are fundamental to a household’s well-being. Increasing land tenure security results in a direct boost in the value of a household’s primary asset, as housing and land account for approximately 60 percent of the assets of low-income households worldwide.<sup>3</sup> When tenure is strengthened, land values rise and households become more inclined to invest in home improvements, thereby increasing the value of their shelter as well.

Low-income households also are likely to have home-based enterprises or to use their home for other income-generating purposes, such as renting rooms.<sup>4</sup> Therefore, improved tenure also may increase a household’s income, as greater security enables households to invest in the productive use of their home.

<sup>3</sup> Center for Urban Development Studies, “Housing Microfinance Initiatives,” Harvard University. May 2000.

<sup>4</sup> For example, an estimated 30 to 60 percent of housing microfinance clients engage in some form of home-based enterprise. See “Housing Microfinance Initiatives” (Ibid.), p. 133.

## ASSESSING ALTERNATIVE FORMS OF TENURE

These opportunities underscore the importance of understanding the various forms of land tenure within a given context and pursuing strategies to legitimize alternative forms of tenure while helping households take incremental steps toward greater formalization. Increasingly, housing microfinance practitioners are seeking to classify households' land tenure status within a continuum of options that present varying degrees of security and opportunities for tenure improvement. Evidence shows that recognizing informal tenure makes housing markets more inclusive for marginalized populations while enabling financial institutions to grow robust housing portfolios.

Because land tenure and property rights are frequently interwoven with cultural norms, informal practices and changing legal frameworks, interpreting their strength is often complex and subject to personal perceptions. Therefore, it is important that institutions supporting housing and land-related improvements be equipped to appropriately assess tenure conditions in order to both understand a household's current reality and, when possible, contribute to strengthening their tenure security.

## TAKING STEPS TO STRENGTHEN TENURE SECURITY

An encouraging sign among housing microfinance lenders is the growing recognition of the need to work in partnership with land documentation authorities and service providers to offer greater value to their housing customers. Emerging private-sector initiatives to improve land access and tenure security for poor households are linking with financial institutions to open distribution channels to targeted groups and offer tailored financing for tenure-related services. These collaborative efforts reveal that market-based land documentation services are typically best undertaken in an incremental fashion, as the steps involved may be lengthy, complex and costly. Private-sector solutions are still rather scattered and small-scale, signaling the importance of supporting greater innovation and learning to foster successful business models that have substantial outreach while producing value for households in need of greater tenure security.

*Chapter 14 in the Practitioner's Guide continues the discussion by offering guidelines for incorporating tenure security considerations into a lending institution's practice generally and housing microfinance portfolio specifically.*

## Chapter 6: Lessons learned in housing microfinance

As the microfinance industry continues to diversify its offerings and applies increased efforts to responding to clients' needs and priorities, housing microfinance is assuming a more strategic place within lending institutions' portfolios. The growing pool of practitioners is evidence of how housing microfinance is becoming an increasingly attractive proposition to institutions seeking to open new business opportunities to retain good clients or achieve greater social returns. But when microfinance practitioners consider entering housing markets, they will likely ask: What factors favor robust, high-performing housing microfinance portfolios? What factors constrain successful housing microfinance? What is required to scale up our housing microfinance portfolios?

This chapter offers some responses to questions financial institutions ask before entering or expanding their housing microfinance operations. These are based on the Center for Innovation in Shelter and Finance's experience over nearly a decade of providing housing microfinance technical assistance to institutions.<sup>1</sup> These lessons are grouped into two categories: opportunities and constraints to housing microfinance, and taking housing microfinance products to scale.

### OPPORTUNITIES AND CONSTRAINTS

Housing microfinance tends to thrive in contexts where microfinance is generally prospering, but certain factors that are particular to housing microfinance lending, organized into the following five categories, should be considered.

#### 1. Land and location

- A favorable condition for housing microfinance is a setting in which land tenure is secure and households feel confident of their property rights, even if they are not formally registered and titled. These factors feed vibrant housing markets and stimulate investment in improving homes, infrastructure and public services. (More detailed discussion of this topic is included in Chapter 5 of this handbook).

Contexts plagued by insecure tenure, land repossessions and government-sponsored relocations are less suitable for housing microfinance. Households are notably more reluctant to invest in tenuous housing circumstances, and lending risks are also heightened by clients' unreliable residence. Similarly, marginalized neighborhoods lacking basic infrastructure (e.g., roads and public services)

The growing pool of practitioners is evidence of how **housing microfinance is becoming an increasingly attractive proposition** to institutions seeking to open new business opportunities to retain good clients or achieve greater social returns.

---

<sup>1</sup> For the original case studies that this chapter is based on, see "Housing Microfinance Case Studies of 11 Habitat Partnerships." For a detailed discussion of best practices, see "Lessons from 11 Partnerships of Habitat for Humanity." Both are available at [habitat.org/cisf](http://habitat.org/cisf).

Global urbanization presents a vast opportunity for housing microfinance, because urban areas experiencing significant growth and migration are often hosts to vibrant housing markets.

tend to suffer from lower investment in private housing, as residents are forced to divert precious resources to purchase costly services from private suppliers, and property values often stagnate.

- Zones at high risk of natural disasters (e.g., hurricanes, earthquakes, landslides, flooding) are also difficult contexts for housing microfinance, given the associated lending risks. Nevertheless, the effects of natural disasters often present unique opportunities for housing microfinance, particularly in areas where people are settling after a disaster.

When housing microfinance is offered in contexts that are particularly vulnerable to natural disasters, financial institutions must give priority to pursuing qualified technical guidance and doing a feasibility study of the geographic area to approve of (or disqualify) specific zones for housing finance, based on the perceived level of risk.

## 2. Sociopolitical factors

Global urbanization presents a vast opportunity for housing microfinance, because urban areas experiencing significant growth and migration are often hosts to vibrant housing markets where demand for financing far outstrips supply.

Another setting favoring housing microfinance is areas facing reconstruction after wars have caused significant destruction to physical property.

Notably, areas that are facing substantial negative migration (e.g., war zones, or Mexican towns near the U.S. border) or that are highly populated by temporary residents (e.g., refugee communities) are considered less appropriate for housing microfinance. Although these contexts present definite challenges for housing microfinance lending, specific product design features may be employed to partially mitigate obstacles.

## 3. Economic environments

Contexts experiencing stable economic growth and reasonable rates of inflation — and where investment is considered relatively secure — are generally considered favorable for housing microfinance.

High-risk markets, in which capital is constrained and costly, are difficult contexts for growing housing microfinance, as loan capital can become extremely expensive and the price increase of construction materials can outpace the clients' borrowing capabilities.

A related challenge is the noted effect of struggling economies on clients' income, which compromises their borrowing capacity. In this case, the housing microfinance product design needs to be well-targeted, financing only small, incremental improvements and keeping the cost of housing support services low. In cases where the clients of microfinance institutions have the ability to plan and budget for home improvements, the inclusion of appropriate housing support services seems to be essential for properly determining needed loan amounts.



#### 4. Microfinance markets and regulation

The state of local microfinance markets also can have a significant impact on the performance of housing microfinance portfolios. Where microfinance institutions are relatively mature, the banking business is more sophisticated and product diversification is commonplace, housing microfinance appears to be growing and diversifying in its offerings.

In countries where banking regulators have recognized housing microfinance as a distinct product, this recognition will likely serve to encourage product differentiation among lenders. Housing microfinance product differentiation, in turn, enables microfinance institutions to direct specialized services to clients, undertake well-informed loan analysis and verify loan usage. It also allows the microfinance institution to sell housing microfinance as a distinct product to specific target markets. Furthermore, the product's segregation within a microfinance institution's portfolio management system facilitates housing microfinance performance assessment.

Where microfinance markets (or credit markets in general) are saturated or burdened by overindebtedness, predatory lending and other irresponsible lending practices, housing microfinance faces challenging prospects. Because housing microfinance loans are frequently repaid with existing income streams, when these are already overcommitted, repayments are likely to suffer. These types of environments signal the need for well-designed and highly targeted housing microfinance products.

In cases where banking regulators have yet to recognize housing microfinance as a distinct product, regulated institutions find less reason to differentiate housing microfinance from existing products. Consequently, housing microfinance loans are often found embedded in the portfolios of consumer loans, fixed-asset loans, or more broadly classified housing loans (possibly including mortgages). This presents a variety of challenges. For example, classifying housing microfinance as a consumer loan may result in excessive provisioning requirements, given consumer lending's higher risk profile. In certain cases where housing microfinance is included within mortgage portfolios, specific regulations such as legal land title requirements or overly restrictive interest rate caps may stunt its potential. Furthermore, overly regulated microfinance markets may impose restrictions that constrain housing microfinance's success. Major shifts in microfinance regulatory bodies and their leadership can dampen microfinance institutions' readiness to engage in further innovation and diversification.

#### 5. Government housing programs

Government programs targeting improved housing also may be perceived as opportunities or constraints to housing microfinance portfolios. Microfinance institutions have sometimes found that government-sponsored programs stimulate housing markets by helping households acquire land or build a portion of their homes. Consequently, households who have benefited frequently seek financing to continue with or complete their home-building aspirations.

In some cases, an actual partnership may form between government entities and local microfinance institutions, whereby the latter offers financing to increase access to public services. Unfortunately, in certain contexts, government housing programs — particularly subsidy-based initiatives — are perceived as having a negative effect on the housing finance markets of low-income sectors.

## TAKING HOUSING MICROFINANCE PRODUCTS TO SCALE: INSTITUTIONAL COMMITMENT AND CAPACITY

Some lessons on scaling up housing microfinance products have emerged out of the work of the Center for Innovation in Shelter and Finance.

### 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 accommodates housing microfinance terms, which are generally longer than working capital loans, in some cases extending three to five years.

In the 2014 CISF survey of financial institutions with housing microfinance portfolios, the main issue preventing them from scaling their products was lack of capital. This finding demonstrates the need for identifying funding sources, such as the MicroBuild Fund, an investment fund that provides loans to microfinance institutions for housing microfinance products. A good portion of financial institutions have also mentioned the unavailability of land title as a challenge facing housing microfinance expansion. (Chapter 5 covers this topic in more depth).

### 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 seem to be better poised to scale up housing products through their existing operational structure. 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 seem to be better equipped to fund housing microfinance portfolio growth within their existing range of resources.
- **Housing's "fit" within the microfinance institution's mission:** Microfinance institutions that embrace broad social missions and actively seek to pursue these are most eager to engage in housing microfinance and integrate housing as a core product. These institutions' mandates tend to incorporate a more extensive target group than microentrepreneurs and their households, and support engagement in a wide range of financial products and services.

- **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. As microfinance institutions venture further into housing finance, they often seek greater diversification, whether in response to business opportunities or clients' demands. This leads to the development of specialized housing products for distinct market segments that are not being served, or products uniquely tailored to specific types of improvements.

In addition to microfinance institution characteristics that facilitate scale, the following specific practices support housing microfinance growth:

- **High level of appropriation of housing microfinance throughout the organization:** The microfinance institutions with institutional commitment to the new product at all levels, from the board to the loan officers, are keenest to successfully continue expanding their housing microfinance products and services. The social outcomes resulting from housing loans and the increased contact with clients that is entailed by housing support services can contribute 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. Important aspects to be included in the plan are:
  - a) Criteria for determining and prioritizing branches for housing microfinance product expansion.
  - b) Staff training in housing microfinance product delivery and support.
  - 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 members or to entire branches.
- **Extending housing microfinance to new client groups:** Openness to new market segments allows for further diversification of portfolios. Clearly, more competitive lending environments will push financial institutions to venture further in this direction.
- **Financial reporting tracks housing microfinance performance:** 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.

Microfinance institutions that embrace broad social missions and actively seek to pursue these are most eager to engage in housing microfinance and integrate housing as a core product.





# 2

## A PRACTITIONER'S GUIDE TO HOUSING MICROFINANCE



# Table of contents

Index of tables .....	.67
Index of figures .....	.67
 <b>PART II: A PRACTITIONER'S GUIDE TO HOUSING MICROFINANCE</b>	
Introduction to the practitioner's guide .....	.69
Chapter 7. Institutional assessment (stage 1) .....	.74
Chapter 8. Preparation for the product development process (stage 2) .....	.81
Chapter 9. Market research (stage 3) .....	.89
Chapter 10. Prototype design (stage 4) .....	.102
Chapter 11. Pilot plan and implementation (stage 5) .....	.114
Chapter 12. Housing support services design .....	.120
Chapter 13. Monitoring and evaluation of housing microfinance products .....	.136
Chapter 14. Secure tenure guidelines for practitioners .....	.148
 <b>ANNEXES .....</b>	 <b>.163</b>

# HOUSING MICROFINANCE PRODUCT DEVELOPMENT

A HANDBOOK  **Part 2**

3rd Edition | 2015

## INDEX OF TABLES

Table 7: Elements for planning product development training .....	86
Table 8: Stylized market research intensity guide .....	90
Table 9: Characteristics of high- and low-intensity market research .....	91
Table 10: Pros and cons of in-house and contracted market research .....	92
Table 11: Eight P's of product design .....	106
Table 12: Example of a housing support services product .....	125
Table 13: Example of housing microfinance and housing support services division of labor ..	130
Table 14: Alternative documents for assessing land tenure security .....	149
Table 15: Alternative guarantees for housing microfinance .....	153

## INDEX OF FIGURES

Figure 9: The five stages of housing microfinance product development .....	71
Figure 10: Financial institutional assessment scorecard example .....	80
Figure 11: Market research process flow .....	92
Figure 12: Triangulation of information .....	99
Figure 13: The healthy tension .....	103
Figure 14: Negotiable and non-negotiable aspects .....	103
Figure 15: Nonfinancial and financial services as one product .....	103
Figure 16: M&E process flow .....	137
Figure 17: Understanding the linkages between planning and monitoring and evaluation .....	139
Figure 18: Evaluation process flow .....	144
Figure 19: Informal land tenure proxies, percentage of responding financial service providers .....	151
Figure 20: Nontitle documents used as loan guarantees, percentage of responding financial service providers .....	154
Figure 21: Ownership of dwellings .....	160
Figure 22: Documents that support homeownership of clients .....	161
Figure 23: Example of tracking information on land tenure requirements .....	162
Figure 24: Loan monitoring form with secure tenure questions .....	162







## Introduction to the practitioner's guide

The steady rise in housing microfinance providers and portfolios over the past decade heralds the vast, unmet demand for shelter finance among the poor. But as housing institutions attempt to add products that intentionally address this demand, many are asking what key steps and considerations are helpful in designing and launching a successful housing microfinance product.

Habitat for Humanity International, through its Center for Innovation in Shelter and Finance, or CISE, supports lending institutions interested in entering the housing microfinance sector by providing technical assistance in the design of housing microfinance products and services. This is done through a systematic approach that emphasizes the financial and housing needs, preferences and capacities of low-income borrowers and the capacity of the financial institution to design, pilot and scale up housing microfinance products.

As of 2014, the center has helped more than 48 financial institutions enter the housing microfinance market for the first time by assisting with market research, product design, pilot planning and implementation, product review and refinement, and expansion plans. It also has advised institutions with an existing housing portfolio on how to expand their outreach and refine their current products. The center has trained over 500 practitioners in the product development methodology it uses to design, pilot and scale up housing microfinance products and services.

### ORGANIZATION OF THE PRACTITIONER'S GUIDE

The following chapters constitute the practitioner's guide, the second part of the "Handbook for Housing Microfinance Product Development." The practitioner's guide distills the center's collective experience in housing microfinance product development and provides guidance to the staff members and consultants who will be part of the product design team. It is intended to aid practitioners by:

- Describing a structured process for developing housing microfinance products and services that attempts to fill the gap between the existing supply and demand.
- Providing field-tested tools to be used by staff members and consultants who are implementing this process.
- Sharing important lessons for each stage of the process.

As of 2014, the Center for Innovation in Shelter and Finance has helped more than 48 financial institutions enter the housing microfinance market for the first time.



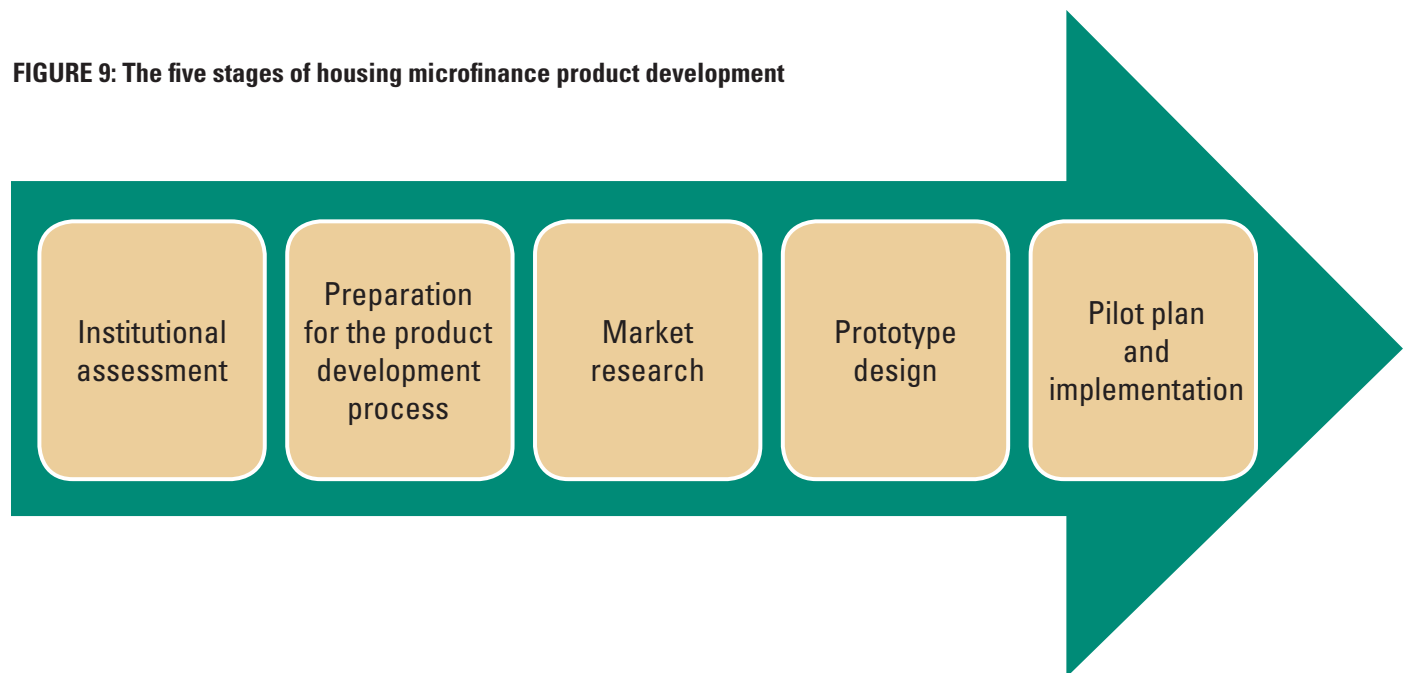
Chapters 7-11 each cover one of the five stages of product development employed by the CISF. Included in these chapters are detailed instructions on how to assess an institution's readiness and prepare for product development, conduct the market research, design the prototype, and pilot test it in the field. Tools and templates for each of these steps are referenced throughout and included as annexes to the practitioner's guide. Chapter 12 pairs with the housing support services chapter in the first part of the handbook and offers practical advice on developing nonfinancial services to accompany the housing microfinance product, allowing low-income households to build their homes better and faster. Chapter 13 provides instructions on monitoring and evaluating the housing microfinance pilot test and eventual product expansion. Finally, Chapter 14 accompanies Chapter 5 and offers guidelines for incorporating secure tenure considerations into the housing microfinance product.

### OVERVIEW OF HOUSING MICROFINANCE PRODUCT DEVELOPMENT

The product development process employed by the Center for Innovation in Shelter and Finance is a systematic, step-by-step approach to developing new or refining existing products and is originally based on MicroSave's approach to product development, subsequently adapted to housing products and enhanced over the course of the past seven years of the center's work. With this approach, the interested institution begins by assessing its commitment and preparedness for adding a housing microfinance product to its portfolio. This is followed by analysis of secondary data and the development of a qualitative market research plan that uses a variety of research techniques, including

focus group discussions and individual interviews with potential clients and other relevant parties. The research findings allow the product development team to design a product concept that is refined through feedback from stakeholders and costing analysis, resulting in a prototype. To provide a final check of the marketability of the prototype before pilot testing, the prototype is subjected to quantitative or qualitative validation.

**FIGURE 9: The five stages of housing microfinance product development**



**Stage 1: Institutional assessment (Chapter 7)**

This stage helps an institution systematically assess its readiness and commitment to undertaking housing microfinance product development.

**Stage 2: Preparation for the product development process (Chapter 8)**

This stage helps an institution prepare the needed resources to engage in market research, product design, pilot testing and wide-scale rollout.

**Stage 3: Market research (Chapter 9)**

This stage involves defining the institution's target group for this product and determining their current needs, preferences and capacities to improve their homes, from their perspective. It also includes identifying other suppliers of products and services to the low-income housing sector.

**Stage 4: Prototype design (Chapter 10)**

At this stage, the institution seeks to define attractive and competitive housing microfinance products and services, backed by quantitative projections of loan volumes, associated costs, revenues and the break-even period. To provide a final check of the levels of acceptance of the prototype and its marketability before pilot testing, the prototype is subjected to quantitative and qualitative validation.

This handbook is a work in progress. We welcome your comments and suggestions for enhancing it. Please direct your correspondence to [global-cisf@habitat.org](mailto:global-cisf@habitat.org).

### Stage 5: Pilot plan and implementation (Chapter 11)

The pilot stage involves the preparation for and implementation of the pilot test of the prototype. Before testing, the institution assesses its capacity for offering the product and services, and determines how best to adapt systems, processes and procedures and equip the staff. This is followed by testing clients' response to the prototype, which is offered within a specific zone for a set period. Performance is monitored closely, and observations inform adaptations and further testing. This stage concludes with an evaluation and appraisal of the adjustments needed to scale up the housing microfinance product. Please see Chapter 12 for further explanation of the monitoring and evaluation process.

Microfinance institutions venturing into housing microfinance are encouraged to consider the five stages of product development detailed in the following chapters. As housing microfinance continues to rise as an attractive option for microfinance institutions seeking business opportunities and social returns, evidence suggests that well-structured product development is a wise investment. Notably, the intricacies of housing microfinance are more nuanced than many financial institutions initially assume.

The experience of the center since its founding in 2009 suggests that intentional product development is likely to have contributed to more robust products for the institutions it has advised, resulting in strong performance (loan uptake) and increased client satisfaction and retention. Moreover, it has equipped institutions to successfully design niche products, reaching new markets or financing specific products. Ultimately, institutions would do well to transform product development into a continuous cycle of improvement, supporting expansion of housing microfinance to new areas and keeping their products and services relevant to the changing housing needs and priorities of their clients.<sup>1</sup>

---

<sup>1</sup> Detailed discussion of product development success factors can be found in Chapter 3 and in "Housing Microfinance Product Development: Key Factors for Success," available at [habitat.org/cisf](http://habitat.org/cisf).





Institutional buy-in, especially of the top management, is crucial to ensuring continued support for successfully developing, piloting and rolling out the product.

## Chapter 7: Institutional assessment (Stage 1)

Engaging in housing microfinance for low-income populations requires significant institutional commitment and preparedness from the outset. Commitment by critical staff members is necessary for ensuring success and will require the time and energy of various people at different levels of the organization to develop the new product. During this first stage of the product development cycle, managers and other staff members will be asked to analyze the institution's readiness to undertake market research and product design. Institutional buy-in, especially of the top management, is crucial to ensuring continued support for successfully developing, piloting and rolling out the product.

In this section, you will:

- Evaluate your financial institution's level of commitment and capacity to add housing microfinance products and services to its portfolio.

### Key questions for this stage

1. Why does your institution want to enter into housing or scale up an existing product?
2. Why carry out housing microfinance market research and product design?
3. What resources are needed — and available — for the project, including institutional commitment and human, financial and technological resources? Is your institution ready to commit the required resources?
4. How will the housing microfinance product and services align with the current and future business plan of your institution?
5. Is your institution flexible enough to deal with lack of title and the ambiguity of land tenure present in low-income housing?

Your institution should use the following minimum criteria to evaluate readiness:

- Interest and willingness to expand into housing products.
- Senior management support.
- Transparency and good governance.
- Sound financial and operational performance.
- Available resources, funding and otherwise, for pilot implementation and scale up.
- Presence of qualified and committed staff members to operationalize the product.
- Ability of your management information system to track product performance.
- Commitment to social performance<sup>1</sup>.

See Annex 1 for a detailed list of criteria that can be used to gauge an institution's readiness for product development.

The steps on the following pages will elaborate the process for evaluating these criteria for your institution.

## STEP 1. Evaluate your institution's motivations for developing a housing microfinance product

As with any new financial product, the most important consideration is ensuring that it is aligned to your institutional strategy. Managers and staff members should discuss in depth the principal motivations for adding housing microfinance to the portfolio.

The two most common motivations given by institutions are:

- To develop client-focused, successful products. A compelling motivation among lending institutions entering housing microfinance is ensuring that their new product responds to the needs and interests of their target population.
- To meet social objectives. Socially oriented institutions are commonly attracted to housing microfinance because of the potential social impact of housing loans.

Other less frequent answers provided by financial institutions for entering the housing microfinance market include:

- Responsible lending. Clients already divert some of the traditional microfinance products (such as productive loans and consumer loans) into housing. Therefore, some financial institutions feel that targeted products will ensure loans are adapted to their clients' needs and preferences, and that the approval process takes into consideration the loan's real use.

### The importance of buy-in from the board of directors

The case of IMON International in Tajikistan highlights a key lesson about organizational buy-in, namely: When an organization invests its own capital in a pilot project, it creates a strong incentive to make the product work. When IMON International's senior management started discussing housing microfinance in 2008, the board was initially reluctant to take on the associated risk. While IMON financed the entire cost of the pilot capital (US\$1.2 million), the board introduced a cap on consumer loans — including housing finance — so that they would not exceed 20 percent of the total portfolio. As it became clear that the pilot would be successful, the board increased the portfolio cap to 30 percent in 2011, enabling the microfinance institution to expand its housing portfolio. Today, the board has fully embraced housing microfinance as a core loan product. With the new product firmly embedded in the business plan, IMON is prepared to offer bigger loans over longer terms, including mortgages.

---

<sup>1</sup> Though this is not essential to the success of the future housing microfinance product per se, the commitment your institution has to social performance should be carefully considered. An institution with little commitment to social performance could still roll out a profitable housing microfinance product for low-income families, but its commitment to a double bottom line is a proxy for its willingness to include nonfinancial housing support services or maintain flexibility around requirements for accessing its financial products.

- Significant market opportunity. The traditional housing products portfolio is particularly nascent in many low-income countries, reaching a small percentage of the population (mortgage finance as a share of GDP is only 2 percent in Brazil, 3 percent in Indonesia and 8.6 percent in Bolivia. Only 11 percent of the population in Kenya can afford a mortgage product).
- Rewards for existing clients. These products can reward clients who have a good repayment history or help institutions retain current clients in an increasingly competitive market.

### Motivations for housing microfinance

At the beginning of the housing microfinance product development process, a question was posed to a financial institution in Kenya that the CISF was advising: Why are you interested in adding a housing microfinance product? The institution answered that it had identified a housing product as one of the products to be introduced within its five-year strategic plan. The institution also had been giving business loans to its clients for more than three decades, but there was clear evidence of some enterprise loans being diverted to improve or build houses. “This pointed to a market opportunity for a housing financing product for our microentrepreneur clients,” as one of the institution’s personnel put it. Other clients have used their income from their business to improve or build their houses gradually. The narrative of the institution is that home improvement is an indirect success story of enterprise lending. Ultimately, a housing finance product enables the institution to meet this need directly and assess the financing impact more accurately.

## STEP 2. Establish whether there is an institutional commitment to the product development process

A focused, intensive product design process is the most effective and efficient investment an organization can make when adding a new product to its portfolio. However, this process can seem complex, time-consuming and resource-intensive for organizations that are not convinced of the need to formally develop the product.

Questions that should be asked and answered by managers and staff members during this step include:

1. What is the position of the board of directors regarding the development of the housing microfinance product?
2. Is the institution introducing, or has it recently introduced, another product?



3. Is the institution facing a major structural change such as becoming a regulated financial institution?
4. Is there enough commitment from relevant managers to the process? Can your institution dedicate the resources needed for product design?
5. What percentage of the overall portfolio does your institution anticipate that the product will achieve once it reaches scale?
6. Is there a committed and capable staff that can undertake product development? Is there a product champion?
7. What plans does the institution have to support the product development process, particularly in training, hiring staff and adopting technology?

The questions above should help the institution understand if the necessary support exists for the whole process of market research, product design and pilot testing. It is also important to identify if this is the right time to embark on such a project or if other commitments exist that might reduce available capacity for this project. It is important during this step to identify the key actors in your organization who must support and commit to the process for it to move forward without major obstacles. Negotiate with them and get their approval.

### **STEP 3. Determine whether your institution has the necessary capacities and resources to develop the product and conduct a pilot test**

Your institution must be able to draw on the following capacities to successfully develop a housing microfinance product:<sup>2</sup>

1. Strong financial and operational performance based on clear information from financial statements, portfolio reports and the institution's management information system about the portfolio at risk, or PAR; PAR provisioning; and profitability. There are minimum financial and operational criteria that are relevant for an institution to evaluate before undertaking the design of housing microfinance products.<sup>3</sup>
2. Transparency and good governance that supports innovative, client-oriented products with effective internal communications systems at all levels of the institution.
3. Staff members with available time, willingness and enough experience to work with the new product and services. Moreover, the institution must have enough resources available to train the team in the new product and services.
4. Sufficient funding for pilot implementation and scaling up. It is essential from the outset that your institution allocates sufficient capital to fund the loan product and to pilot and eventually expand it.

#### **Lessons from the field**

To face the challenges of introducing new products and services, your institution must have a solid base for the products and services it already offers. Additionally, it is not advisable for your organization to start a project if it is currently going through a major organizational transformation (for example, going from a nonregulated to a regulated institution, beginning a large board overhaul, etc.) or changing existing products to improve its portfolio's financial performance.

One of the institutions the CISF advised in Africa was going through a major structural change (becoming a savings and loans company) at the time it decided to restructure its housing microfinance product. The product design took longer than expected because of various factors: the staff was not available, the focus was not on this particular product, and the financial resources had to be invested in setting up all the branch offices for the institutional transformation. As a result, the uptake of loans has been very low, and the institution is able to disburse loans only as capital becomes available.

---

2 Wright, Graham A.N., Monica Brand, Zan Northrip, Monique Cohen, Michael McCord, Brigit Helms, "Looking Before You Leap: Key Questions That Should Precede Starting New Product Development." *Journal of Microfinance* 4(1): 1-15. 2002.

3 Frametool is a tool to evaluate your institution's level of financial sustainability. It was developed by the Small Enterprise Education and Promotion network and is available in English and Spanish at [seepnetwork.org](http://seepnetwork.org).

### The importance of timely capital

The importance of ensuring timely capital for piloting a housing microfinance product was made abundantly clear for Growing Opportunity Finance in India. Lack of capital resulted in GO making fewer housing loans than planned. Although 1,300 clients initially went through the training required before loan disbursement, GO disbursed only 200 loans. In the absence of capital, GO focused instead on making housing loans for small improvements such as toilet installation. Although GO is dedicated to building the portfolio with the housing microfinance product — and the board has developed a strategy for housing microfinance moving forward — timely capital was a major hurdle for moving beyond the first 200 loans.

5. Having the capacity to market and monitor your products and services and to evaluate the external context (and your strengths and weaknesses within that context). The institution must have a basic system to periodically measure levels of client satisfaction and compare its performance with other institutions offering similar products and services.

### Lessons from the field

Among other resources, the product development process needs a multidisciplinary team with sufficient time available to ensure that it is implemented according to the project's schedule. The team must include people from different levels of the organizational structure.

The project needs capital funds to carry out a pilot test of the new microfinance product and housing support services. Before starting a project of this kind, your institution must establish the availability of these resources. Few funders are willing to contribute funds for a pilot, and it might be necessary to use your own funds to pilot the product before bringing funders on board.

6. Internal systems that generate precise and relevant information for decision-making. This information must be gathered in a timely fashion and be user-friendly. The systems must be flexible enough to incorporate new products.
7. A commitment to social performance as evidenced by whether the institution measures other indicators besides financial and operational considerations.

### Questions that should be asked and answered by managers and staff members during this step include:

- a. What is the current performance of other products the institution is offering?
- b. What is the capacity of the existing staff (time, knowledge, willingness)?
- c. Does the institution have adequate and sufficient capital for the pilot and subsequent rollout of the product?
- d. What are the processes and procedures for other products the institution is offering?
- e. What is the marketing and promotional strategy the institution currently uses for other products?
- f. Is the management information system and internal system flexible enough to accommodate the new housing microfinance product?

## The importance of institutional assessment

The microfinance institutions examined in a series of case studies by the CISF highlighted that the institutional assessment stage proved to be critical in confirming the readiness of seven of the microfinance institutions to undertake housing microfinance. It also paved the way for them to engage in well-structured product development. Analysis suggests that microfinance institutions that are both aware of and willing to assign the staff and capital resources that this process entails are well-positioned for success.

The importance of this stage in determining institutional readiness to undertake housing microfinance was further highlighted by two examples. In a case from Brazil in which the housing microfinance product was unsuccessful, the microfinance institution had not undertaken an institutional assessment before launching the product. Without the assessment, the level of institutional willingness to take on needed internal practices to support the new product was uncertain. As the product launch neared, the staff discovered that the institution's policies restricted assigning specific targets and incentives for housing microfinance, thereby compromising the product's growth.

As mentioned earlier, the microfinance institution in India did not undertake an institutional assessment before embarking on product development, and thus failed to evaluate how important transitions in leadership and other institutional challenges might later make it difficult to allocate resources to the housing microfinance product's development. Not surprisingly, pilot project outputs reached only 34 percent of projected goals.

*Source: "Lessons from 11 Partnerships of Habitat for Humanity," available at [habitat.org/cisf](http://habitat.org/cisf).*

### List of annexes for Stage 1: Institutional Evaluation

- Annex 1: Institutional Assessment Criteria
- The CISF also has developed a financial institution self-assessment Excel scorecard that can help you evaluate your institution's readiness for embarking on the product development process. Portions of the scorecard are below. For a copy, email [global-cisf@habitat.org](mailto:global-cisf@habitat.org).

FIGURE 10: Financial institution assessment scorecard example

AREAS OF ASSESSMENT	CRITERIA	INDICATOR			SCORE
		HIGH (3)	MEDIUM (2)	LOW (1)	
Interest and willingness to expand into housing products	Product diversification	Currently have five or more financial products	Currently have at least three to five financial products	Currently have two or fewer financial products	3
	Women inclusion	At least 80% of the clients are women	At least 60% of the clients are women	At least 40% of the clients are women	3
	Mission compatible with house products	Mission mentions housing as a priority	Mission mentions improved quality of life as a priority	The board is open to changing the mission	3
	Product development capacity	Currently has product development staff	Planning to hire product development staff, but can assign people for product development	Planning to out-source product development, and have very limited capacity to assign internal resources for product development	3
Transparency and good governance	Clear vision and mission statement	Reviewed annually by the board to assure operational compliance	Reviewed every three years by the board to assure operational compliance	Reviewed every five years by the board to assure operational compliance	3
	Diversity of membership on the board	At least 50% of the board members are women	At least 35% of the board members are women	At least 20% of the board members are women	3
	Clear and functional leadership at	Organizational chart and job descriptions	Organizational chart and job descriptions	Organizational chart and job descriptions	



## Chapter 8: Preparation for the product development process (Stage 2)

The previous chapter described the process for evaluating an institution's level of commitment and capacity to add housing microfinance products and services to its portfolio. By now the institution's management should have determined its reasons for entering into housing and committed resources to developing and testing a viable prototype. In this stage, the product development team will be asked to prepare for market research, product development and pilot testing. Preparation for housing microfinance product development is crucial for success and maximizes the use of human capital and financial and technical resources. As all good project managers know, the preparation is as important as the execution.

In this section, you will:

- Put together a multidisciplinary product development team (composed of internal staff members and external consultants, based on institutional capacities) and assign a project leader.
- Define the target population or market for the housing microfinance product.
- Determine the locations for the market research and pilot tests.
- Decide on the type and intensity of market research required for designing the product and any accompanying housing support services.
- Train a multidisciplinary team in the product development methodology.
- Develop the work plan and assign the necessary resources for designing the product and services.

Preparation for housing microfinance product development is crucial for success and maximizes the use of human capital and financial and technical resources.

### Key questions for this stage

1. What segment of the population would your institution like to reach through the housing microfinance product and services?
2. What is the income level of this population?
3. Does your institution wish to offer the housing microfinance product to existing clients, nonclients or both?
4. Where will your institution conduct the market research and pilot test the prototype?
5. If your institution operates within rural and urban contexts, should you launch a pilot in both rural and urban environments concurrently?
6. Who in the organization should be part of the product development team? Who will lead this group?
7. What competencies do the individuals in the product development team need? What training will they require?
8. What techniques will be used for the market research?
9. Should other organizations or consultants be involved? What will their responsibilities be?

Following are some crucial steps to prepare for the product development process.

### STEP 1. Define the objective of the product development process

To establish the objective, make a brief analysis of the market segments you currently serve, your clients' current or potential unmet needs, existing housing microfinance products and services in the market, and the results your institution hopes to achieve.

When defining your objective, determine:

- The population segment you aim to serve with the product when it is scaled up. Be as specific as possible when describing this segment and include all relevant socio-economic aspects.
- The communities where the population you wish to reach through this product are highly represented.

### **Client targeting**

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

### **Objective example from Kenya**

The overall objective is to understand the needs, preferences and capacities of low-income households — earning between US\$2 and US\$5 per day — in community 1, community 2 and community 3. The research and product will target clients and nonclients who own or have access to a piece of land or a house that needs to be incrementally built or improved.

### **Objective example from El Salvador**

Design housing microfinance products and services that respond to the needs, capacities and preferences of low-income households (between two to five minimum wages) living in peri-urban settlements with a high concentration of housing that needs improvement in El Salvador.

## **STEP 2. Form a team and name a leader**

Establish a multidisciplinary product development team whose members — both internal staff members and external consultants — have experience in marketing, human resources, finance, management information systems, risk management, legal matters, operations and product development. It is important to include in this team field staff members such as loan officers, loan officer supervisors and branch managers. They bring a lot of the practical experience required for adequate design of the product and services.

In addition, consider including people who have knowledge of and experience with housing support services. From the start, establish the percentage of time each person will dedicate to the project.

Selecting the leader of the team — and the product development process — is crucial. For that, determine:

- The capacities required.
- The time commitment.
- The willingness to participate among prospective leaders.
- Areas in which the leader will require support from other team members.
- The influence the person has at the senior management level, as executive-level support will be essential to success.

### **Example team leader description**

Juana Sosa, the head of operations, will be the project leader and champion; she will be dedicated to the project half the time for six months. Sosa has project management experience and is familiar with the microfinance industry and basic aspects of social housing. She is also part of senior management and has successfully led the design of other products that are well-positioned in the market.

The team leader must understand the institution's operations, have sufficient time available to dedicate to the project, be sufficiently influential to convene meetings and facilitate prompt decision-making, and be highly motivated regarding the project. The additional responsibilities should be included in the leader's work plan so that she or he does not view them as added work but as deliverables she or he will be given credit for.

### **Lessons from the field**

The product development team must have sufficient time available to ensure the project is implemented according to schedule. This team must participate in project planning, prototype design, setting up the pilot test, monitoring the pilot and recommending product enhancements. The participation of this team reflects the support and commitment given to the project by your institution's senior management. If senior management is not part of this team, other ways must be found to keep them informed and involved in the project. Assigning goals, determining realistic deadlines for achieving those goals, and establishing regular meetings contributes to the success of this team.



Once the team has been established and the leader has been selected, identify any areas that cannot currently be handled internally. Make brief profiles of these positions that outline the skills and experience required. Using the profiles, recruit the right external people or establish alliances with other organizations to cover these positions (see Step 6). Next, define the tasks and responsibilities of each team member and work out the time each person must dedicate to the project.

Set out clear terms of reference for any consultant who is contracted. Annex 2 shows sample terms of reference for market research and product design consultants.<sup>1</sup>

### Lessons from the field

If hiring consultants, particularly if this is your first time conducting market research to design a product, hire a company specialized in this area. Ideally, this company should:

- a. Have research experience with populations similar to your target population.
- b. Be familiar with the geographic area where the research is to be conducted.
- c. Have experience in designing microfinance products.
- d. Be familiar with low-income housing.

If you cannot find one consultant or firm that meets all the required criteria, consider hiring two. One can help you design the market research methodology and provide support at key points, such as analysis of the research findings. The second consultant or firm can help organize and conduct the field-work. Ideally, the latter consultant will have staff members with in-depth knowledge of the geographical zone where the research will be conducted. If you decide to use two companies, be aware that information gaps will inevitably arise and you should work to minimize them.

Clearly define the consulting firm's terms of reference and contract. The TOR should clearly establish who in the organization will manage the relationship with this firm.

## STEP 3. Train the product development team

Although the multidisciplinary product development team may have experience with similar projects, it is important to train all the team members in the methodology described in this handbook. Additionally, it is worthwhile to hold a short training with the branch staff where the pilot will be held. In the training, you can share the key concepts of housing microfinance and the methods you will use to develop the product. The training should take no more than two to three hours. Table 7 provides elements to consider when planning the training.

---

<sup>1</sup> If you are looking for consultants who specialize in housing microfinance product design and providing housing support services, Habitat for Humanity International's Center for Innovation in Shelter and Finance is a great resource. For more information, go to [habitat.org/cisf](http://habitat.org/cisf) or reach us via email at [global-cisf@habitat.org](mailto:global-cisf@habitat.org).

### Lessons from the field

Offer training in the product development methodology to the team in charge. This training encourages the institution's commitment to the project, gives greater clarity concerning the process, provides tools to implement it, and helps each member visualize her or his responsibilities. Once your institution fully understands the processes and tools, this can also minimize the need to contract consultants, reducing implementation costs. In Annex 3, you can find an agenda with the key topics that are typically covered during a basic training on housing microfinance product development.

**TABLE 7: Elements for planning product development training**

KEY QUESTIONS	ELEMENTS TO CONSIDER
<b>What and who?</b>	<ul style="list-style-type: none"> <li>• Determine the training needs of each team member.</li> <li>• Define the training topics, content, required materials and learning methods to be used.</li> </ul>
<b>Who will facilitate?</b>	<ul style="list-style-type: none"> <li>• Choose a facilitator for the training sessions in accordance with the needs and content.</li> <li>• Establish clear terms of reference for the facilitators.</li> </ul>
<b>When? Where?</b>	<ul style="list-style-type: none"> <li>• Set dates and times; make sure every participant can attend the entire session.</li> <li>• Choose a place conducive to concentration and participation.</li> </ul>

### STEP 4. Visit potential areas for the market research and pilot test

Visit some preselected areas where the target population lives to determine whether the conditions of the sites and the households make it possible to improve their homes with housing microfinance products and implement a pilot test of the prototype. In some communities where housing quality is quite poor and the population has a low repayment capacity, a different kind of intervention might be necessary. Therefore, before settling on a specific market research and pilot test site, it is important to visit and assess the potential areas.

Annex 4 provides a worksheet to use during your assessment of market research and pilot locations. These assessment visits will prevent efforts being wasted on zones that are not viable for housing microfinance.

By the end of your assessment visit and through secondary data collection, you should have answered the following questions:

- In general terms, what are the socioeconomic characteristics of the area? What is its potential for implementing a housing microfinance product? Are most of the inhabitants potential borrowers?

### Lessons from the field

There are cases where the areas your institution selects are not suitable for home improvement loans or where the low repayment capacity of the population may limit loan uptake. In the former case, a new site will need to be identified. In the latter, an approach could be explored that combines government subsidies with products offered by the private sector. You also should be judicious in the number of sites you choose for the pilot. The CISF has worked with financial institutions that chose to conduct a pilot at five or more sites and later wished they had selected only two because of the complications that come from running and monitoring a new product at multiple sites.

- What is the status of tenure security in the area? Is there a high probability of eviction or relocation?<sup>2</sup>
- Are there government or private company plans that could affect (positively or negatively) the permanence of the households in the geographic area (e.g., construction of roads, parks or industries)?
- Is the area susceptible to natural disasters? If so, what is being done to prevent or mitigate them?<sup>3</sup>
- Is there a clear need in the area for improvements, repairs, additions or construction of housing?<sup>4</sup>
- Is the population concentrated or dispersed?<sup>5</sup>
- Is the area easily accessed by foot or other means of transport? Is security a concern?
- Does your institution have a physical presence in the area? How recognized are you in relation to other financial institutions sharing the market? Is the agency or branch strong enough to pilot a new product without affecting the normal course of other activities?
- Are there systems in place at that particular office or branch that can support and facilitate the monitoring of the project?
- Does your institution have alliances with other players in the area that could facilitate the implementation of the pilot or add value to it?
- Are there housing value chain players active in the area who could be allies for implementation (material suppliers, technical institutes, construction companies, universities, etc.)?
- Why should this area be selected over other potential sites?

### Lessons from the field

- Since you are designing a housing-related product, the feasibility visit should include a construction expert who can evaluate the product's feasibility in that zone and gather information for designing the housing support services, including an estimate of the costs of construction in the site.
- If a prospective area does not have sufficient building materials and is not easily accessed, construction costs in the area could be high, making a housing microfinance product less viable.
- In areas where the project is implemented, your organization should have offices with capable and motivated staff members to implement new products, and a healthy and well-developed credit portfolio.

### Pilot location feasibility assessment in Bolivia

During the preparation stage, a financial institution chose two potential areas. One was located two hours away, by car, from the closest branch office. Access to the area was challenging because the roads were in bad condition. In addition, the population was fairly dispersed. After the team visited this zone, they concluded that it would be very difficult to bring construction materials to the area, which would raise the cost of home improvements and elevate the loan amounts required to cover the needs of the population. They also realized that it would be very difficult to implement operations with a new product in an area far from the branch office. Any sort of monitoring of the product during implementation would be challenging and expensive.

2 Even though, in principle, housing microfinance does not use a client's house or property as collateral, it is important to understand the tenure security of clients in the area.

3 The CISF suggests avoiding areas at high risk of natural disasters that cannot be mitigated.

4 If the goal of adding a housing microfinance product is to reach significant scale, it is important to pilot the prototype within a zone that has a high demand for such a product in order to facilitate logistics, encourage a demonstration effect, and ensure easy monitoring and adjustment during the pilot phase.

5 Areas with a high level of geographic dispersion can affect the logistics, increase the costs, and reduce the growth and scale of the housing microfinance product during the short and medium terms.

### Lessons from the field

As mentioned previously, some pilot projects have failed because of the lack of financial resources for the new housing microfinance product. This is why it is important to allocate funds for designing and piloting the product from the outset, during the institutional assessment stage. Also, it is important to secure adequate financial resources for product expansion, once the pilot is evaluated as successful.

## STEP 5. Plan for market research and product design

The actions below should be followed when planning the market research and product design according to the objective set in Stage 1:

1. **Choose the type of research to be carried out.** The Center for Innovation in Shelter and Finance has found that a combination of secondary research and primary, qualitative market research is an efficient and effective method for gathering the information required to design housing microfinance products. The resulting prototype can then be quantitatively or qualitatively validated with potential clients to provide a final check on the demand and acceptance level of the prototype before investing in the pilot test. Closely read chapters 10 and 11 to make a fully informed decision on this point.
2. **Develop a detailed plan (see Annex 5 for a product development work plan template) and a budget.** If a partnership will be used during the project, the budget must show each partner's contributions: financial, human or in-kind. Fine-tune the budget when planning the qualitative market research.
3. **Preselect the tools to use.** Annexes 7-12 contain examples of tools you might consider using, including guides for facilitating focus groups and individual interviews. There are basic questions that should be asked and other questions that can be customized according to the intensity and focus of the market research. You can use a variety of tools to cross-reference or triangulate the information. The tools must be adapted to the context.
4. **Calculate the capital funds needed for pilot testing** of the prototype and define the funding sources and projected funding required for scaling up the product.
5. **Select the team members** who will participate in the process, and determine their availability.

### List of annexes for Stage 2: Preparation for the Product Development Process

- Annex 2: Sample Terms of Reference, Market Research and Prototype Design Consultants
- Annex 3: Housing Microfinance Product Development Workshop Agenda
- Annex 4: Pilot Location Feasibility Worksheet
- Annex 5: Product Development Work Plan Template
- Annex 7: Client Focus Group Interview Guide
- Annex 8: Nonclient Focus Group Interview Guide
- Annex 9: Product Attribute Ranking Group Exercise
- Annex 10: Loan Officer Focus Group Interview Guide
- Annex 11: Construction Material Supplier Interview Guide
- Annex 12: Contractor or Foreman Interview Guide

## Chapter 9: Market research (Stage 3)

The previous chapter described the steps typically used to prepare for market research and product design, including forming a team to direct the work and selecting market research areas. In this chapter, practitioners will learn about the process of market research, which is essential to the development of the housing microfinance prototype. Market research is an important part of the product development process, consisting of systematic exploration of different sources of information on a particular target market, the environment in which the institution is operating, and the competitors that also serve the target market.

In this section, you will:

- Identify characteristics of the housing market that support or constrain the supply and demand of housing microfinance products.
- Assess the housing and finance needs, preferences and capacities of the target population.
- Understand and describe the intersection between the demand and supply of housing microfinance products.

### Key questions for this stage

1. What are the trends in the microfinance and affordable housing sectors in your country?
2. What market systems does the low-income population use to acquire shelter?
3. Who are the main actors in the housing value chain, and what are the relationships among actors?
4. Who are the actors involved in housing microfinance delivery?
5. What products does the target population need or prefer to improve their homes?
6. What are the gaps between the demand and supply of financial and nonfinancial products and services for building and improving low-income housing?
7. According to the target population, what are their needs, preferences and capacities for improving their houses? What experience does this population have in addressing these on their own?
8. According to stakeholders, what are the needs, preferences and capacities of the low-income population related to home improvement?
9. What are the most important considerations for designing financial products and housing support services for the target market?

Market research consists of systematic exploration of different sources of information on a particular target market, the environment in which the institution is operating, and the competitors that also serve the target market.

### Lessons from the field

The qualitative market research is not meant to be exhaustive academic research on the affordable housing and microfinance sectors of your country or region. Rather, it should be a brief study that will help you design or redesign a housing microfinance prototype or one of its component parts.



Quality market research will help your institution design housing microfinance products and nonfinancial housing support services that are **affordable, sustainable and aligned** with the needs, preferences and capacities of your potential clients.

## INTRODUCTION TO MARKET RESEARCH

Market research is typically conducted to:

- Develop new products.
- Refine existing products.
- Improve current marketing, promotion and outreach activities.

The goal is to identify the gaps in the market between the supply and the demand for housing microfinance products and what factors have an impact on these gaps. Quality market research will help your institution design housing microfinance products and nonfinancial housing support services that are affordable, sustainable and aligned with the needs, preferences and capacities of your potential clients.

The market research should include both secondary data review and qualitative or quantitative primary research.<sup>1</sup> The Center for Innovation in Shelter and Finance advocates a combination of qualitative market research and quantitative prototype validation as an effective method for exploring the potential market in enough depth to develop a product.

Qualitative market research uses a variety of research methods, such as individual, semistructured interviews; focus group discussions; and participatory techniques. Employing a variety of research methods allows the researchers to explore the same topics using multiple sources to validate findings from the target market and increase uptake of the future product. The use of these methods allows the researchers to explore in depth the needs, preferences and capacities of the target market and identify trends that will inform the design of a prototype that can be verified through a quantitative validation exercise. (This validation is useful for estimating the demand for the designed prototype. See Chapter 10 for more information on prototype validation).

**TABLE 8: Stylized market research intensity guide**

CRITERIA	LEVEL OF MARKET RESEARCH	
	High	Low
New product for the financial institution.	✓	
Institution has an existing micromortgage or mortgage product and wants to add a housing microfinance product.	✓	
Institution has a housing microfinance product but wants to add housing support services or improve another feature.		✓
Institution has a housing microfinance product serving low-income groups in rural areas and wants to expand to urban areas.		✓

<sup>1</sup> Qualitative market research is focused on small samples; explores the opinions, attitudes, beliefs and practices of potential customers; aims to understand how those customers may respond to a new product. Quantitative research is based on larger samples and uses statistical or numerical data or computational techniques to explore a topic.

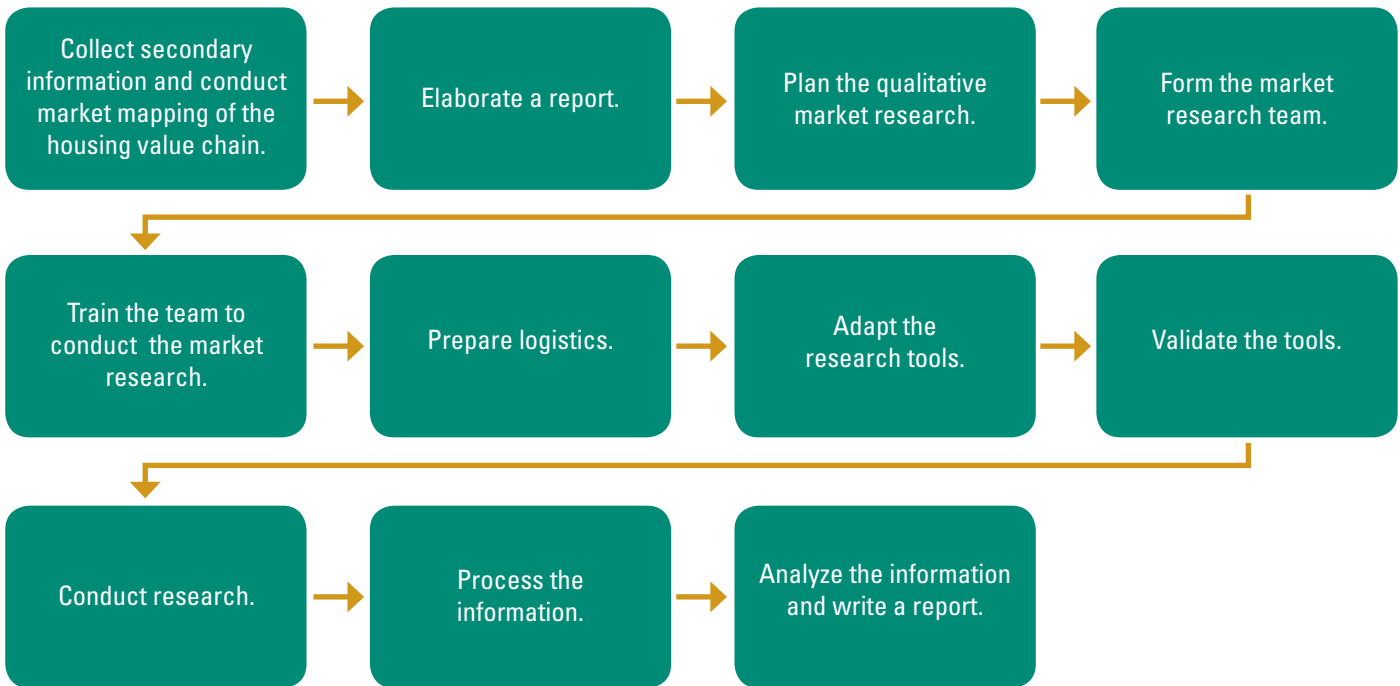
Before conducting market research, determine the level or intensity of market research required. This decision depends on whether the institution is designing a brand new product, refining an existing product, or refining one of the features of an existing product. Table 8 provides a stylized guide for determining the intensity of market research.

The characteristics of high- and low-intensity market research are presented in Table 9. Keep in mind that the level or intensity of market research does not equate with its overall importance in the product development process. Regardless of whether the institution is designing or redesigning a product, good market research is an essential component and should never be skipped.

**TABLE 9: Characteristics of high- and low-intensity market research**

LEVEL OF MARKET RESEARCH	CHARACTERISTICS
<p><b>HIGH:</b> Recommended for a new housing microfinance product.</p>	<ul style="list-style-type: none"> <li>• Market mapping of the housing sector at the national and local levels.</li> <li>• Secondary research on the demand and supply of housing finance products for low-income groups.</li> <li>• Competitor analysis in the geographies chosen by the financial institution.</li> <li>• Qualitative primary research with potential clients: 100-150 people, using different research methods.</li> <li>• Qualitative research with other stakeholders such as building material suppliers, masons, foremen, local authorities and community leaders.</li> </ul>
<p><b>LOW:</b> Recommended for improving and refining a current housing product or expanding the current product into a new geographic area (mainly from rural to urban or vice versa).</p>	<ul style="list-style-type: none"> <li>• Secondary research on the demand and supply of housing finance products for low-income populations.</li> <li>• Competitor analysis in the geographies chosen by the financial institution.</li> <li>• Qualitative primary research with potential clients: 40-50 people, using different research methods. The focus can be client satisfaction or questions about the specific characteristic of the product that will be refined.</li> <li>• Qualitative research with housing service providers such as building material suppliers, masons, foremen, etc.</li> </ul>

Figure 11 presents the suggested process for conducting the market research. The rest of the chapter provides a detailed explanation of this process.

**FIGURE 11: Market research process flow**

### STEP 1. Collect secondary data

In this step, your institution should dedicate time to understanding the demand and supply sides of housing microfinance and the enabling environment in which housing microfinance operates: the rules and regulations governing the housing market system. The secondary data gathering should answer the following questions:

#### On demand:

- What are the demographic characteristics of the target population?
- What are the main characteristics of the population's dwellings?
- What are the current problems with the dwellings?
- What are the preferences and capacities of the target population for improving their homes?
- Which financial products and housing support services could meet their needs?

#### On supply:

- What other institutions are offering housing microfinance products and services to the target market?
- What are the characteristics of these offerings? What is the level of market penetration of these products?

**On the intersection of supply and demand:**

- What is the level of development of the microfinance and affordable housing sectors?
- What external factors facilitate or hinder the target population's investments in home improvement? What is the impact of policies, laws and regulations?
- What are the major gaps (including pricing, distribution and scale) between the needs and preferences of the target population and current products and services?

To find the answers to the above questions, it will be necessary to:

- **Gather secondary information:** Review sources of information on the supply and demand of housing microfinance products and services produced by other people or organizations. Locate basic nationwide information along with specific information about the areas where the research is focused. Institutes of statistics and census bureaus are good sources for some of this information. Pay attention to policies, regulations, government programs, and cultural or traditional practices that affect the access of the target population to housing and finance products. Annex 6 provides an outline of the categories covered during a country-level assessment.
- **Gather primary information:** Where there are gaps in your research after reviewing all available secondary information, interviews with experts in housing and finance can be used to fill in the blanks. You can use a semistructured interview format. The qualitative market research that follows also will fill in these gaps.
- **Prepare a report:** Write a brief summary (one to two pages) stating the pertinent results from your research. Remember to try to respond to the questions above about the demand and supply.

**STEP 2. Conduct the qualitative market research**

During the market research, you will be collecting information from and about the potential target population. The methods used will give the researchers a deeper understanding of the needs, preferences and capacities of the target market. The guiding questions are the who, what, how and why of housing and finance, the two topics that will be explored to design the housing microfinance product.

The market research, similar to the secondary data gathering, should seek to answer the following questions:

**From the target population:**

- Does the population have desires and plans for improving their homes?
- What are their needs, preferences and capacities for improving their houses?
- What products do they need or prefer to improve their homes?
- What capacities and experience does the population have to meet these needs and preferences?

**Lessons from the field**

- Use secondary information to design primary information-gathering tools such as interview guides.
- Leave the door open with interviewees for phone or email follow-up in case you need to clarify information.
- When consolidating and analyzing the information, focus on answering the questions associated with the main research topics (supply, demand and their intersection).
- The collection of secondary data should be undertaken by people with previous experience conducting research (collection and analysis), using primary and secondary sources of information.
- Remember that the target population refers to the segment of the market that will use the housing microfinance products and services. During the collection of secondary data, keep your focus on collecting information related to this population. If you are unable to obtain specific information, try to acquire information on related populations or the wider population where the segment of interest is located.

**From market actors** (loan officers of your institution, building materials and service providers, and local government representatives):

- What are the needs, preferences and capacities of the population for improving their houses?
- What capacities and experiences does the target population have to address these needs and preferences?
- What should be taken into account in the design of financial products and housing support services for this population?

Before carrying out the market research, your institution should decide whether to do it yourself in-house or hire a market research firm to do it for you. The pros and cons of each approach are discussed in Table 10 below.

**TABLE 10: Pros and cons of in-house and contracted market research**

	<b>In-house</b>	<b>Contracting out</b>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Allows an institution with deep interest in the sector to conduct the research.</li> <li>• Provides unique learning opportunities for senior management.</li> <li>• Provides important experience to the institution's staff.</li> <li>• Allows internalization of the issues and lessons learned.</li> <li>• Promotes ownership of the process and future plans.</li> <li>• Staff members are likely to be better equipped to draw appropriate conclusions from the results.</li> </ul>	<ul style="list-style-type: none"> <li>• Will be done with maximum professionalism.</li> <li>• Will save the financial institution time.</li> <li>• Will result in a usable package consisting of analyzed data and a report ready for presentation, which required relatively little effort on the part of the institution.</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>• Requires special skills developed over time to moderate focus group discussions, develop and administer questionnaires, and analyze data effectively.</li> <li>• Will require significant staff time (away from other duties).</li> <li>• The staff comes with biases and history with the clients.</li> </ul>	<ul style="list-style-type: none"> <li>• Most companies specializing in market research will have little understanding of the sector within which the financial institution operates or the housing sector.</li> <li>• Microfinance institutions are often "low-value" clients (relative to beer or soap producers) and thus neglected or given poor service by the market research company.</li> <li>• If the market research company is good, it will probably be expensive.</li> </ul>

Source: Adapted from Graham A.N. Wright, "Market Research and Client-Responsive Product Development," page 8, 2004. Available at [microfinancegateway.org](http://microfinancegateway.org).



Regardless of the decision, it is important for the financial institution to closely follow the whole process.

The suggested steps for carrying out the market research are described in detail below.

**1. Planning.** With the multidisciplinary team meetings, define:

#### **What are the specific objectives of the research?**

Establishing clear objectives enables you to select an adequate sample and choose appropriate tools for collecting the information. The objectives should describe clearly what the purpose is (a new product development, a product refinement, the refinement of one of the features of the current product, etc.), the segment of the target population, the market research areas, if the institution wants to include existing clients and new clients, and more. Defining the objective should be a simple matter of restating what your institution has already discussed during the preparation stage.

#### **Who will be in the sample?**

Once the objective of the research and the characteristics of the target population are established, it will be easier to set up the sample.

A potential sample could comprise:

- a. Productive credit clients and nonclients in the two geographic areas selected by your institution, with monthly household incomes between one to four minimum wages (This is an example. This will need to be established according to the target population selected.)
- b. Suppliers of building materials of these neighborhoods. (It would be good to add whether they have to live within a certain distance of the area where the research will be conducted).

It is important to think not only about the potential clients but also other stakeholders who can provide information on the demand side, such as material suppliers, masons and foremen (who work and probably live in the areas where the target population is located); local authorities; and community leaders. Including them will allow you to “triangulate” the information, which is important for establishing trends that will inform the design of the housing microfinance product.

#### **How many people should be in the sample?**

As discussed previously, it is important to understand if a low or high level of market research is required (see Table 8 and Table 9).

For instance, if it is a new product to be offered to both existing and potential clients, you probably want to interview existing and potential clients, dividing the sample equally. You also would want to include other stakeholders, such as material suppliers.

Example:

- a. Four group interviews will be conducted with productive credit clients with monthly incomes of one to four minimum wages in two geographic areas.
- b. Four group interviews with nonclients with monthly incomes of one to four minimum wages. (Each group made up of eight to 10 individuals).

### **Lessons from the field**

If contracting out the market research, make sure the firm fully understands what a housing microfinance product is, especially if you are including nonfinancial components such as housing support services. Do not assume that the researchers understand the concept well enough to undertake the research without coaching from the institution.

An example from a market research experience in Ghana illustrates this point. The market researchers, because of a lack of knowledge of the housing sector, decided to omit questions provided to them that they considered irrelevant. Those questions turned out to be necessary for fully understanding the preferences of the potential target population for this product and subsequently hindered prototype design.

- c. Three individual interviews of building materials suppliers in the area.

There is no precise rule for selecting the number of interviews to be held. This depends on what you want to know and the available financial resources and time. In the case of group interviews, consider having a minimum of two interviews by type of participant. Table 9 gives you some indication of how many people should be included in the sample.

The invited sample for group interviews should not be fewer than 10 participants per group. It is always wise to invite a larger number than needed, as it is unlikely that all the people invited will attend.

#### **What tools should be used?**

Select the research methods and tools according to the objectives of the research, the sample, and its method of application (individual or group).<sup>2</sup> These tools were designed to gather information from target households, loan officers, suppliers of building materials, and foremen and construction workers. See annexes 7-12 for examples of tools and objectives.

Example:

- a. Group interviews (or focus group discussions) will be used with existing clients and nonclients.
- b. Individual interviews will be used with suppliers of building materials in these neighborhoods.
- c. Ranking of attributes will be used in one group with existing clients and one group with nonclients.

#### **When will the research be conducted?**

If the purpose is to get a large amount of high-quality information during the research, the when is a key factor in the interview's success. Make sure the dates and times chosen will facilitate the participation of the sample selected. For example, setting up group interviews during the daytime may not be the best idea if the majority of attendants sell products in the market.

#### **How will you contact the individuals of your sample?**

Contacting the sample can be challenging, especially if the right strategies for contacting them to participate in the market research are not in place.

It will always be easier to contact existing clients of the financial institution. The loan officers usually have their addresses and contact them frequently. Sending a formal invitation letter, visiting their homes and providing an incentive for their participation are all options. However, contacting nonclients and other stakeholders such as masons, foremen and material suppliers can be a bit more difficult, requiring more effort and planning. Strategies that involve community leaders are helpful. Usually there are leaders who know and are respected by the community and have the capacity to convoke others. Providing an incentive to the participants for their attendance is always a good promotional tool.

---

<sup>2</sup> Although this guide refers primarily to group and individual interviews, your organization may use other methods, such as participatory techniques to prioritize product attributes. See Annex 9 for one example.

For example, some institutions have offered to pay for the transportation, and at the end of the session they will reimburse the participants. Others provide some basic goods, such as rice, beans and plantains, to each participant. Don't forget to call and remind participants a day or two before the interviews, if possible.

#### **Where will the interviews be conducted?**

Locate suitable and neutral locations for conducting the group or individual interviews. For a group interview, the room should be furnished with chairs and have a space on the walls for posting pieces of paper, and should be organized in such a manner that the group being interviewed will not interfere with other groups that are being interviewed simultaneously. Ideally, the room will have an electric outlet for connecting computers or other equipment. Venues prone to frequent interruptions from outsiders are not advised. In most cases, it is recommended that the interviews be conducted outside the institution's premises to promote neutrality, though there may be instances where it is best to meet at the institution because of security concerns. The venue, if not neutral enough, can constrain the participation of some attendees. Schools and community centers are usually neutral spaces.

#### **What resources are needed and available?**

The main resources that should be allocated to conduct the market research are:

- The personnel who will conduct the market research, including one facilitator and one assistant.
- The venue.
- The refreshments for the participants.
- The incentives.
- Transportation (if more than one geographic area is chosen or if the distance between venues within the selected areas is large).

**2. Assemble the team.** Assign people to perform the following functions: calculating logistics, recruiting participants, training the research team, conducting the research, taking notes during the research, processing and analyzing the information collected, and writing the research report.

People who conduct the research must have experience facilitating focus groups and one-on-one interviews, preferably with populations similar to those participating in the fieldwork sessions.<sup>3</sup>

**3. Training of field staff.** The research staff must know the purpose of the research and the tools that will be used. Make sure each person applying the tools:

- a. Knows the reason why each question is included and the priority of each question.
- b. Understands and is able to describe the types of housing support services to participants in the interviews. This concept needs to be explained in a very simple way.

#### **Lessons from the field**

Even if the field team has experience in carrying out qualitative research, it is a good idea to hold a training session to make sure everyone is on the same page. Ensure that facilitators have knowledge of (and preferably, experience in) microfinance and facilitating exercises with low-income populations, and that they are familiar with the concept of housing support services.

---

<sup>3</sup> "Fieldwork session" refers to an interview (group or individual) and any other qualitative exercise to collect information in the field.

**4. Prepare the logistics.** This could involve:

- Preparing a budget for implementing the market research activities.
- Preparing a recruitment plan for individuals who are going to participate in the research and identifying the incentives to promote their participation.
- Preparing a participant list with the contact information and confirmation of their attendance.
- Preparing a packet of materials for each facilitator or interviewer, with all the tools each needs to successfully conduct each work session.
- Elaborating a detailed agenda for their assignments, for each day of fieldwork. Include the address of the designated place for the interviews and allow enough time to move from one location to another.
- Selecting the venues, making sure that each is a place where the participants will feel comfortable. The space should accommodate the expected number of participants and have enough chairs for the participants, the facilitator and an assistant.
- Buy the refreshments. It is always wise to have extra refreshments on hand in case more people than expected show up. Also make sure to have incentives ready for the participants.

**5. Develop the tools.** You can adjust the tools presented in annexes 7-12 according to your objectives and context. These tools have been used by the CISF in multiple countries, and the included questions cover much of the information necessary for the design of housing microfinance products and nonfinancial housing support services. Also prepare templates and equipment for capturing the answers from the participants. Annex 13 offers a simple template that can be used to input and analyze the information provided by the participants.

**6. Validate the tools.** When using a tool for the first time or in a new context, it is always important to test it. This ensures that the language and administration of the tool are appropriate to the context. This should be a simple exercise, conducted with individuals similar to those selected to attend the group and individual interviews. One group interview and a couple of individual interviews should be enough.

**7. Conduct the research.** At the beginning of each research session, take time to record each participant as he or she enters. This will help you to:

- a. Verify the attendance of those invited to participate.
- b. Confirm that each meets the sample profile.
- c. Collect confidential information that the participants might not feel comfortable sharing in front of the group (for example, income information).

The first section of Annex 7 presents an example of the information typically collected. Remember to take notes and, if possible, record the sessions to ensure that no valuable information is missed. When interviewing existing clients, staff members who have had contact with the clients should not be present, to ensure truthful feedback.

**8. Process the information.** After every day of fieldwork, the team conducting the market research should debrief on how the sessions went and take time to organize the findings and input missing information. During the debriefing, the team should discuss:

- What went well during the research?
- What went wrong? Did anything unexpected happen?
- Are there any changes that need to be made to the research?
- What were the main findings and trends found during the day's research?
- What findings are new or contradicted previous findings? If there are new findings, assess whether it is worthwhile to use a complementary tool to explore this information in more depth.

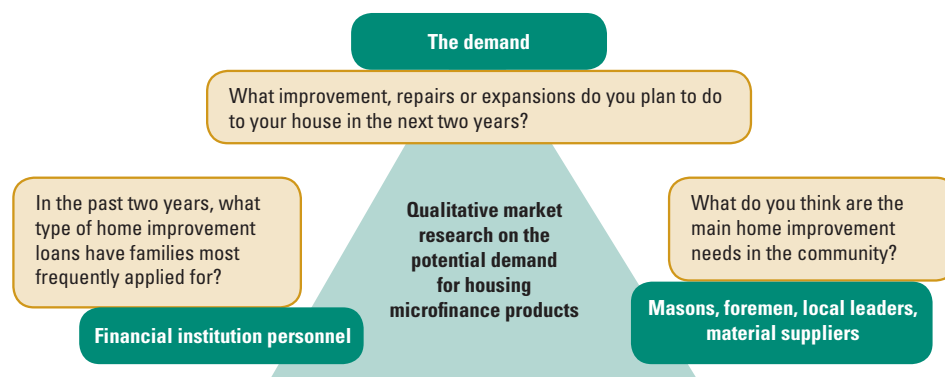
Take time to clarify or add any missing information within the documents used for recording the research data. It is important to maintain the discipline of adding this information daily, while it is still fresh in the minds of the facilitators and assistants. Do not spend time trying to clean the information. End the day by summarizing the main findings. These summaries will be very useful when preparing the final report.

Once the team completes the market research and is back in the office, the members should take time to organize all the responses and clean the information. Since the market research is mainly a qualitative exercise, the organization and compilation will focus on the major trends in the answers provided by the participants.

**An example:** During the market research, some participants expressed a desire to put on a roof or add a window to their house. Not everyone identified this as a need, but the researchers noted that it was mentioned at least once in each group interview of clients and nonclients, evidence that this is a possible trend. At this stage, though, researchers should be recording the information, not analyzing it, so all the trends and information, regardless of their relative importance, should be included.

**9. Analyze the information and write the report.** Strong analytical skills are required for this part. Since the market research uses qualitative tools, triangulation of information with various sources is essential. Triangulation of information is the analysis of similar pieces of information from different angles, in this case from different stakeholders' points of view. During the market research, collect information on the potential clientele of housing microfinance products from various sources, as illustrated in Figure 12.

**FIGURE 12: Triangulation of information**



### Lessons from the field

- Work in teams of at least two people: one to facilitate and one to observe and record the details of each research session.
- Use the notes to summarize the information, and use the recordings to clarify specific points.
- It is more effective to review the information daily than to let it build up for several days.
- The final research report should be clear and concise and have an executive summary. Ask staff members and consultants who participated in the fieldwork to provide feedback on the report before finalizing it.



### Lessons from the field

If you determine that your institution has sufficient, up-to-date information on your target market and experience in the design of products and services, you can skip the qualitative primary research and proceed directly to the design of the prototype. During the quantitative prototype validation (discussed in Chapter 10), you can fill in any information gaps you encounter.

Since the questions asked of each stakeholder should cover the same topics (housing and finance needs, preferences, and capacities of the target population), the analysis should focus on these three areas.

Remember that the purpose of the market research has been to collect information that will support the creation of the housing microfinance prototype. At this point, it is good to understand that the analysis will be used to inform the eight P's of product design — population, product, price, positioning, promotion, place, process and personnel — which are discussed in Chapter 10.

When writing the report, be as concise as possible. An outline is presented in Annex 14 to help organize the report. Before the report is finalized, the people who participated in the fieldwork should read it and provide their feedback.

**10. Form partnerships with other organizations.** Based on the analysis of your institution's capacities and findings from the market research, determine whether other organizations should be part of the product design process. The partner organizations should have at least three characteristics:

- Interest in participating.
- Capacities that complement those of your organization.
- Values compatible with those of your organization.

Together with your partner organization, define the roles and responsibilities of each partner and choose the organization that will lead or facilitate the process.

### Partnering for housing microfinance in Bulgaria

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

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

The institution was offering only business loans before, and it saw a perfect opportunity to introduce consumer loans while

contributing to the achievement of social goals (improvement of efficient use of energy in houses). Mikrofond's co-investment into the Joint Fund, a housing microfinance vehicle, is a sign of a solid interest in providing housing finance and of its long-term commitment to housing finance development.

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

## The importance of market research

The microfinance institutions examined in a series of case studies by the CISF highlighted that the market research stage was of particular importance in determining the roles of other actors and the particularities of certain client groups. This guided microfinance institutions in the identification of potential strategic partnerships, unique niches and noteworthy competitors. Examples of each are included below:

- **Strategic partnerships:** The microfinance institution in Peru identified the opportunity to provide financing for water and sanitation connections by working in conjunction with a municipality.
- **Unique niches:** The microfinance institution in the Philippines designed “specialty products,” such as loans for septic tanks or water connections, which were especially suitable for particular improvements. In Tajikistan, the microfinance institution identified a unique opportunity to leverage a government subsidy program that had granted 50,000 plots to households. Loans were made available to assist households in financing the completion of their new homes on these plots, ultimately composing 60 percent of the microfinance institution’s total housing microfinance loans.

- **Noteworthy competitors:** In the highly competitive microfinance markets of Peru and Bolivia, the microfinance institutions astutely determined that a housing microfinance product that is bundled with housing support services would have a unique appeal, particularly among the very poor.

Market research also proved critical to hearing clients’ needs and preferences related to housing support services. In Tajikistan, the incorporation of housing support services was of particular importance, given the country’s labor context. Home improvements were frequently overseen by women, as men were away, working in Russia. Thus, the support provided in planning and undertaking construction projects was highly valued by a clientele that felt less qualified in this area. In India, research revealed that 90 percent of housing microfinance clients could not correctly calculate budgets or needed financing, so valuable services were developed to assist with these steps. In Brazil, where market research was not undertaken, the product suffered from limited demand as clients did not seem to value housing support services and were unwilling to pay the associated fees.

*Source: “Lessons from 11 Partnerships of Habitat for Humanity.” Available at [habitat.org/cisf](http://habitat.org/cisf).*

Note that this step also can take place during or after the market research stage, as that process is useful for identifying partners who can help with pilot testing and product expansion, in particular housing support service providers. Your institution also might choose to partner with an organization for the market research, which would require you to identify them during the previous stage.

### List of annexes for Stage 3: Market Research

- Annex 6: Country-Level Assessment Template
- Annex 7: Client Focus Group Interview Guide
- Annex 8: Nonclient Focus Group Interview Guide
- Annex 9: Product Attribute Ranking Group Exercise
- Annex 10: Loan Officer Focus Group Interview Guide
- Annex 11: Construction Material Supplier Interview Guide
- Annex 12: Contractor or Foreman Interview Guide
- Annex 13: Market Research Analysis Template
- Annex 14: Example Outline for Market Research Report

The design process starts with crafting a working model that is tested and refined under real-world conditions.

## Chapter 10: Prototype design (Stage 4)

The previous chapter described the process for conducting market research and analyzing the findings to inform the design of the housing microfinance prototype. In this chapter, the product development team will become familiar with the steps for using the analysis to design the prototype. The design process starts with crafting a working model that is tested and refined under real-world conditions before large-scale rollout, which increases the product's potential for replication and long-term scalability.

In this section, you will:

- Design a housing microfinance prototype and, if your team agrees, incorporate non-financial housing support services that will help mitigate the market failures that keep affordable housing out of the reach of low-income households.
- Validate the prototype and make necessary adjustments.
- Identify any significant changes that your institution must make in order to offer the new products and services.

### Key questions for this stage

#### During the prototype design

1. Based on experience and the information gathered during market research, what microfinance products and housing support services are demanded by the target population but not present in the market?
2. Does the institution have the capacity to offer these products and services? What changes must be made in order to offer them?

#### During the validation

1. What is the target population's level of acceptance of the prototype?
2. What changes to the prototype can be made to increase its level of acceptance among the target market?
3. What is the size of the potential demand for the prototype (determined through quantitative validation)?

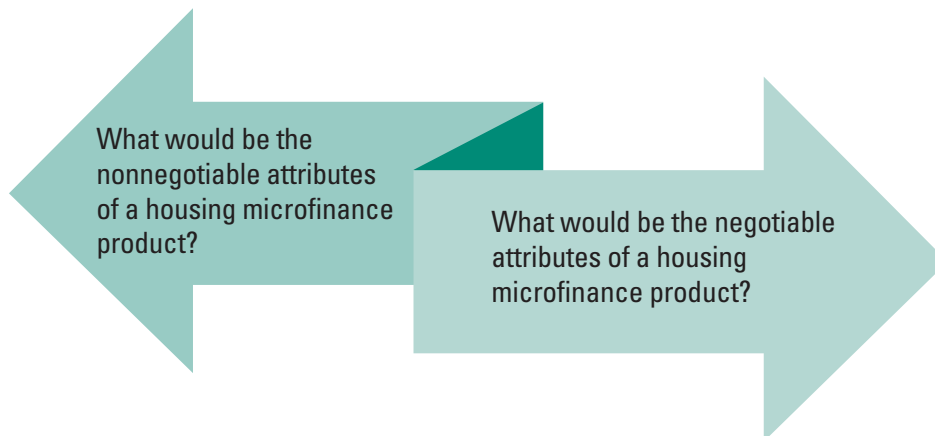
## INTRODUCTION TO PROTOTYPE DESIGN

Throughout this process, it is important to keep in mind the “healthy tension” of product design — the intersection of the needs, preferences and capacities of the target population and those of the institution serving the population (Figure 13). Finding the appropriate overlap between the needs, preferences and capacities of the institution and those of the clients ensures that the future product will be affordable and sustainable over time.

The design process should be interactive, involving as many important stakeholders as possible, as input from other market actors can increase product uptake and the potential to replicate and enhance the product over time. Keep in mind that this is a market-driven product that will become part of the larger housing market system, hopefully reducing inadequate shelter and helping low-income households improve the condition of their home.

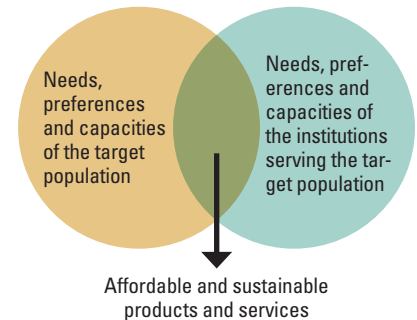
The Center for Innovation in Shelter and Finance uses an adaptation of the eight P’s of marketing, called the “eight P’s of product design,” to systematically develop a prototype that includes all the key non-negotiable and negotiable product attributes demanded by the target market. The non-negotiable attributes are those related to the function of the product itself (e.g., the target population, the product definition or purpose), and the negotiable attributes are related to the style or form (e.g., whether the product is offered individually or in groups, whether it includes a training component or nonfinancial housing support services, and so forth).

**FIGURE 14: Negotiable and nonnegotiable aspects**

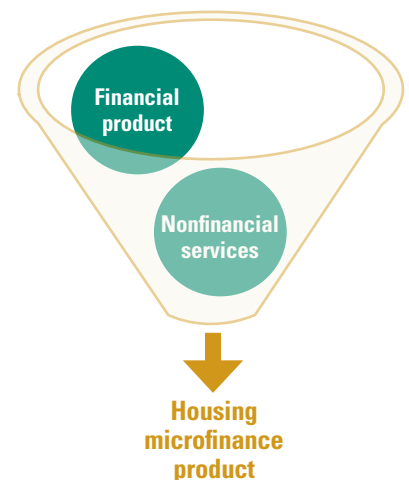


At the end of the design and validation process, your institution should have a product that combines a variety of housing-oriented attributes. As mentioned in previous chapters, if your institution chooses to incorporate housing support services, the nonfinancial services should be an essential component of the housing microfinance product, as illustrated by Figure 15.

**FIGURE 13: The healthy tension**



**FIGURE 15: Financial product and nonfinancial services as one product.**



## STEP 1. Creation of the prototype

**Review the available information** gathered during the market research and analyze the following topics:

- Key trends in the microfinance and housing sectors.
- Key actors, their roles, and their potential to support or enhance the housing microfinance product (e.g., construction technical institutes, building material suppliers)
- Competitors offering housing finance products or consumption products used for housing. Determine the main characteristics of those products, the differences between products, their competitive advantages, and any bundled nonfinancial services.
- Government policies, regulations and programs that have an impact on the target population's access to adequate housing and microfinance products and on the institutions offering them.
- The sociodemographic characteristics of the target market for the housing microfinance product.
- The attributes the households desire in microfinance products and housing support services, with particular attention to the uses of the loan, loan sizes, loan repayment terms, frequency of payments, types of guarantees, and services they would like bundled with the product.

If upon reviewing the available information, practitioners and researchers determine there is not enough demand or unfavorable conditions exist for developing a housing microfinance product, the design process should be discontinued. Examples of unfavorable conditions that would preclude further prototype development include:

- An overindebted target population that has no capacity to acquire additional credit.
- The existence of a high level of government subsidy for housing that will distort the offering of market-oriented housing products and services.

Ideally, these conditions would be identified before the market research takes place.

**Define the eight P's of product design** for the prototype. This is a step that should be implemented in phases:

- Use the template and instructions found in Annex 15 to develop a preliminary draft of the housing microfinance product prototype. It is helpful for the product development team members to start putting together the prototype individually, based on their analysis.
- Encourage the product development team to hold a meeting to share their individual ideas and put together a collective prototype. The individual contributions are important for creating a comprehensive design that includes inputs from different points of view and areas of experience.

Note: If a consulting team is advising the financial institution during the design process, the consulting team should follow the next steps.



**Hold a design workshop** with the product development team, the consulting team and other stakeholders who can contribute to the design of the prototype. The participation of loan officers, loan officer supervisors, and office or branch managers who will be responsible for pilot implementation is essential; they bring a fresh view from the field that should inform the prototype design. During this workshop, the consultants or team leader can facilitate the discussion to reach a consensus and extract new ideas that might enrich the prototype. See Annex 17 for a copy of the agenda for this workshop.

In addition to allowing a range of individuals to contribute their ideas, clarify concerns and reach consensus on the prototype, the workshop is one of the best ways to promote ownership among the participants, especially the field staff who will be involved in testing it.

During the workshop, use a variety of participatory techniques. One example is “concentric circles,” in which loan officers form the first circle and are responsible for developing a first draft of the prototype. Then, a second circle composed of middle managers provides thoughts on the initial draft. Finally, a third circle made up of consultants who participated in the research, along with senior management, provides feedback on the results of the second circle. Each of the circles should be held separately. (Experience has shown that the field team is most comfortable expressing their ideas when the senior managers are not around).

### Multiproduct loan officers

Mikrofond EAD in Bulgaria found that having loan officers dealing with both business and housing loans had the potential to slow growth. This multiproduct role puts significant expectations on the staff; they are expected to be equally qualified in serving two specific target groups with two distinct products. In practice, however, some loan officers are better positioned to make business loans while others do housing loans better. This results in a sometimes unbalanced composition of individual portfolios. Effort should be put either into building the capacity of unskilled staff members or attracting professionals with previous experience in microfinance or banking. On the other hand, creating a product-centered structure in the branches (when loan officers are dealing with a single product) has its own constraints and is not cost-effective in Mikrofond’s case, since there is not sufficient scale to afford such specialization yet.

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

### Lessons from the field

- During the prototype design process, determine whether significant numbers of the target market require the same type of improvement. This will aid in the promotional and marketing campaigns. For example, in a neighborhood missing connections for drinking water, your institution could organize a promotional campaign that offers credit and nonfinancial services to connect the dwellings to the municipal water network. Another example is promoting a product for repairing or replacing the roofs of the houses in preparation for the rainy season.
- Promotion by local leaders and spokespeople can quickly get the word out to the community. These leaders include schoolteachers, members of community boards and religious leaders, among others.
- It will likely take a while for loan officers to fully understand the particularities of the product, build their portfolio of clients, and reach the desired portfolio size for the housing microfinance product. During the pilot phase, an incentive scheme is helpful for motivating loan officers to promote the new housing product, especially if they are multiproduct loan officers.

TABLE 11: Eight P's of product design

Attribute	Definition
<b>Population</b>	Clearly describes the characteristics of the low-income groups that the product and services are directed toward: income levels, gender, age, type of income generation. It also should include estimated outreach numbers.
<b>Product definition</b>	Describes the features of the products, including the nonfinancial housing support services, loan amounts, terms, guarantee, requirements, frequency of payment, and type of lending methodology (e.g., group or individual). It also should describe the competitive advantage of the products and services, which is important for promoting the product. (This is discussed in more detail in the promotion and positioning categories.)
<b>Price</b>	The price includes a clear description of all the costs associated with providing the products and services, such as interest rates, administrative fees, commissions and penalties.
<b>Place</b>	A description of the place where the prototype/product will be offered, including infrastructure and conditions of the facilities.
<b>Promotion</b>	This category has to do with the strategies used to promote the product and is closely related to positioning. The strategies can be divided into two main categories: Below the line, or BTL, and above the line, or ATL. ATL refers to promotion in mass media — radio, TV, newspapers — and BTL refers to targeted promotional strategies in specific geographic areas and for specific segments of the market. The promotional strategies should be based on the resources and the expected impact.
<b>Personnel</b>	The operational structure for the new product offering, including the full-time and outsourced staff members: supervisors, loan officers, construction technicians and cashiers. It also should include the incentive scheme for the loan officers, if any. Also, clarify whether the financial institution will use exclusive or multiproduct loan officers and the required educational or vocational background.
<b>Processes</b>	Elaborate the process for delivering the new product and the forms that will be used, from loan promotion to loan origination. The process flow should consider both the financial and nonfinancial components of the product.
<b>Positioning</b>	Positioning has to do with the value proposition of the product, a marketing statement that summarizes why a client should buy the product. The statement created within this section is intended to discuss the elements that show that this particular product has more value or better solves a problem than other offerings by competitors. When positioning the product, consider two different components: the rational and emotional appeal to the target market. <b>Rational:</b> What is the brand? Describe the benefits, advantages and value proposition of the product. (Explain the look of the product and the materials used to describe it. Be specific, listing the colors, tone of the advertising, etc.) <b>Emotional:</b> How do the product and its associated brand make the client feel? What is expected to “happen” to the client if he or she uses the product? The tag lines and slogans should be based on the answers to the above (for example, “speedy service delivery and low monthly payments”).

**Internal viability of the prototype.** Once the prototype is defined, it is important to assess whether offering it requires changes in your institution's policies, systems and procedures and if you are capable of making the required changes. This is the time to examine the “healthy tension” (the intersection of the needs, preferences and capacities of the target population and those of the financial institution). If there is an obvious imbalance, and some of the changes are not feasible, the prototype will need to be modified before it is validated.

**Costing of the housing microfinance prototype and housing support services (if applicable).** All the costs involved in the provision of the prototype, including the nonfinancial services, should be calculated and included within the financial projections. Make sure to include:

- Available capital funds.
- Personnel costs for offering the prototype, from promotion to loan origination (loan officers, loan officer supervisors, tellers and other personnel who will support the implementation of the housing support services).
- Physical space, office equipment, and vehicle costs required to promote and provide the prototype.
- Promotional materials and other resources that will be provided to the clients as part of the housing support services.

Plan to use a financial projection tool to calculate the financial sustainability of the prototype — the point when the housing microfinance product and the nonfinancial housing support services:

- a) Generate enough income to cover its direct and indirect costs.
- b) Generate a margin of utility that allows the product and services to continue to be offered and expanded.<sup>2</sup>

#### **Final review of the prototype before validation.**

- Verify that the prototype is sufficiently differentiated from other products your institution is offering. Not having enough differentiation among products can lead to inappropriate competition, weakening the offer of the new product and existing products.
- Make sure the prototype is competitive in the market, has a clear value proposition and is competitive with similar products and services offered by competitors. In particular, verify that the interest rate is competitive.

### **Client protection strategies for Growing Opportunity Finance in India**

Given the demand for housing microfinance, institutions should consider how to ensure responsible lending practices. Clients often want a higher loan amount irrespective of need and affordability. In Growing Opportunity Finance's case, the institution created a two-pronged approach to ensure client protection. To prepare clients for housing loans, GO and Habitat for Humanity India's Technical Assistance Center, a housing advisory unit, used a financial and technical orientation training as a prerequisite for potential housing microfinance clients. This short but effective orientation is delivered in the form of classroom sessions that include a short video and help clients understand the value proposition of a non-income-generating loan. The results of providing this service are promising and show that the training helps the clients prepare for housing loans and decide on an affordable loan amount, sometimes in stages. GO requires regularly held group meetings in which educational topics are covered in addition to normal business. On the loan application side, GO uses the High-mark credit bureau, which helps avoid processing clients with two outstanding loans or more from other microfinance institutions. Together, these elements help GO promote both client protection and responsible lending practices.

---

<sup>2</sup> If your institution requires a financial projection tool specific to housing microfinance, the CISF has developed a customized version of the Microfin financial modeling tool. You can request a copy at [global-cisf@habitat.org](mailto:global-cisf@habitat.org).

## STEP 2. Validation of the prototype

Validation is an important part of the design process, particularly for a new product. Validation helps the institution understand the target market's "level of acceptance" of the features of the prototype and identifies aspects that can be refined before the pilot test.

During validation, a quantitative or qualitative approach can be taken, or a combination of both. The decision depends on:

- The financial resources.
- The objective of the validation.
- The quality of the market research.

Qualitative validation is less expensive and requires fewer people but typically takes more time. It is also flexible and can explore topics in great detail. However, the data gathered cannot be approached statistically and generalized to a larger population; thus one cannot reliably estimate demand for the prototype.

On the other hand, quantitative validation is more expensive and requires more people, but it is less open to subjective interpretation because the data can be approached statistically and the findings can be generalized to a larger population. If done well, the potential demand can be reliably estimated. The data collection and analysis also can be done relatively fast.

Following is an explanation of some steps for either quantitative or qualitative validation.

### Quantitative validation

Quantitative validation seeks to accomplish three main objectives:

- a) Understand the level of acceptance of the features of the prototype.
- b) Estimate the potential demand for the product.
- c) Identify potential areas of refinement.

The following actions can be taken to conduct a quantitative validation:

- **Validation planning:** During team meetings, it is important to define what is going to be validated. The most common research questions are:
  - What are the main characteristics of the surveyed population? These include age, income, expenditure, educational level and other sociodemographic information.
  - What improvements does this population prefer to make to their homes?
  - What is their level of acceptance of the prototype and other complementary services?
  - Do they have the capacity to pay for these products and services at the proposed price and interest rate?

The survey you will develop should be based on the following considerations:

- *How* will people participating in the survey be contacted?
- *When* will the survey be administered, and when will the results be delivered?

- *What* resources are needed? Resources include staff time, survey specialists and interviewers, and money for logistics. It is useful to have a person on your team who has a basic knowledge of quantitative research. This person can coordinate work with an external expert.
- *How* precise should the results of the validation be? Increasing degrees of precision requires more resources. Based on what is desired, ask the quantitative consultant to propose:
  - a) The sample size for each population.
  - b) The sampling method.
  - c) The method to analyze the data and what software should be used for the analysis. (There are several packages in the market, including Microsoft Excel, SPSS, STATA and SAS. If the institution has no experience in the use of the software, we recommend you contract a third party to process and analyze the information).

- **Survey design:** Starting with the research questions presented above, you can prepare specific questions for your survey. Annex 16 provides an example of a survey used during quantitative housing microfinance prototype validation, which has been calibrated and field-tested in various countries.

Think carefully through the types of information you need to obtain with this exercise and how the data will be organized. This will help you eliminate unnecessary questions and add any you are missing. In addition, standardized output formats facilitate the processing of the survey.

- **Appoint the field team:** Assign people to perform the following functions: train the team, coordinate the field work logistics, administer surveys, review the quality of the information gathered, process data and prepare the report. The people assigned to each function should have prior experience implementing this type of research, preferably with low-income populations.
- **Train the field staff:** The field staff is made up of the personnel who will be in charge of administering surveys. They need to know the objective of the validation, the reasons for asking each question and the priority questions in the survey.
- **Prepare the logistics:** Based on the sampling plan, assign working areas to the supervisors and their team of interviewers. Prepare the packet of materials that must be given to each interviewer.
- **Validate the survey:** Test the survey with a group of people (the person skilled in statistics could suggest the group size for this test), and adjust the survey based on the results of the validation test. Remember, this is to test the tool; one group of about eight people should be sufficient.
- **Administer the survey:** After each day of research, the person in charge of validating the quality of the information should review the surveys.
- **Process survey data:** Use the software previously selected for this purpose.
- **Write the report:** Prepare a clear and concise report with the most pertinent findings. Request feedback from staff members and consultants who participated in the fieldwork.



### Qualitative validation

Qualitative tools can also be used to validate and adjust the prototype and subjectively assess demand among the target population (though without the statistical rigor or generalizability of a quantitative validation). Unlike quantitative validation, which uses a survey, qualitative validation of the prototype is a process that uses a participatory methodology based on dialogue. The CISF recommends using two-hour workshops with 10-12 potential customers in each one.

Before undertaking the qualitative validation, make sure the following activities are completed:

- Finalize the prototype.
- Select the area where you are going to perform the validation (preferably where the prototype will be piloted).
- Define the profile of nonclients and clients who will participate in the validation workshop.
- Define the team in charge of the validation workshop (one workshop facilitator, one co-facilitator and record-taker, and one housing support services adviser, if applicable).
- Collect information on the workshop participants, preferably one to two weeks before the workshop. This should include name, address, relevant socioeconomic data, average monthly income and expenses of the household.
- Figure out the logistics for the workshops, such as the location, materials and refreshments.
- Verify the attendance of participants in each workshop at least one day in advance.

The following is a basic outline for validation workshop activities:

- **Confirmation of the basic information of the participants.**
- **Introductory activities** to fully explain the purpose of the workshop and win the trust of the participants, including:
  - Investigating the improvements already completed by participants and sources of financing.
  - Investigating the participants' dreams for their home and improvements required to attain them.
- **Main workshop activities:**
  - Mapping out the home improvement priorities of participants.
  - Determining the approximate cost of their first priority improvement. This can be accomplished in two ways: The participant can estimate the cost based on previous home improvements, or the construction expert can provide educated estimates.
  - Assessing the participants' ability to pay the costs of their first priority improvement.

*Note: The preceding activities should take no more than one hour.*

- **An exercise that allows participants to evaluate the attributes of the prototype:** target population, credit requirements, interest rate, term, number of payments, guarantees, fees, housing support services. Ensure that the participants have a chance to assess each attribute and note any barriers or constraints.

*Note: The approximate time for the assessment of product attributes is one hour. The co-facilitator is essential for this part of the workshop. Documenting the level of acceptance of the attributes is one of the most important outcomes of the workshop.*

- **Closing:** Thank the participants and collaborators for sharing their time.
- **After the workshop:** Produce a report for the institution based on the attribute assessment exercises of the workshop, and list any changes that should be made to the prototype. Experience has shown that, in most cases, no substantial changes to the prototype are required. However, the validation process makes space for tweaks to various components or the addition of value-added features.

### Lessons on managing loan size and diversion from Mikrofond EAD in Bulgaria

The vision of new, comfortable, renovated and decent houses can inspire a relaxed assessment of repayment capacity. However, this assessment should remain sound in order to prevent clients from getting into too much trouble with paying unnecessarily big loans.

“In the beginning, we were too optimistic,” said Albena Marinova, Mikrofond’s credit director. “We would love to see a big change in clients’ homes, and would disburse bigger amounts so that clients make their desired renovations at once. However, we ended up having bigger default rates. Nowadays, we advise clients to take smaller consecutive loans and make step-by-step renovation projects. Our loan officers, together with the client, make a choice of the right loan amount and loan term so that it is enough for the project and is not too risky.”

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

Practices introduced to ensure purposeful use of the housing loan include:

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

### Lessons from the field

Do not be surprised if the results of the validation show that the households believe the loan amount is too low. The households in general wish to improve their homes at once. When offering the financial product, the households must be made aware of the importance of planning progressive home improvements so as to align financing with their repayment capacity.

### STEP 3. Prototype refinement

After your institution validates the prototype, you might need to adjust it based on the results before going ahead with the pilot test. If the prototype had a very low acceptance level, there are several options, depending on the reasons for the low level of acceptance:

- Create a new prototype (based on the results of the validation) and conduct a second validation. This should not happen if a good market research and product prototype design took place.
- Review the preliminary research in greater detail or repeat parts of the original market research. For example, your institution could carry out focus groups to explore the attributes of the prototype that had very low acceptance.
- Halt plans for testing the prototype in the area originally selected. (If good market research was conducted, this situation should have been identified before reaching the validation stage).

#### Selecting branches for product expansion

An important step in prototype design is determining whether a sufficient market exists for the housing microfinance product to generate volumes needed to reach sustainability. From the beginning of the pilot, Tulay Sa Pag-unlad Inc. in the Philippines understood there was tremendous potential for its housing product. The test at four branches in metro Manila revealed that the product was well-received and the demand would outpace the availability of funds. Within a year, additional branches outside of metro Manila began to ask staff members to begin offering the home improvement loan.

To strategize where to place its limited human resources, TSPI's product development team developed a profiling tool to help interested branches determine whether offering the housing product was financially viable. The branch profiling tool is a simple market study to project demand, develop a client profile and determine if a minimum of 500 clients in the area are interested in the housing product.

By equipping the branch managers with an assessment and profiling tool, TSPI achieved a shared ownership over the implementation of the product and ensured careful steps were followed to make it a success. TSPI's leadership emphasized this point: "It wasn't the main office who chose where to roll out the product next, but rather we provided a guide to help our branches decide whether hiring a project officer and offering a housing loan will be viable." It also increased product efficiencies by batching clients into groups of 10.

### **Product development lessons from LOK Microcredit Foundation in Bosnia**

The example of LOK Microcredit Foundation in Bosnia points to several considerations for successful product development, including:

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

#### **List of annexes for Stage 4: Prototype Design**

- Annex 15: The Eight P's of Prototype Design Template
- Annex 16: Prototype Validation Survey Example
- Annex 17: Prototype Validation Report Outline
- Annex 18: Prototype Design Workshop Agenda

Pilot testing the prototype under real-world conditions is an important step in the process of successful implementation and wide-scale rollout.

## Chapter 11: Pilot plan and implementation (Stage 5)

In the previous chapter, practitioners became familiar with the design and validation process for the housing microfinance prototype. In this chapter, the product development team will learn about pilot testing the prototype under real-world conditions — an important step in the process of successful implementation and wide-scale rollout. Well-run pilot tests will allow the financial institution to make adjustments to the prototype and will increase the likelihood of the product’s achieving scale. As discussed in previous chapters, proper planning before piloting ensures that everything is in place: financial projections and growth trajectory, indicators to monitor performance, policies and procedures from

### Key questions for this stage

#### Before the pilot:

1. Has the institution made all the necessary preparations for the pilot test?
2. What sequence of activities is required to implement the pilot? Who is responsible for each activity? What is the timeline for each activity?
3. What monitoring processes are required during the pilot?

#### During the pilot:

1. How is the product performing under real-world conditions?
2. Are the growth projections realistic?
3. What are the main challenges to promotion and marketing?
4. How are the loan officers promoting the product? Do they need further training?
5. Are the nonfinancial housing support services performing well? What needs to be modified or improved?
6. What are the main challenges with the portfolio?
7. What is the size of the loans? How many loans have been disbursed? Have the loans been used for their intended purpose?

#### After the pilot:

1. Does the product satisfy an unmet demand among the target population?
2. What refinements to the prototype could be made to better meet the needs and preferences of the target population?
3. What changes are required to offer the product at scale in a sustainable manner?



promotion to origination of the loan, training of loan officers, and adaptations to the management information system and the marketing and positioning strategy.

In this section, you will:

- Assess the viability of the product in the field, under controlled implementation conditions.
- Identify any refinements required to take the product to scale in a sustainable manner.

The following steps should guide your institution in planning and implementing the pilot test.

## STEP 1. Assess institutional readiness for the pilot

In order to determine your institution's readiness for pilot implementation, Annex 19 provides a worksheet that can be used to guide your institution in preparing for this step. This questionnaire will help you assess whether there is:

- Sufficient support for the pilot from senior management and the board of directors.
- Adequate capital funds.
- Sufficient administrative and operational skills for carrying out the pilot.
- An appropriately skilled and trained staff.
- Adequate understanding of the housing products and services being offered and their unique requirements.
- Capacity for making adjustments to the management information system to monitor the performance of the prototype during the pilot.
- A clear housing support services model, if this is offered along with the financial product.

## STEP 2. Pilot planning

The Center for Innovation in Shelter and Finance organizes the pilot planning into 10 steps (Annex 19 offers detailed instructions on these steps).<sup>1</sup> Planning should begin with reviewing these 10 categories, detailed below.

1. **Pilot test team composition.** The implementation team should be composed of the product development team plus other key personnel who will play a major role during implementation (marketing and positioning, monitoring and evaluation, etc.) Budget the time that each team member realistically will be able to dedicate to his or her assigned activities.

---

<sup>1</sup> The information in this section has been adapted from MicroSave's "Prototype Testing, Pilot Testing and Planning for Microfinance Products" methodology. For more information, go to [microsave.org](http://microsave.org).

### Lessons from Bosnia on when to launch the pilot

LOK Microcredit Foundation in Bosnia learned a key lesson on the seasonality of demand while piloting its housing microfinance products. Because LOK was dependent on external funding to launch the housing product, it did not have control over when the funds would be disbursed. In the pilot, the funding was made available in September. But launching the product in the winter proved problematic, as LOK experienced a slower than anticipated uptake at the start of the pilot. Thankfully, the rate picked up once spring arrived. This illustrates that housing construction can be seasonal, so launching a new product in early spring made the most sense. However, winter can be a good time to start preparing for launch — getting the product right, training your staff, getting systems in place and doing the promotion.

2. **Pilot test objectives.** The objectives or goals of the pilot should be clearly articulated from the outset. These objectives will be used to evaluate whether the pilot is going in the right direction and to help make adjustments during implementation.
3. **Implementation protocol.** The protocol defines what will be done during the pilot, who will do it and when. The protocol should contain, among other categories, the implementing personnel and their responsibilities, all pilot activities, indicators that will be tracked, qualitative and quantitative monthly goals of the pilot, and potential areas of expansion during the pilot. Each institution should customize the protocol according to its needs.
4. **Management information systems.** At times it is necessary to adjust the institution's management information system, or MIS, to accommodate some of the prototype features, especially if nonfinancial housing support services are offered or the prototype's core features differ from the institution's other products (e.g., the frequency of payments). The institution might want to capture other product-related information, such as the use of the loan, which often requires adjustments to the MIS. These changes need to be identified and made before the pilot launches.
5. **Financial projections** (if these were not made in the prototype design stage). The final financial projections must be completed. These will be used to understand the financial trajectory of the product during pilot implementation and subsequent wide-scale rollout.

### Lessons from the field

- Choose at least two pilot areas that have a target population with similar characteristics (this aids in determining the reasons for success or failure of the prototype in any one area). Sometimes, the results of the pilot owe much to the branch office's providing the service to each zone. Remember, too, that it is never wise to place all your eggs in one basket.
- The pilot team should ideally be the same people who were part of the product development team. This ensures that the team has a good understanding of the product and services and speeds up preparations for the pilot.
- When time and financial resources allow, use the pilot as an opportunity to validate some of the assumptions made about the services offered as add-ons to the housing microfinance prototype. As an example, consider offering the services at one branch office and not at the other. Or offer different levels of housing support services and assess the differences among the branch offices at the end of the pilot. Lessons learned through this comparative study can aid the scale-up of the housing microfinance product in the future.
- The pilot test must be long enough to minimize seasonal differences that could affect the portfolio. A minimum of 12 months will give a clear idea of how the loan product and nonfinancial housing support services perform during different seasons. We do not recommend pilot testing for less than six months.

6. **Definition of policies, systems, processes and procedures.** The systems used, and the policies, processes and procedures for delivering the prototype — from loan promotion to loan origination — need to be clearly defined before the pilot launch. These definitions will form the navigation chart for loan officers and other personnel involved in providing the product.
7. **Training of the implementation team.** The CISF has found this to be the most important preparatory activity. This training should not be avoided and should include a classroom session and a fieldwork session that can be used to promote the prototype. At times, this training has served to place the first housing microfinance loan for the institution.
8. **Marketing strategy and promotion and materials.** The strategy and materials that the institution will use to promote the prototype should be discussed, and plans should be set in motion, before the pilot launches. These materials should be used to train loan officers and should include vibrant elements to position and market the housing microfinance product. If the institution is creating a brand and a logo, it will be very important to work on developing it here.
9. **Monitoring and evaluation system.** Monitoring the pilot is crucial. Close monitoring of the prototype during the pilot can increase the chances of success and the future scalability of the product. (Be sure to include the cost of monitoring and evaluation in the pilot budget.) More details on monitoring and evaluating pilots are included in Chapter 13.
10. **Launch date.** The previous nine pilot planning categories should allow the implementing team to accurately estimate the amount of work and time available for pilot preparation. As a final step, the institution should set a launch date for the pilot that is realistic but does not overly prolong preparatory activities.

### STEP 3. Pilot implementation and monitoring

Launching the pilot at the selected sites should be relatively simple if the necessary groundwork was laid during the planning stages.

As mentioned before, once the pilot is launched, monitoring of the housing microfinance prototype is one of the most important tasks the implementing team can dedicate time to. Depending on the financial and human resources available, the monitoring can be accomplished virtually or on site; a combination is recommended. If on-site monitoring is not possible because of financial limitations, a well-designed virtual monitoring process is suggested.

It is important to keep in mind that the main purpose of the monitoring is not to hold meetings but to review the performance results and generate recommendations for adjusting the prototype during the pilot. Make sure the recommendations are implemented as soon as possible.

Chapter 13 provides a detailed guide on monitoring activities during pilot implementation.

## Lessons from the field

- During the first three to six months of the pilot, gather information on a monthly basis to monitor the results of its implementation. This is the critical phase when your organization should make most of the adjustments to the prototype based on recommendations from the monitoring. Afterward, the monitoring can occur less frequently.
- As part of the monitoring process, consider preparing a photo album of homes, including photographs of the houses before and after the improvements. Also consider preparing case studies with households who are receiving the housing microfinance products and services. This allows you to identify necessary changes and provides concrete evidence to promote your product and institution.
- If your institution has high turnover among the field staff, you will need to implement a continual training system on the new products and services. Consider preparing a training manual for loan officers. The manual should be updated periodically to reflect changes to the product.
- The nonfinancial housing support services must be seen as a component of the housing microfinance product. As such, every activity must be carefully coordinated and aligned with the loan, and clear processes and procedures must be in place before launching the prototype.
- When a pilot is going according to plan, consider adding new geographic areas. Successful pilots should allow for this “controlled expansion”; it can lead to a faster scale-up of the product.

## Making the transition from pilot to wide-scale rollout

Three key factors that aided the transition from pilot project to wide-scale rollout were identified during the pilot period for the housing microfinance product of CRECER in Bolivia:

1. The microfinance institution’s experience during the pilot project with the housing microfinance product and housing support services was positive. CRECER validated that this product not only helped it fulfill its mission but is also a solid product that can be offered on a wide scale.
2. Access to adequate sources of financing (a fund assigned to

*Continued on next page*

## STEP 4. Evaluation

Toward the middle of the pilot and again toward the end, conduct an evaluation (with the support of an external reviewer, if possible) to answer the following questions:

- Does our product satisfy an unmet demand among the target population? Does the prototype take into account the preferences and capacities of the target population?
- What adjustments should be made to the prototype during the second half of the pilot or during wide-scale rollout?
- What parts of the pilot were successful? Why?
- What aspects of the pilot partially worked or did not work? Why?
- What changes should be made to the product to take it to scale in a sustainable manner?

Unless your institution considers it necessary and has the resources available, you should not try to evaluate all aspects of the pilot. Priority areas to focus the evaluation on are:

- The purpose of the loan.
- The size of the loans.
- The target population of the loan.
- Loan usage.
- The marketing and positioning strategy (to see if you are using the adequate channels).
- The loan requirements (in particular, if they are accessible to the target population).

- The capacity of loan officers to offer the product.
- The viability of the nonfinancial housing support services, including client satisfaction and willingness to pay for these services.

Each evaluation report should be concise and include next steps based on the findings. Immediately after the midterm evaluation, convene a meeting with the implementing team to make changes to the pilot based on the results of the evaluation and make a plan to implement them immediately. After the final evaluation, determine whether the financial product and housing support services will be rolled out to all branches and make the plan for scaling up the portfolio. Use the results to enhance the product before rolling it out. More details on evaluation for housing microfinance products are included in Chapter 13.

#### List of annexes for Stage 5: Pilot

- Annex 19: Pilot Readiness Worksheet
- Annex 20: The 10 Steps of Pilot Planning

*Continued from previous page*

housing loans) facilitated the expansion of the program.

3. CRECER's expertise with bundled services — educational components and leadership training for women, health services, and community activities — proved to be an important asset because these components are a part of the institution's culture and facilitate the implementation of housing support services on a wide scale.

### Critical components of pilot testing

The microfinance institutions examined in a series of case studies by the CISF highlighted several components of pilot testing that were of critical importance:

**Staff preparation and training:** Before launching the new housing microfinance product, all staff members involved in supporting the product received training. Particularly in the case of loan officers charged with selling the new product, this training was vital to ensuring that housing microfinance distinctions would not be perceived as burdensome complications or barriers to promoting sales. The microfinance institution in Uganda mentioned the value of training a broad pool of loan officers in housing microfinance product delivery and support to mitigate potential setbacks caused by staff turnover during the product's launch.

**Setting outreach goals and staff incentives:** Several microfinance institutions mentioned the importance of setting specific institutional targets for housing microfinance, particularly at the outset. At least three microfinance institutions implemented loan officer incentives specifically for housing microfinance and insisted that these were critical to overcoming initial hurdles associated with marketing the new product. The Philippines was a

unique case, where the microfinance institution decided to promote housing microfinance through loan officers dedicated exclusively to this product. Not only has this assured them of a committed work force in promoting housing microfinance, but it also has allowed the microfinance institution to develop greater specialization among its team in housing finance and support services.

**Pilot project location:** Most of the microfinance institutions tested their new housing microfinance product in communities near their central office, frequently within the metropolitan area of the capital. This allowed for close monitoring and facilitated agile decision-making as the product's delivery was being fine-tuned. Clearly, the selected communities also needed to meet other important criteria, such as sufficient market demand for the new product and services, and a high enough population density to ensure efficient delivery.

**Marketing strategy:** Before launching housing microfinance, each institution designed a marketing strategy for its new product. The most effective strategy proved to be word-of-mouth promotion via the microfinance institutions' existing clients, particularly those who were considered well-networked.



Housing support services can be bundled with the financial product or provided as stand-alone assistance.

## Chapter 12: Housing support services design

Housing support services, or housing-related technical assistance, when included as part of the housing microfinance product, should be an integral part of the financial product's definition and attributes. Accordingly, the market research findings and analysis are crucial to the design process, and decisions made about the business strategy and the target group for the financial product also should be integrated into housing support service design.

In this section, you will:

- Learn how to design a housing support services strategy for a variety of contexts, as a component of the financial product.
- Review market research data for the design of the nonfinancial product.
- Consider common design and implementation challenges that have surfaced in global practice, along with the tradeoffs of different business models.
- Draw lessons from case studies of different housing support service models.

### Key questions for this stage

1. What are the steps for designing housing support services? How do they relate to the processes of designing the financial product?
2. What elements of the market research are most relevant to the design of the nonfinancial services?
3. Should the nonfinancial services have their own set of eight P's?
4. How does the housing support services model affect staffing decisions and activities?
5. How can the financial product and the housing support services be integrated?

## DESIGNING HOUSING SUPPORT SERVICE MODELS

Housing support services can be bundled with the financial product or provided as stand-alone assistance, offered to nonhousing microfinance clients. Regardless of whether they are offered as stand-alone services or embedded in the housing microfinance product, nonfinancial housing support services generally are designed using the following steps:

1. Housing market research review.
2. Institutional considerations.
3. Model definition.
4. Staffing decisions.
5. Monitoring and evaluation plan.
6. Staff training.

The process might not be linear, because each step can begin before the previous one finishes. However, each step should be informed by the previous work.

### STEP 1. Housing market research review

Market research is covered at length in Chapter 9. In this step, practitioners will review elements of the qualitative market research and secondary data that are most relevant to the design of the nonfinancial services.

As a reminder, the objective of the market research is to gather information that will support the design of products and services that meet the needs, preferences and capacities of both the target population and the institution serving it (what this handbook has referred to as “the healthy tension”). This convergence guarantees the sustainability and affordability of the products and services. This should be true of both the financial and nonfinancial components.

Housing support services need a defined market segment to be served. In the case of services embedded in the housing microfinance product, the target population is the same for both the product and services. If the assistance is offered as standalone services, however, the target population may differ, so the design team needs to establish the target market for this support.

Ideally, in the pilot location feasibility study you conducted before the market research, a construction expert was available to gather information on the local housing market, materials used, construction methods, and estimates of the costs of construction. A few examples of questions crucial to the housing support services design from the feasibility study include:

- What are the main features of the dwellings of the target market?
- What are current problems with the dwellings of the target market?
- What mechanisms and providers are the population using to alleviate housing problems?

#### Lessons from the field

If your organization decides to partner with another institution to provide these services:

- Try to incorporate the other organization into the project as soon as possible to promote synchronization.
- Ensure that the partner organization has a strong commitment to the process and can invest the required institutional resources.
- Establish, in writing, the roles and responsibilities of each organization.

These questions, along with the ones found in Annex 4, are useful for determining if the financial product and the nonfinancial services will be feasible to implement, and for understanding the opportunities and challenges of offering the services.

After the feasibility study is complete, rigorous qualitative market research should have been undertaken. The market research is an excellent opportunity to learn more specifically about the needs, preferences and capacities of the target group. The questions found within the focus group and individual interview guides in annexes 7-12 will support the design of these services by attempting to understand:

- What are the needs or preferences of the target population for improving their homes?
- What capacities and experience does this population have to address these needs and preferences?
- What environmental factors facilitate or hinder investment in their homes?
- Who is currently providing home improvement services to the target population?
- What types of products and services would the target population be willing to pay for?

This information should be gathered not only from potential clients but also from others working with these households. A good example is the local construction materials supplier who knows firsthand the most common materials used by the target population and the types of home improvements completed. This information is useful for triangulating the information regarding the potential demand.

To design a nonfinancial product that meets demand and fills gaps in the local housing market, it is imperative to use data to understand the target population and their environment. It can be appealing to skip this step and make assumptions about a market, but those assumptions can lead to costly corrections during implementation.

The above questions are just a portion of the data you would seek to uncover with the market research. Other categories of information that could affect product design include land regulation, limitations in material availability and local disaster hazards. What potential clients would value enough to pay for is also critical (an evident gap in the market does not necessarily mean that clients are willing to pay for the solution you will offer).

At a minimum, the information in the following categories should be gathered to design the housing support services:

1. **Local construction assessment:** What types of housing deficits exist? Examples include disaster-prone areas, unaffordable materials, lack of qualified laborers, water or sanitation delivery challenges, etc.
2. **Gaps in market provision:** What types of interventions and institutions are working to address these deficits? Are they formal or informal? Could a current provider become a viable partner?
3. **Policy framework:** What opportunities are available in the country because of government policies (housing subsidies, financial policies, etc.)
4. **Existing demand:** What does the target population say about their housing needs, preferences and capacities? What would they be willing to pay for? Is there unmet demand?

## STEP 2. Institutional considerations

Once the institution reviews the market research, it also should view the potential for housing support services in the context of its own business strategy, incentives and limitations. This requires the institution to return to the conclusions of the institutional assessment process, conducted during Stage 1 (see Chapter 7). If the housing support services are to be delivered with partnerships, it is critical to also consider the partner's incentives and limitations.

Design of the nonfinancial services should be informed by the following considerations for each institution:

1. **Geographic coverage area:** The size of the coverage area should inform the activities of the housing support services provider. For example, larger service areas can make it more challenging to deliver specialized services on site, as the cost of specialists' travel increases and the number of clients they see in a day decreases. On the other hand, a larger service area offers greater potential for reaching scale.
2. **Scale of operations:** A financial institution with a large portfolio, or one that is piloting a housing microfinance product, will have different price margins in the beginning phases. A significant portion of the housing support service cost is staff-related, and when the staff is not working at full capacity, the cost per client will increase. Accordingly, scaling strategies and projections are necessary to properly cost the nonfinancial services.
3. **Strategy and incentives:** It is critical to identify the strategy and incentives for each actor. If partners are involved, they may view the housing support services differently than your institution. Are the housing support services a promotional tool, growth mechanism or social impact strategy for each actor? Some partners may be willing to invest resources or tolerate subsidy, while others will be less willing. Factors that determine each partner's motivations include the value of the services, the competition in the market, the perception of housing in the partner's business or mission, and the clientele.

A major institutional decision made during this step is determining whether the services will be an essential or optional component of the housing microfinance loan. The former option implies services with standardized steps in the loan due diligence and follow-up processes. These services are likely to be delivered by the microfinance institution's staff, and their costs are usually included in the price of the loan. The second option suggests relatively customized services that are delivered by a separate business unit that charges on a fee-for-service basis. A lending institution also may choose a hybrid of both options.

## STEP 3. Model definition

With the market research findings and contributions from the institution's leadership in hand, the housing microfinance design team should now be ready to design a model.

As described in Chapter 10, the CISF uses an adaptation of the eight P's of marketing to develop a prototype that considers all the attributes demanded by the target market. A lending institution including housing support services in its product should see it as one of the central characteristics of its product (the second P). For institutions designing a

## Lessons from the field

- To promote lending, think about contracting a technical demand manager to identify families interested in applying for a housing loan. The manager can take on some of the construction officer's functions, such as helping the households when making a diagnosis of their housing needs and progressive improvement plan. Once the needs of the different households have been identified, the manager can see if there are any common needs within the community, such as water tanks. These managers might be specialized construction experts or technicians whose profile is similar to the technical construction officer given in Annex 26.
- Even if you recommend a particular builder to clients, it is a good idea to suggest that the household consult more than one builder to compare prices, quality and references.

housing support services model as a standalone service, the CISF suggests using the eight P's to create the model. However, for institutions embedding the housing support services within the housing microfinance product, it also can be helpful to use the eight P's to create the model by itself and then embed it within the housing microfinance prototype.

The following tips will help an institution define the eight P's of the nonfinancial housing support services when they are part of the housing microfinance product:

1. **Population:** If the housing support services are an essential part of the housing microfinance product, then the population will be the same for both the financial product and the nonfinancial services. However, if more than one type of housing support service is to be offered, it is important to specify the types of housing microfinance clients who will receive or purchase each service (e.g., by clients' housing needs, income, location, etc.).
2. **Product:** Here it is necessary to identify the services that will be offered. If more than one type of service is to be offered, you should develop a clear description of what types of clients will receive each type of service (improvement plans, budget creation, site visits, etc.)
3. **Price:** It is necessary to determine the costs of each service apart from the cost of the loan. Considerations include:
  - a. What are the costs associated with the provision of each housing support service?
  - b. What are the costs for each service provider (in-house, outsourced, partnerships, etc.)
  - c. How should the fee be structured?
  - d. How to structure subsidies for various borrowers?

Once you determine the cost of offering the housing support services, it needs to be added to the cost of the financial product. (Please refer to the costs and pricing section of this chapter for more details.)

4. **Promotion:** Will the nonfinancial services be used as a promotional tool for the housing microfinance product? What marketing materials are required, and what is the best way to present them? Will delivery partners have the ability to bring in new clients and promote the services?
5. **Place:** Will the housing support services be available in all branches where the financial product is offered? Will clients receive services in the branch, at their homes or at a partner's location? What will be required at the place where those services will be offered?
6. **Positioning:** How do the services add value to the financial institution, and why will clients value them (price, accessibility, quality)? How does your institution want the clients to perceive these services?
7. **Personnel:** Who will deliver the nonfinancial services (loan officers, construction specialists, engineers, a partner)? Where are these personnel located? What are the skills necessary to perform the activities?
8. **Process:** How will the services be integrated into the overall product's process? (See the subsequent section for more detailed guidance.)



In the experience of the CISF, the highest levels of satisfaction with housing support services come from clients whose input was used to design the nonfinancial services. Evidence suggests that where housing support services were developed at the same time as — and embedded within — the housing microfinance product, there was greater likelihood of successful integration.<sup>1</sup>

**TABLE 12: Example of a housing support services product**

Attribute	Definition
<b>Population</b>	Clients from suburban neighborhoods with a monthly income of US\$200-\$600.
<b>Product</b>	Discounts to buy building materials in partner hardware stores. Three types of construction technical assistance are to be offered, depending on the complexity of the construction work: 1) Type 1: Brief visit to calculate budget. Used when the planned repair is to replace the roof and ceiling, plaster walls, install doors and windows, and paint. 2) Type 2: Initial visit to draw up a plan of improvements and budget, with follow-up supervision visit during construction. Used for the construction of latrines, bathrooms and corridors, and floor installations. 3) Type 3: Same as Type 2, with an additional supervision visit during construction work. Applies to the construction of bedrooms, kitchens and load-bearing walls.
<b>Price</b>	Costs of providing the housing support service: construction technician's salary, travel, overhead, etc. Price to be US\$5-\$50 per client once scale is met. The cost of each level of construction technical assistance to the client will be built into the cost of the loan: 1) Type 1: 1.5 percent of the loan. 2) Type 2: 6 percent of the loan. 3) Type 3: 10 percent of the loan.
<b>Place</b>	Peri-urban branch offices.
<b>Promotion</b>	<ul style="list-style-type: none"> <li>Fliers in branch offices and affiliated hardware stores.</li> <li>Workshops on financial education for home improvements.</li> <li>Loan officers have a script to promote the housing microfinance loan with nonfinancial housing support services.</li> </ul>
<b>Personnel</b>	In each branch, two additional staff members will be hired: one construction technician and one loan officer. Customized, in-person training on the product will be provided.
<b>Processes</b>	See Annex 27: Example Process Flow Diagram – Loan with Housing Support Services
<b>Positioning</b>	Based on the institution's current competitive advantage, focus on approving and disbursing loans quickly with the added value of support services to secure construction outcomes.

<sup>1</sup> For more best practices in housing support services, see "Housing Support Services: Do They Add Value to Housing Microfinance?" included in "Lessons from 11 Partnerships of Habitat for Humanity" at [habitat.org/cisf](http://habitat.org/cisf).

## Pricing and costs

Running housing support services in a financially self-sufficient way means understanding and controlling costs while charging a reasonable fee to cover those costs.<sup>2</sup> The cost and revenue sources for housing support services are influenced by four critical elements:

- **Geographical coverage:** For on-site services, the proximity of providers to the clients is a major consideration. If clients are spread over a large area, traveling to homes can be costly, and providers may struggle to see multiple clients in a day. If providers are based in the office or branch of the lending institution and meet directly with clients as part of the application process, it is easier to control costs.
- **Services standardization:** At scale, the more standardized the services, the higher the potential productivity of each provider. On the other hand, the ability to be flexible with the housing support services can be a strategic choice, increasing the value of the service to the client. The tradeoff is that flexibility in service requires more staff diversity, lessening the efficiency of the process.
- **Level of service:** Different activities require different levels of time and staff compensation. It is crucial to estimate the productivity of a provider for a specific service and estimate the staffing levels needed for the expected scale.
- **Staffing:** In most cases, the fixed costs of the staff will be the greatest costs of a housing support service model. Staffing levels can be estimated by looking at projections of average loan size, total housing microfinance portfolio commitment, the number of loans, and the number of clients.

The cost recovery mechanism for the housing support services is another important decision. Generally, there are three types of financing mechanisms for housing support services: fee for service; sold as a percentage of the loan or included in the interest rate; and recovered with subsidies.

- **Fee for service:** This option provides the most diversity in delivery of services. Providers can offer a menu of services or products for a client to choose from. In this scenario, the housing support services are completely demand-driven, with customers paying only for services they desire.

However, providers also can make the services mandatory and set prices for a standardized package of services. In this scenario, the fee needs to be acceptable to both the client and the lending institution. One implication to consider when services are mandatory is that lower-income clients may find it costly, driving their business to another housing microfinance provider.

The advantage of having transparent options and letting the client make the decision is demand feedback. If a service is not needed or desired, lack of sales will quickly tell the provider if a design change is necessary.

---

<sup>2</sup> The CISF has developed a housing support services cost projection tool that can be used to price the services and estimate the break-even point. Please email [global-cisf@habitat.org](mailto:global-cisf@habitat.org) for the tool.

- Percentage of the loan or included in the interest rate: The housing support service costs can be included in the interest rate or sales price, as a percentage of the loan. In this scenario, the housing support services represent a value addition inherent to the product. Institutions can use this to differentiate a product from competitors that do not have the extra service. During focus groups that have been conducted as part of market research while designing housing microfinance products, many clients have mentioned their desire to receive some sort of technical support and are willing to pay for it, but they indicate that they prefer the cost to be added to the interest rate rather than having a separate fee.

The potential disadvantage of this strategy is a product that appears to be more expensive than those of competitors. If the perceived value of the housing support service does not appear to be justified by the additional costs, customers will seek cheaper options. Understanding the demand for the service is therefore paramount when the cost of the service is included within the interest rate.

- Subsidizing housing support services: A provider also can choose to not charge the clients for the technical assistance, subsidizing the cost instead. Mechanisms to address this range from fundraising, whereby funds are sought from donors or other socially minded local partners to explicitly address the provision of housing support services to the poorest households, to a cross-subsidization model whereby a fee for service is charged to higher income earners and used to subsidize the costs of providing the same service to low-income consumers.

Partnerships can be crucial for this pricing model, where financial institutions can work with NGOs or local government authorities to provide the subsidized activities. In this scenario, the NGO does not have to be concerned with finding clients and can focus on social outcomes, and the financial institutions receive a value add to their products at no cost.

Based on the CISF's previous experience, microfinance institutions seeking to scale housing microfinance with embedded housing support services are particularly concerned about guaranteeing product sustainability. Some of the financial institutions the CISF has worked with have not been able to entirely recover the costs associated with the provision of those services. Some institutions have subsidized those services during pilot implementation but have dropped the subsidy once they expand the product.

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. A microfinance institution in the Philippines had initially depended on Habitat for Humanity to provide more specialized housing support services to clients during the pilot test 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 a small number of institutions the CISF has worked with. 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.

### Process flow design

The final product, combining a financial product and nonfinancial services, may have multiple steps, staff members and interfaces with the clients. To account for this, the CISF suggests that the housing microfinance provider create a visual representation of the process. Each component or task in the process flow should have clear value and objectives. Critical components to analyze include the first contact with the clients, on-site visits to the household, and verification visits. This representation also should show the division of labor among staff members, such as a loan officer, technical officer, a construction worker and a foreman.

Visualizing this process helps illustrate the policies, procedures and technical tools used to provide the services. For example, your organization might have to include within the loan contract a clause that specifies who is responsible for the quality of construction improvements. Additionally, if more than one person is dealing with a client, communication problems can arise. Accordingly, all staff members and service providers must be mapped out as part of the process of offering housing support services.

#### The process map usually includes at least three key parts:

**First contact** with the clients interested in your institution's products and services is an important step. It presents an opportunity to highlight and promote the housing microfinance product as a comprehensive product that includes housing support services. Critical activities can include handing out promotional fliers to the clients, discussing the clients' long-term goals, and providing details on the overall process. This initial contact can be made by a loan officer, construction officer or housing technician, depending on the model.<sup>3</sup>

Once a relationship has formed and **a loan assessment takes place (often at the client's home), planning for the home improvement is worthwhile to include as part of the process.** This could mean that the person assigned to conduct the visit will help the client plan the first home improvement and think through the subsequent improvements. This visit also can be used to determine what type of support is required, whether simple technical advice or more in-depth support from a construction specialist.<sup>4</sup>

**A final visit to follow up on the consultation or measure client satisfaction can be useful for ongoing adjustments to the nonfinancial services.** (This visit can be conducted during the monitoring visits of the pilot implementation.) All relevant data and forms collected during the loan process should be brought, along with the original

<sup>3</sup> Annex 22 provides an example of a form that can help you during the first contact with a client and can encourage staff members to discover the basic profile of the potential client. It also will create a preliminary inventory of the client's needs and preferences regarding home improvements. Ultimately, this information should be incorporated into the loan application form.

<sup>4</sup> Preconstruction visits to the house can identify any construction work that needs to be corrected. Annex 23 is a valuable tool to capture this information. Once this form is complete, you will have a baseline of the housing conditions (before making the improvements) and the sequence for the improvements.

agreements made with the household. During the visit, compare what was originally decided on against what was done, and note any differences. After gathering the information, report this to the rest of the implementation team to make any changes to policies, processes and procedures. Annex 24 offers an example of a form used by financial institutions to follow up with clients once the home improvement is completed and the loan is closed out.<sup>5</sup>

Use the process flow to remove redundant activities and make sure you are receiving value from each step in the process. (See Annex 27 for an example process flow diagram).

A critical finding from global practice is the significant impact that timing has, and the importance of using the right type of housing support services at certain stages in the building process. When housing support services are provided at the preconstruction phase, far better housing quality outcomes have been observed than when they are provided in the middle of the improvement process, after mistakes already have occurred. Coming too late in the building process to provide useful advice may be a design flaw that does not create the value for clients that the institution desires. Sometimes the poor timing is caused by differing incentives from partner institutions. For example, a financial institution may be interested in streamlining the loan approval process, but a partner providing the preconstruction housing support services isn't capable of matching the loan approval time.

#### **STEP 4. Staffing and training**

Hiring the right staff is a critical part of implementing the housing support services model. The profile of the staff should be informed by the model and process flow. For example, if construction assistance is not contemplated, there is no need to hire engineers and architects. If the technical skills required are minimal, current staff members, such as loan officers and branch managers, can be trained to handle them.

In the experience of the CISE, a variety of staffing configurations have been employed for the delivery of housing support services. The two most common positions for housing support service responsibilities are:

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

Table 13 contains an example of how responsibilities can be divided between these positions for the delivery of specific services.

---

<sup>5</sup> Use Annex 24 to monitor the state or stage of construction, the level of the household's satisfaction with the loan and support services, and recommendations for the household and your organization.



**TABLE 13: Example of division of labor for housing microfinance and housing support services**

Loan officer	Construction specialist
<ul style="list-style-type: none"> <li>• Conducts initial site visit and takes photos.</li> <li>• Creates the home improvement development plan with the client.</li> <li>• Distributes relevant printed materials with information on the type of improvement selected.</li> <li>• Helps client prepare a list of needed materials and a budget for the selected project.</li> <li>• Prepares the loan application.</li> <li>• Conducts loan utilization visit and takes photos of the completed project.</li> <li>• Oversees loan repayment.</li> </ul>	<ul style="list-style-type: none"> <li>• Prepares designs or floor plans of more complex projects.</li> <li>• Provides on-site supervision to these projects.</li> <li>• Reviews all project plans and budgets before the loan is approved.</li> </ul>

A helpful way to classify the providers of housing support services is to identify them by the institution providing the staff. Three common classifications are noted below:

- **In-house:** Housing support services are delivered by staff members of the lending institution, whether loan officers or construction specialists.
- **Linked:** Housing support services are delivered by the staff of another organization operating in partnership with the microfinance institution.
- **Embedded:** Housing support services are delivered by the staff members of another organization who are operating out of the offices of the lending institution.

Financing the housing support services and hiring the right staff can create operational tension. The model may call for technical professionals, but the costs may be too high, notably when scale is low. However, it is important to be aware of the sacrifices you make when asking nontechnical staff members to perform technical work to keep costs down, or when hiring technical staff members who need subsidy. Whatever sacrifices are made, the design should include risk-mitigation activities. For example, further monitoring is needed if the technical staff has a limited capacity.

The decision to hire staff members or contract out the housing support services can be difficult. Generally, it makes sense to contract out the housing support services while the scale is limited and the staff will not be used at full capacity. However, once demand is enough for a full-time staff member, hiring may be the best course.

Annex 26 gives an example of a technical officer's profile, along with examples of how to verify that candidates meet the profile. The technical officer should help adjust the housing support service tools and forms. If your institution creates a partnership with a provider, someone in your institution must act as a link with the partner. This person will be responsible for guaranteeing that the households receive quality service.

## Staff training

The field staff must understand the housing support services well in order to promote and offer them. All involved staff members should be trained in:

- The elements of adequate housing.
- The housing support services model selected by the lending institution.
- Positioning the housing support services and their role as a marketing tool to promote the housing microfinance product.
- The process used.
- The monitoring and evaluation system.

The following considerations must be taken into account regarding the field staff:

- Training should include practice in the field with clients to make a diagnostic of their needs and the housing support services they may use (preparing an improvement plan, drawing up the housing design, creating budgets, etc.).
- If there is a high turnover of loan officers in a financial institution, an agile training system for housing support services is needed.
- After initial training, reinforce the staff's know-how with frequent trainings and workshops. It can be useful to have the field staff visit the clients with a construction expert, so that they can receive feedback from an expert.

## Loan officers

Loan officers provide an excellent opportunity to use a staff resource that already interfaces with households to provide support services. In the CISF's experience, lending institutions have used loan officers to walk clients through preconstruction activities and provide verification during the construction process. Designing an incentive scheme for loan officers that encourages them to promote the housing support services can be effective. It also allows leaders to set minimum monthly housing microfinance lending amounts for loan officers who manage a multiproduct credit portfolio.

The value of training loan officers to provide low-cost, nonfinancial services to clients is clear, but there are a few challenges in using them as housing support service providers. First, the payment structure for loan officers usually involves an incentive scheme based on the size of their portfolio. If the provision of housing support services reduces the number of prospective clients they can visit daily, it might not be to their economic advantage to promote this service, frustrating the institution's commitment to housing microfinance. Additionally, clients may be more willing to listen to a construction expert give advice on improvement sequencing, budget creation and material referrals than to a loan officer. Considerations such as these should be kept in mind and managed appropriately as the institution plans the details of the housing support services model.

### Loan officer incentive scheme success for IMON

IMON International LLC in Tajikistan learned early the importance of integrating the housing microfinance product into its staff incentive scheme. Staff members are awarded based on number of housing loan clients, loan size and repayment rate. There's also an implicit incentive in that the housing finance loans are 6 percent cheaper than the standard consumer loans (34 percent vs. 40 percent, on average). Feedback from the pilot reveals that loan officers have fully embraced the housing loan and appreciate the added value of the construction technical assistance. This, along with other factors, led to a successful pilot and subsequent wide-scale expansion.

## STEP 5. Monitoring and evaluation

The housing microfinance product and any type of nonfinancial housing support services should be monitored closely during pilot implementation. The institution should have a monitoring and evaluation system in place, and specific indicators and components should be included to review and analyze the financial and nonfinancial components. In the case of the nonfinancial housing support services, indicators to consider include:

- The number of clients served by each construction officer.
- The time between the initial contact with the household and preparing the home improvement plan.
- The amount of time spent with each client in total, at the office or on site.
- The time to complete construction.
- The quality of the construction.
- The general level of the household's satisfaction with the housing support services.
- The types of home improvements.

The indicators should be tied to the incentives of the financial institution, whether they are financially or socially driven or both. Capture relevant data that will allow you to make adjustments and improve the services and their impact.

Monitoring and evaluations systems can create more costs for institutions. It is best to create data-gathering mechanisms that are built into pre-existing activities, such as office meetings with the client and on-site technical visits. See Chapter 13 for guidance on monitoring and evaluating housing microfinance products and housing support services.

### List of annexes for housing support services design

- Annex 4: Pilot Location Pre-Feasibility Worksheet
- Annex 21: Housing-Related Trainings for Clients
- Annex 22: Documentation Form for Potential Customers
- Annex 23: Diagnostic and Continuous Home Improvement Plan
- Annex 24: Example Verification and Close Form
- Annex 25: Categories and Examples of Housing Support Services
- Annex 26: Job Profile of a Construction Technician
- Annex 27: Example Process Flow Diagram — Loan with Housing Support Services

*Note: The tools to be used during monitoring of the housing support services are included within the annexes of Chapter 13.*

## HOUSING SUPPORT SERVICE CASE STUDIES

The case studies below represent three different housing support service models: linked, in-house, and from a materials provider.

### CASE STUDY 1: IMON

Before 2013, inflation in Tajikistan was growing over 10 percent annually, but because of a building “bubble,” construction costs were increasing annually by 25 to 50 percent, putting affordable housing out of reach for the majority of the population. There was an overwhelming demand for housing and housing renovation, especially to address the damaged and inadequate housing stock built during the Soviet era.

IMON, the largest housing microfinance provider in the country, was eager to make its product part of its social mission to serve women and the poor, and the housing support services aspect of the loan is a key part of that social mission. IMON partnered with Habitat for Humanity Tajikistan to design and deliver the housing support services. As of 2013, IMON had disbursed about 10,000 home loans annually.

To deliver housing support services to IMON clients, both loan officers and Habitat for Humanity engineers worked with households. The housing support services included advising the household on how to plan and sequence incremental construction, supporting the creation or review of budget estimates, and making recommendations to the client about building materials and contractors.

Under Tajik law, IMON could not provide engineering services, nor could it be certified to do so, but Habitat was certified as an engineering provider. By placing Habitat employees in the branch offices, IMON could provide its clients with consultation services that were easily accessed and provided a competitive marketing advantage for the housing microfinance product.

The engineer went on site only if the loan amount was above \$1,000. For loans of less than \$1,000, the loan officer visited the site, assessed the proposed project, and filled out the technical data sheet. The engineer then reviewed the data sheet and met with the clients to provide them with recommendations and advice.

Each engineer received a base salary, with bonuses dependent on how many clients they served each month. The agreement between Habitat and IMON stated that IMON would pay half the engineer’s salary and bonuses, cover the overhead office costs, and provide transport to field sites (since the engineer almost always accompanies the loan officer). Habitat paid for half the engineer’s salary and bonuses and provided the engineer with the equipment needed to perform the work.

The IMON housing microfinance product was successful, and the free engineering consultations were a popular feature that provided a degree of comfort and security to clients who were applying for housing loans.

### CASE STUDY 2: EDYFICAR

Peru’s housing sector relies on informal and incremental building. Infrastructure has struggled to keep pace with the building, as only established settlements have clean water, sewers, electricity and paved steps. In newer settlements, often on the top of hill-sides, clients have to walk through dangerous, variable terrain to reach the markets and services they require.

EDYFICAR has one of the largest portfolios of any microfinance institution in the country, with almost US\$1 billion in loans disbursed. EDYFICAR serves over half a million clients and states that the majority are lower-income households. In 2009, EDYFICAR established a partnership with the Center for Innovation in Shelter and Finance to redesign its housing product and create a housing support services component. Today, the product, called EdyVivienda, is available in almost 200 branches. By 2013, the product was so popular that it accounted for 23 percent of EDYFICAR's entire portfolio, up from 9 percent in 2010. As of 2014, EDYFICAR had placed 230,595 housing microfinance loans and disbursed a total of \$326,100,844.

The majority of housing support services are delivered through EDYFICAR loan officers. Loan officers are expected to perform the following actions during a visit to clients:

- Help clients identify and prioritize their home improvement needs through a brief dialogue on the incremental building plan, which helps customers define the improvements made with the first credit and link with subsequent credits.
- In some cases, deliver brochures with basic construction tips to customers.

Accordingly, workshops and ongoing training are provided to loan officers. The training is crucial, as EDYFICAR management estimates that 600 new officers are hired every year.

Additionally, as a means to provide construction advice without having trained construction professionals visit homes, EDYFICAR has developed a brochure with tips on building materials and processes for households and another aimed at construction workers and foremen.

The housing support services delivered from EDYFICAR are light, as no technical professionals are involved in the process. Additionally, no follow-up is done to assess the construction or examine whether funds were used as designed. The benefit of this design is the low cost of the advice, which allows for significant scale.

### **CASE STUDY 3: CEMEX**

CEMEX was founded in 1906 as a regional Mexican cement producer. Today, CEMEX is one of the world's largest cement producers and the world's largest ready-mix concrete producer.

Private individuals build approximately 50 percent of Mexican homes. They tend to prefer cement over other construction materials because it is inexpensive and easy to use. Self-construction has historically accounted for approximately 40 percent of CEMEX-Mexico's sales, making it the company's largest customer segment. While this market contains some middle-class consumers, most of the current purchasing is done by low-income customers.

In a radical rethinking of business strategy, CEMEX identified six barriers that made the building of new homes and the addition of new rooms a highly inefficient process:

1. Inability to save money.
2. Lack of access to financing.
3. Limited technical construction knowledge.
4. Difficulty in accessing certified quality materials.
5. Inability to store materials.
6. Lack of planning skills related to building homes.



Because of these challenges, builders often took four to seven years to add a room to their home, with 30 percent of the materials wasted because of poor construction practices, theft and spoilage from exposure to wind and rain.

CEMEX's first response was to create a new product: a smaller, 25-kilogram bag of cement. Such small bags had a lower cost per unit, could prevent spoilage and waste, and would allow bags to be carried home instead of requiring customers to hire a truck. The concept failed. Distributors did not like the product, and customers avoided the smaller bags in favor of larger ones, which were strong status symbols. Customers placed large bags of cement in front of their homes, showing they had money to invest in their houses. Unfortunately, the bags often would not be used and would end up being stolen or spoiled by rain.

In 2000, CEMEX revised its model, called *Patrimonio Hoy*, to meet low-income clients' building needs by creating "cells" to provide technical assistance throughout the country. By the end of 2005, the program had 61 cells placed in areas that have a population of over 50,000 inhabitants, a tradition of self-building, and average household incomes of approximately 1,000 pesos per week.

Functions include recruiting promoters; planning, designing and scheduling projects; coordinating distributor deliveries; receiving payments; and handling customer inquiries. Ideally, each cell has an office manager, a sales leader, an architect (technical adviser), and a customer service agent responsible for collecting payments. Although few cell staff members have college degrees (office managers and architects may be exceptions), the staff are local and expected to be familiar with the area and the community.

To join the process, the weekly payment is 145 pesos. The payment goes toward materials worth 125 pesos plus a membership fee of 20 pesos. The membership fee covers *Patrimonio Hoy*'s costs, including consulting and architectural services, interest in financing materials, guaranteed fixed prices for the materials, and the operating costs of the local branches. Payments must be made once a week by Tuesday. Over 70 weeks, the clients receive seven deliveries valued at 8,750 pesos. If clients leave the program, they receive their savings in the form of building materials.

As clients make weekly payments, *Patrimonio Hoy* places an order and makes payments to a local CEMEX distributor for all necessary building supplies. The distributor buys cement from CEMEX and supplies from other companies and delivers these materials to the clients. Cement accounts for about 30 percent of the clients' purchases; the remainder covers other building materials such as steel, sand, gravel, bricks and rebar. *Patrimonio Hoy* never takes possession of the goods, because they are delivered directly to the clients.

*Patrimonio Hoy*'s marketing is tailored to people with immediate needs for housing or home expansion, such as mothers, young women, and men in their early 20s who are starting their careers. Promoters, mainly women, work part time to attract clients. They have monthly goals and are compensated based on the number of clients they attract and the time the clients stay in the program. Their goal depends on the promoter's seniority.

Each cell behaves independently and is self-sustaining. They all have to balance the demands of being locally responsive and nationally efficient. Cells are locally customized, because building materials and techniques vary greatly throughout Mexico, but the cells share best practices and are connected through operations management software. Most cells attain break-even within 12 months or 600 clients served.

The value to CEMEX includes increased revenues through sales, larger market share, brand recognition and stronger customer loyalty.

Monitoring and evaluation allows managers to track implementation at all stages and determine whether the product is going in the right direction and meeting the targets and objectives set during the planning phase.

## Chapter 13: Monitoring and evaluation of housing microfinance products

The monitoring and evaluation process is an essential component of pilot testing and product expansion, and should be considered from the beginning of the product development cycle. It allows managers to understand how the product is performing, what needs to be improved, and what can be done to mitigate some of the risks that arise during implementation. It also helps in systematically documenting the lessons, successes and failures and improving further implementation and scale-up. This process also allows managers to make timely decisions about adjusting and enhancing product features.

In this section, you will:

- Become familiar with the concept of monitoring and evaluation.
- Understand why planning for monitoring and evaluation is important and should be an inseparable part of product development.
- Learn about the housing microfinance product monitoring and evaluation process flow and understand each of the steps in the process.
- Familiarize yourself with monitoring and evaluation tools and learn how to use them effectively.

### Introduction to monitoring and evaluation

The following chapter details the methodology that the Center for Innovation in Shelter and Finance typically uses to monitor and evaluate a housing microfinance pilot or product expansion. Monitoring and evaluation plays a vital role in increasing the success and efficiency of a pilot or product rollout. It allows managers to track implementation at all stages and determine whether the product is going in the right direction and meeting the targets and objectives set during the planning phase.

As defined by the Organization for Economic Co-operation and Development in the “Glossary of Key Terms in Evaluation and Results Based Management,” monitoring is a continuing function that uses systematic collection of data on specified indicators. These indicators provide managers and the main stakeholders of an ongoing intervention with an understanding of its progress, achievement of objectives, and use of allocated funds. For a housing microfinance product, performance indicators (both qualitative and quantitative, related to the financial product and any bundled nonfinancial housing support services) are collected to help managers analyze and determine how actual product implementation compares to the expected results.

Evaluation is the systematic and objective assessment of an ongoing or completed pilot or product expansion, examining its design, implementation and results. The aim is to determine the relevance and fulfillment of objectives, efficiency, impact and sustainability. Evaluation provides credible information for further decision-making. Information

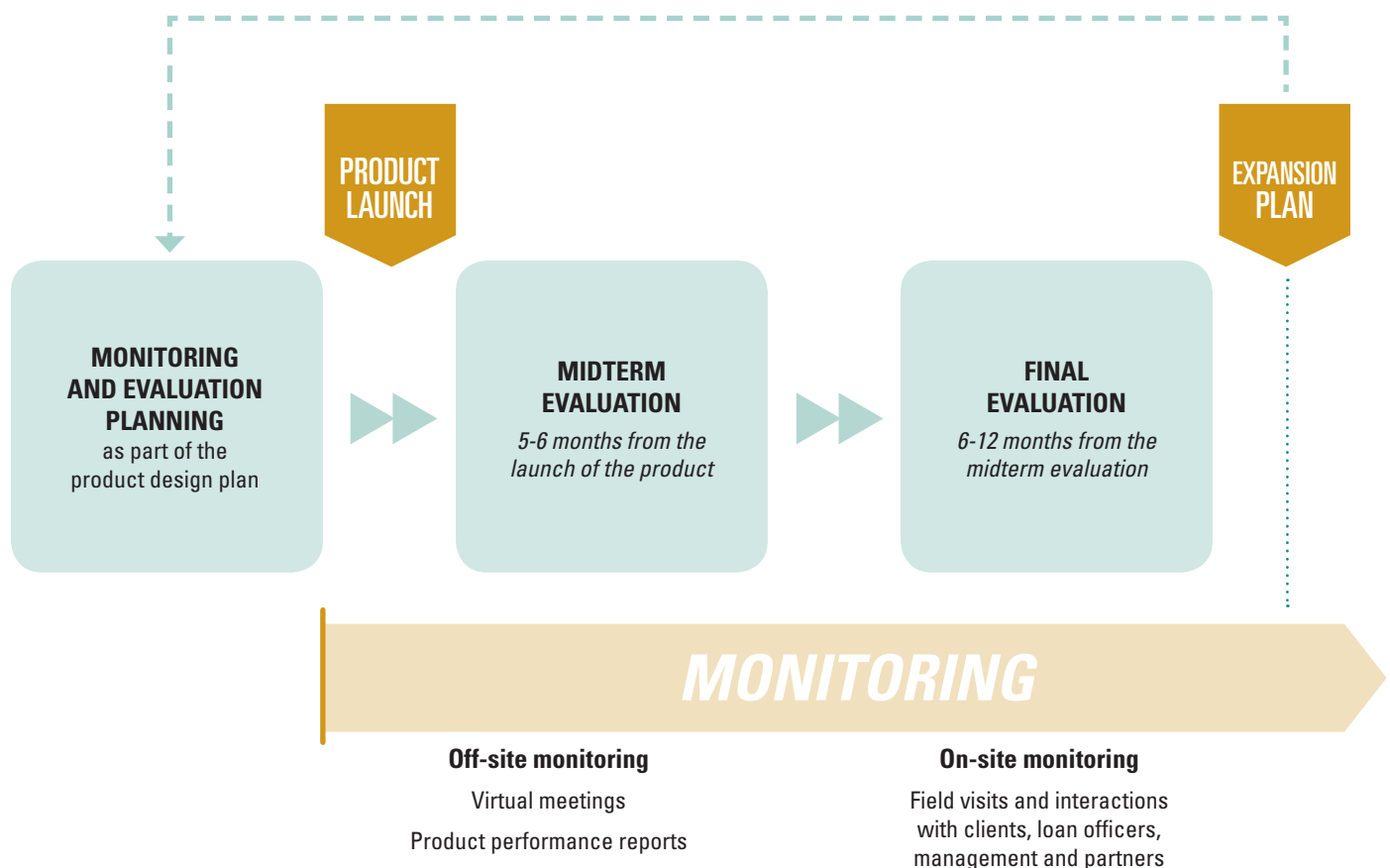
gathered during monitoring is used throughout the evaluation process as one of the data sources. However, evaluation assumes the collecting and analyzing of more in-depth information about not only the product's performance, but also organizational capacities, leadership and other areas that affect the success or failure of the product.

*Note that product monitoring and evaluation, as it is used throughout this chapter, can refer to monitoring of the prototype during pilot testing or of the product during wide-scale rollout. For the most part, this process assumes that the pilot implementation team or monitoring and evaluation consultants will be supervising the pilot or product expansion from a distance and thus makes a distinction between off-site and on-site monitoring and evaluation. Because it can be a challenge to dedicate staff members to the time-intensive task of on-site monitoring and evaluation, your institution may opt to hire consultants to handle this aspect.*

### The monitoring and evaluation process flow

For effective and efficient monitoring and evaluation, certain processes are typically followed that allow the financial institution to systematically collect all of the data and information required for analysis and decision-making. The general monitoring and evaluation process flow is described in Figure 16.

**FIGURE 16: Monitoring and evaluation process flow.**



This process runs throughout all stages of the housing microfinance pilot. Monitoring is ongoing throughout the implementation timeline, and evaluation is planned at certain key points when there is enough background information and a sufficient client base to analyze and draw conclusions from. However, as mentioned in the introduction, monitoring and evaluation can and should expand beyond pilot implementation, and the steps here can be used during wide rollout of the product.

As indicated in Figure 16, monitoring can be done:

- Off-site by following the trends and performance indicators through reports submitted by the front-line staff and through virtual meetings or calls.
- On-site by field visits and actual meetings with clients, partners and key staff members.

In the following sections, we offer a step-by-step explanation of the process flow and a number of recommendations, tools and tips to help plan and implement monitoring and evaluation activities.

### **STEP 1. Developing a monitoring and evaluation plan**

Monitoring begins immediately after the pilot launches. For successful monitoring and evaluation, the staff needs to develop the monitoring and evaluation plan as part of the pilot implementation plan (refer to Chapter 11).

The monitoring and evaluation plan should address the following topics:

- Frequency of the monitoring.
- The indicators that need to be tracked during monitoring.
- Success metrics for the evaluation.
- Monitoring and evaluation tools and templates for reporting.
- People responsible for monitoring and evaluation activities.
- Timelines for the midterm and final evaluations.
- Resource required and available.

Monitoring and evaluation objectives are always related to the general objectives of the housing microfinance product and the overall strategy of the institution. Therefore, the monitoring and evaluation plan should never be developed as an isolated process. It is not separate from the product development process; it should, in fact, be an integral element of the implementation plan. This means the following considerations must inform the development of the plan:

- The financial institution's overall strategy and development objectives.
- Housing microfinance product objectives.
- The product development methodology and eight P's (including any bundled housing support services).
- Institutional readiness.

## Why planning is important

Without a proper plan in place, monitoring and evaluation will not succeed. During the planning phase, the implementation objectives are identified, the timelines are set, and resources are allocated. When the monitoring and evaluation is planned, it can be linked to the overall pilot implementation. Figure 17 shows some of the linkages between the planning process and sound monitoring and evaluation.

**FIGURE 17: Understanding the linkages between planning and monitoring and evaluation**

✓	Without proper planning, it is not clear what should be monitored and how, and monitoring can't be done well.
✓	Without effective planning, the basis for evaluation is weak and evaluation can't be done well.
✓	Without careful monitoring, the necessary data will not be collected and evaluation can't be done well.
✓	Monitoring is necessary, but not sufficient, for evaluation.
✓	Monitoring facilitates evaluation, but evaluation uses additional data and a different framework for analysis.
✓	Monitoring and evaluation will often lead to changes in the product implementation plan. This may mean further changing or modifying data collection for monitoring purposes.

*Adapted from the "Handbook on Planning, Monitoring and Evaluating for Development Results," United Nations Development Program, 2009.*

## Frequency and intensity of monitoring and evaluation

A number of factors define the frequency and intensity of monitoring and evaluation. The process may vary from pilot to pilot, depending on several important considerations (for example, geographical context and credit methodology).

To define the frequency and intensity of monitoring and evaluation, use the following questions for guidance:

### How mature is the financial institution?

The maturity level of the financial institution is important. Smaller, community-based microfinance institutions might not have well-established internal policies and procedures or lack capacities and systems for effective monitoring. Newly established microfinance institutions are often still developing their internal capacities and processes. Well-developed financial institutions, which have a relatively long history, usually have all the processes and systems in place to allow them to undertake effective monitoring, which means the monitoring and evaluation can be less intensive.

### Is this a new product or the refinement of an existing one?

Developing a new product can be time- and resource-consuming, because it assumes starting from scratch and adapting the new product to the general processes of the institution. Thus, the monitoring in this case needs to be more intensive to help identify problems and challenges as they arise. In the case of product refinement, most of the processes are



### Lessons from the field

The questions in this section are meant only to guide you through the process. Small financial institutions are not synonymous with weak leadership, and well-established processes do not always lead to efficient problem solving. When designing your monitoring and evaluation plan, look at all the aspects as one whole. Build in flexibility for the inevitable changes. The whole monitoring process should always be aligned with the implementation activities, and as problems arise, the plan should be adjusted to solve them on time and in an efficient way.

already in place, which means there will only be a need to follow and adjust some of the existing practices, mainly those that were modified substantially during the refinement.

#### **How complex is the housing support services model?**

It is always hard for a financial institution to adjust its processes to different levels of housing support services, as this is often a completely new component for the institution. That is why more frequent monitoring is usually recommended for more complex models, especially in the beginning of the product implementation — to allow the institution to detect any problems and challenges in the beginning phase.

#### **Are you working with existing or new partners?**

It takes time to establish a good relationship with partners. If your institution expects to work with other organizations or experts (such as external consultants, material suppliers, engineers, etc.) to provide housing support services, make sure you consider this as well. In the beginning of any partnership, it generally takes time to build the relationship.

#### **How established is the pilot or product expansion leadership at the financial institution, and how experienced are the leaders with problem solving?**

Monitoring and evaluation always involves a lot of problem solving. When defining the frequency and intensity of monitoring and evaluation, make sure to base it on your previous experience with problem solving. Try to answer the following questions:

- How fast have problems been identified?
- Who were the owners of the risks and challenges?
- How willing were they to address the issues, and how quickly did they respond?
- Did they have the capacities to address the problems on time?

#### **What are the general social, economic and legal conditions in the country?**

External factors affect pilot implementation and rollout. If you identify a number of “unsolved” issues at a macro level, then you should take a closer look as the process evolves, employing more intense monitoring and evaluation.

## STEP 2. Off-site monitoring

The actual monitoring begins right after launch. It can involve general communication with staff members and partners, checking on the main performance indicators of the prototype or product, reviewing the feedback from clients and loan officers, and other strategies devised during planning.

### Virtual meetings

Virtual meetings are used when the institution’s implementation team or the monitoring and evaluation consultants are not able to travel easily to the locations of the pilot or product expansion. We suggest using this type of monitoring when financial resources are limited. These meetings are usually done via phone or Skype call, as often as every one to two weeks during the first half of the pilot. As the pilot or product rollout evolves and indicators show that it is moving forward according to plan, it can become less frequent during the second half.

**Who should be involved in virtual monitoring?**

- The housing microfinance project manager or key point person in the financial institution.
- Branch managers where the pilot is happening.
- Any other subject matter experts related to specific issues in the agenda. These could be construction specialists for housing support issues, communications/marketing managers for product promotion, risk managers and others.
- Senior management in case a serious issue is identified.
- External consultants, if you have contracted them to develop the housing microfinance product and track the implementation.

**Before the call**

Prepare the agenda at least one day before the call, and share it with all the participants. During the meeting, focus on potential risks or limitations, solutions for identified problems, potential corrective measures and next steps, and progress made on recommendations from previous monitoring and evaluation reports.

The meeting agenda should cover the following topics:

**Financial indicators**

- Number of loans disbursed (total portfolio and housing microfinance portfolio by branch).
- Amount of loans disbursed (total portfolio and housing microfinance portfolio by branch).
- PAR 30<sup>1</sup> (general and housing microfinance portfolio).
- Average loan amount.
- Housing microfinance as percentage of total portfolio.
- Type of housing improvements (numbered by type).

**Product performance and progress**

The product performance review always should be conducted around the eight P's used to design the prototype. During the monitoring calls, look for:

- Population: Existing and new clients, methodology (individual, village banking, solidarity groups).
- Product characteristics: Current vs. designed.
- Pricing: Current terms and conditions vs. designed.
- Place: Branches, disbursement and collecting alternative channels, etc.
- Personnel: Training (number of loan officers trained, staff turnover, training of trainers).

---

1 PAR 30 stands for portfolio at risk over 30 days.

### Lessons from the field

- When an issue is identified, try to address it as soon as possible. Problems do not get solved on their own. The longer you wait, the bigger the problem becomes. If a serious issue has been identified, involve senior leaders in high-level problem solving or decision-making.
- If virtual monitoring does not provide you with all the necessary information and answers to identified issues, go to the field. The best feedback most often comes from direct interaction with clients and loan officers who work with the housing microfinance product daily. This is helpful for immediate trouble-shooting.

- Promotion campaigns: Expectation, ongoing or permanent, seasonal, etc.
- Positioning: Internal, external, competition.
- Processes: Current process vs. designed.
- Internal product competition? (Cannibalization?)
- Housing support services: Incremental/progressive delivery, material:
  - Housing support services model (if applicable).
  - Ensuring all stakeholders understand the scope and structure of housing support services.
  - Clear definition of roles and responsibilities (e.g., consultants meet expectations, loan officers know their role in offering the services).
  - Relationship between the institution and the housing support services provider regarding timelines, activities and timely communications.

Gather or request copies of the necessary reports and documents before the call. Do not forget to share the summary with all the participants on the call — along with management — to show the overall progress. A Virtual Monitoring Minutes Template is provided in Annex 29.

### Reporting

Reporting is an important part of the monitoring system. It allows you to systematically collect and analyze the data on product performance at the institutional level. In the planning stage, the staff should define the indicators the organization wants to track. Reports should be created on a monthly and quarterly basis once the pilot or product expansion begins. These reports should be incorporated in the general reporting of the financial institution and should allow the staff to compare the housing microfinance product performance with the performance of other products.

Link the reporting dates to the monitoring schedule, so that reports are due and received before virtual calls or on-site visits. A template is included in Annex 28: Quarterly Product Performance Report Template.

### STEP 3. On-site monitoring

If capacities and resources are available, monthly or quarterly on-site monitoring can be scheduled. Field visits always give a better picture of progress. Otherwise, on-site monitoring can be optional, depending on the results of off-site monitoring.

#### When to go for an unplanned on-site monitoring

Use the checklist below to identify whether there is a need for on-site monitoring at any stage of implementation.

- Implementation is not moving forward in one or more branches.
- Progress reports show unsatisfactory performance of the housing microfinance product (e.g., a lot of loan diversion is happening).
- Actual numbers are significantly behind the planned targets.

- Serious issues have been identified during the virtual monitoring and require direct interaction with clients and the branch staff.
- Significant negative feedback has been received from clients about some of the characteristics of the prototype or product.

If any of the above-mentioned issues have been identified and virtual monitoring alone does not show positive progress in resolving the issue, it's time to plan a field visit.

### Logistics

Field visits always require preparation. This involves communicating with relevant staff members and planning the logistics. Make sure the following information is ready before the implementation team or consultants go for a field visit:

- Collect all the previous reports, and do a brief analysis of the available information.
- Make a list of clients who should be visited.
- Communicate with the branch managers who are involved in the monitoring and evaluation, and agree on the loan officers who will accompany you on the field visit.
- Make phone calls, if possible, to all the clients whom you selected to visit to make sure they can meet you at their homes and can allocate time for the interview.
- Think through the logistics (travel arrangements, accommodation in case of an over-night visit, etc.).
- Allocate about 45 minutes per client (30 minutes for individual interviews and 15 minutes for the engineer or housing support services specialist to inspect the construction work). Annex 30 is a client interview tool that can be used for this purpose.
- Reserve time to interview loan officers, key senior staff members and others at the branches who are involved in pilot implementation or product expansion. This can be a group interview. Annex 31 is a loan officer interview tool that can be used for this purpose.

In general, plan to have two full-time employees available for at least five days, which includes one day of preparatory work, one to three days for the visit (depending on the institution and sample size), and one day for report writing. The team should involve a specialist in microfinance products and a construction specialist. Make sure the team is properly trained to effectively interview clients and loan officers before going to the field.

### How to choose the sample for client visits

- Get the database of all clients with loan amounts, disbursement dates and home improvement intervention types.
- Make sure the list compiled for the visit includes clients from different regions or branch offices, where applicable.
- Visit clients residing in both urban and rural areas; their housing needs and experiences are different. and speaking with both will give you different perspectives on the same issue.

### Lessons from the field

In cases where delinquent clients and potential fraud are among the reasons for on-site monitoring, make sure the relevant loan officer does not have prior contact with the client before the visit to avoid cover-ups.

- If applicable, visit clients living in houses and those living in apartment blocks. Home improvement priorities for each can vary greatly. This is particularly important when assessing the housing support services component of the prototype or product.
- Choose clients with different home improvement types.
- If applicable, choose clients who received different levels of housing support services.
- In case of delinquencies, make sure to include delinquent clients to determine reasons for their default.

### STEP 4. Midterm evaluation

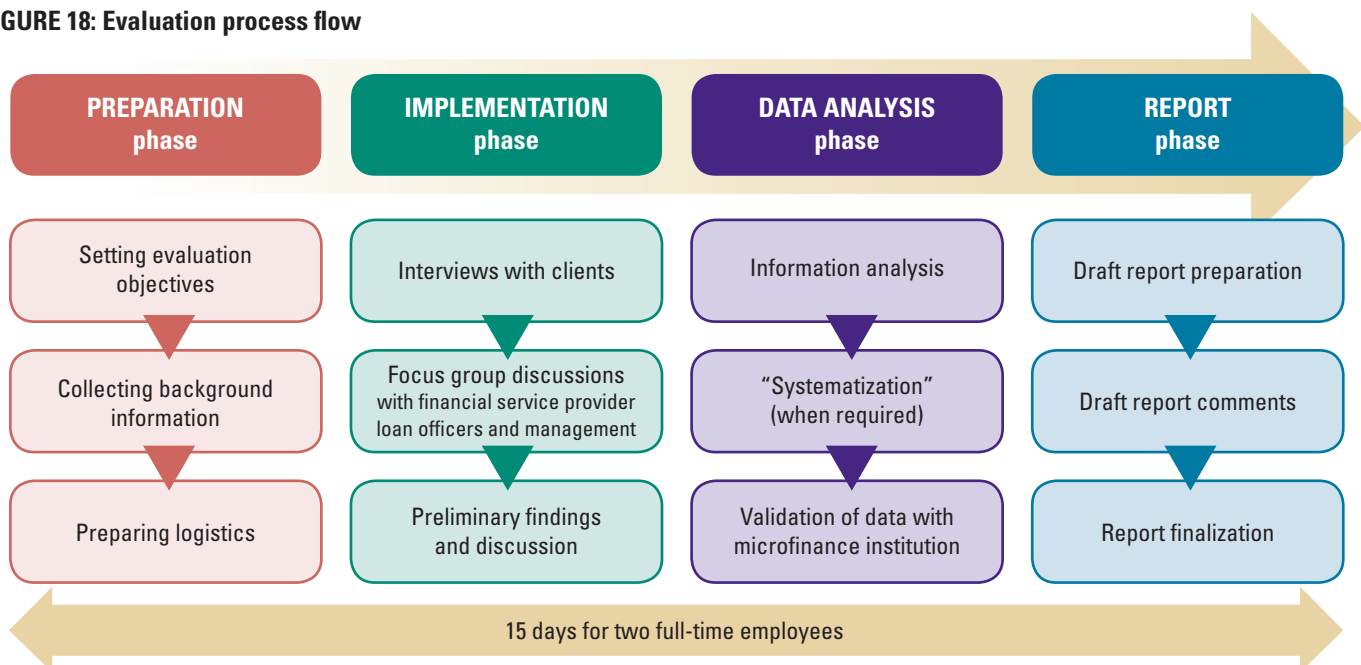
The midterm evaluation is usually carried out five to six months after the pilot or product launch. It covers pilot implementation up to the point of the evaluation and helps answer the following questions:

- Does the housing microfinance product address the demand?
- Are clients satisfied with the services of the institution and the housing support services provider (if applicable)?
- Is the product competitive in the market?
- Are there any issues, challenges or improvement opportunities identified by clients, loan officers or other partners (with reference to the eight P's of product development)?
- What corrective measures need to be taken to improve implementation?

#### Methodology

The evaluation process flow typically used by the CISF is presented in the next graph.

FIGURE 18: Evaluation process flow





## 1. Preparation phase

### Setting evaluation objectives

This is the most important part of a successful evaluation. Unless you know what you want to evaluate and what the outcomes of a successful evaluation are, the process and the final report will likely not give you useful answers.

### Collecting background information

After setting the objectives, evaluators should do desk research to collect all the information that is available on the implementation and housing microfinance product. Such information can include proposals, previous evaluation reports, data received from monitoring, financial statements, and portfolio quality information. This step is linked to the previous one, as the analysis of the background information will help to set the right objectives.

### Preparing logistics

The logistics will be similar to what is used for on-site monitoring. The sample for evaluation is usually bigger, however. Depending on the overall number of clients and staff members involved in the implementation, try to visit at least 10 to 15 percent of clients.

## 2. Implementation phase

### Interviews with clients

You can use the client interview questionnaire (Annex 30) as an example for the interviews. Follow the instructions described in the on-site monitoring of Step 3 above. To validate information gathered during interviews with clients, a focus group with other clients can be organized if time and resources are available. The focus group should cover a similar scope of questions as the individual interviews.

### Focus groups with loan officers, management and housing support service providers

Having focus group discussions or semistructured interviews with loan officers, branch managers and other senior officials at the institution can help to capture different perspectives on the same issues. Use the focus group discussion guides for loan officers and management (Annex 31) to guide you through the process. If external housing support service providers are involved, plan to interview them as well.

### Preliminary findings and discussion

After you finish with the interviews, plan for a meeting of the entire implementation team. During this meeting, discuss the preliminary findings to gather everyone's perspective on future implementation. This meeting will help you draft the report and recommendations.

## 3. Data analysis phase

For the data analysis, you can use a tool similar to the example in Annex 13. Plan to put together all the information gathered, create charts, do comparisons, analyze and draw conclusions.

## 4. Report phase

### Draft report preparation

When all the information is analyzed, it's time to prepare the evaluation report. The report should include a summary of product progress for the whole period that is evaluated, summarizing the findings and providing recommendations.

### Lessons from the field

- Conducting the evaluation can take considerable time. It includes field visits with individual interviews; focus group discussions with clients, key staff members and managers of the financial institution; analysis; and report writing. Make sure to allocate enough time and resources for the evaluation in the planning phase, otherwise this step is unlikely to succeed.
- Do not forget to send a reminder to the branches to call potential clients before the visit.
- When interviewing the clients about the services of the financial institution and their satisfaction level, make sure that no staff member who regularly interacts with the clients is present; this will make the clients more comfortable about responding to the questions.

### Draft report comments

When the report is ready, share it with the housing microfinance product leadership, the institution's management and partners. Collect their comments and questions.

### Report finalization

Finalize the report based on the feedback received. It's now ready as a tool for further decision-making.

Depending on the scale of the evaluation, prepare to allocate two full-time employees for up to 15 days, including five days for preparations, five days for field visits and five days for report writing. The evaluation process assumes considerable involvement from a number of loan officers, branch managers and key management personnel.

### Recommendations for the client interviews

- Make sure you are acquainted with the client interview questionnaire you plan to use before going to the field.
- Take a camera if one is available. It is always useful to compare before and after photos from the construction site to see the progress and compare with the initial home improvement plan and timeline.
- Make sure you have a person with a construction background on your team who can assess the construction quality and fill in the construction and housing support services sections of the questionnaire.
- Try to get as much information from the clients as possible. Let them speak about their experiences with the financial institution and the construction process. Fill in the questionnaire as they speak.
- Don't just ask the questions from the questionnaire in quick succession; rather use a few guiding questions and comments to elicit more in-depth information that will help you identify successes and challenges.
- Before finalizing the visit, make sure you have answers for all of the important questions in the questionnaire.

## STEP 5. End of pilot evaluation

The final evaluation is the last step in the monitoring and evaluation process described in this chapter. It should be conducted six to 12 months after the midterm evaluation, enabling you to have a reasonable sample and outcomes to evaluate. The general process flow, methodology and tools are the same as the midterm evaluation. The main difference is the objectives of evaluation.

The scope of the final evaluation should cover the entire product design and implementation, from beginning to end. After you have the final evaluation report, you should be able to answer the following questions:

- Did the pilot or product expansion meet its targets and objectives?
- Did it achieve the expected results?
- Is the product sustainable?
- Is the product meeting the demand?
- Did it have a positive impact on the target market?
- What are the lessons learned throughout the implementation period?
- How are the housing support services contributing to the construction quality?
- Does the product need further enhancement to make it more responsive to the needs and demands of the market?
- Is this product strategic for your institution?
- If the pilot was successful, would your institution like to expand the product?
- Are capacities and resources in place for the expansion phase?

For transparency and objectivity, the evaluation at the end of the pilot should be done by people who were not involved in the planning and implementation of the pilot or product expansion. Institutions may opt for external consultants to handle the final evaluation.

### What happens after the end-of-pilot evaluation?

Based on the final evaluation of the pilot, the institution can decide whether to continue with the housing microfinance product and expand it throughout its network. If the answer is yes, the institution must decide if further adjustments and product refinement are needed before the expansion. When carrying out expansion plans, the monitoring process should start again. If the decision is to not continue, then the monitoring and evaluation process ends with the pilot.

If resources are available, a case study or a product impact study should be compiled to document and share lessons. These documents also can be used for marketing and promotion purposes. A simple method for documenting lessons is included in Annex 32.

### List of annexes for monitoring and evaluation for housing microfinance

- Annex 13: Market Research Analysis Template
- Annex 28: Example of Quarterly Pilot Monitoring Report
- Annex 29: Virtual Monitoring Minutes Template
- Annex 30: Monitoring and Evaluation Client Questionnaire for On-Site Monitoring
- Annex 31: Monitoring and Evaluation Interview Guide for Loan Officers
- Annex 32: Method for Documenting Lessons Learned

### Lessons from the field

Changes in the external environment should never be overlooked. It is important to follow the general macroeconomic trends and business environment in the country where your institution operates. Major developments can affect product performance in both positive and negative ways, so it is essential to identify the trends and make adjustments in a timely manner. External factors may include:

- General macroeconomic and social indicators (such as gross national income, inflation rate, unemployment rate, exchange rates, etc.)
- Legislative environment (new legislation on housing or financial regulations, or changes in policies and regulations that may affect your operations or the implementation).
- Political developments in the country.

Financial institutions are frequently interested in assessing clients' permanence at their current residence as part of the clients' credit evaluation.

## Chapter 14: Secure tenure guidelines for practitioners

Housing microfinance is intimately tied to the land tenure status of a client's residence. Land tenure has a direct bearing on several key factors of housing microfinance, including:

- Whether or to what degree a family is willing to invest in home construction, in relation to their perceived level of secure permanence or rights over their land.
- The physical permanence or likelihood that a client will be allowed to remain at a particular location, which directly affects his or her creditworthiness.
- The capacity of a family to use their home as collateral or to let it represent a type of informal guarantee on loans.

This chapter examines these factors in greater detail and highlights emerging practices in housing microfinance to appropriately assess, leverage and potentially improve a household's level of land tenure security. Although it does not provide step-by-step instruction in the way of the other chapters in the practitioner's guide, it attempts to address some of the practical considerations institutions will have around secure tenure, ending with two steps financial institutions can take to deal with tenure security.

In this section, you will:

- Learn about the issue of land ownership rights and their link to creditworthiness.
- Learn about the benefits and limitations of land and property as collateral.
- Learn about ways financial institutions have provided housing loans in contexts where property rights are limited.

### Key questions for this stage

1. What forms of property rights do low-income people with interest in housing microfinance possess?
2. How can market research illuminate the opportunities and risks around property rights?
3. Can land be used as collateral for housing microfinance? If so, how well has that worked?
4. How can a financial institution benefit from understanding its clients' land tenure situation?
5. What forms of documentation might help in assessing land tenure?

## SECURE TENURE AND CREDITWORTHINESS

Financial institutions, regardless of whether they are engaging in housing microfinance, are frequently interested in assessing clients' permanence at their current residence as part of the clients' credit evaluation. This assessment may involve verifying the type of residence (e.g., ownership, rental, residing with family members), duration,<sup>1</sup> and whether any recent home improvements were undertaken (in the case of ownership). Legal ownership and longer times of residence suggest lower credit risk, while recent relocations to settings with precarious tenure are often associated with higher risk. When formal documentation supporting a client's homeownership is unavailable, some lenders refuse to lend, but many accept alternative forms of verification, such as copies of informal ownership documents, utility bills or consultation with neighbors or community authorities. A more extensive list of potential documents to review when verifying a household's tenure status is found in Table 14.

**TABLE 14: Alternative documents for assessing land tenure security**

Type of document	Comments
Formal or informal sales agreements	May be supported by receipts, including sales tax.
"Soft" title, or statement of possession rights ( <i>"derecho posesorio"</i> )	Usually granted by local or municipal authorities.
Property tax receipt	Important to verify that the owner's name is listed.
Statement from communal land authorities	Particularly valuable when proclaiming individual rights to communally held properties. For example, in Mexico, properties held collectively ( <i>"ejidos"</i> ) <sup>2</sup> may be validated by a statement from the respective local committee.
Formal or informal agreement from property owners	For example, allowing family members to build on property owned by relatives.
Copies of utility bills	Important to verify that the owner's name is listed.

Property ownership status holds an even greater importance for housing microfinance lenders and for planning where to market and offer their products. On the one hand, a higher degree of tenure security commonly increases demand and the likelihood that a client availing herself of a housing microfinance loan will actually invest in a home improvement project, rather than diverting funds to another use. It also increases the security of the home investment, as there is less likelihood of an undesired relocation

<sup>1</sup> For example, microfinance institutions frequently require clients to have resided in their current home for at least one year.

<sup>2</sup> *Ejidos* are communal lands assigned for individual community members' use and are very common in rural areas of Mexico. They represent relatively secure tenure but cannot be individually sold or exchanged on the open market.



or eviction occurring while the client is repaying the loan. Both of these reduce loan risk for the housing microfinance lender. Furthermore, institutions engaging in housing microfinance frequently pursue social impact through their financial services. To this end, ensuring that a household has sufficient secure tenure may be seen as a responsible lending practice, leading to home improvement investments that increase families' assets and contribute to their long-term well-being.

Many housing microfinance lenders accept clients with a range of secure tenure options, but it is not uncommon for financial institutions venturing into housing microfinance for the first time to proceed with such extreme caution that they restrict their housing loans to only those households holding formal legal title. This very cautious, conservative approach has two unfortunate consequences. The first is that it denies access to home financing for families with legitimate claims to their land. Not surprisingly, many of these families are in greater need of housing improvements than those with legal title, as they typically have lower incomes. Secondly, this practice may severely constrain the growth of the institution's housing microfinance portfolio, since a large population will be disqualified from receiving a loan. Financial institutions operating in highly competitive lending environments are likely to encounter rivals that are willing to lend to these "rejected" client groups, recognizing their informal tenure as sufficiently secure, and thereby capturing greater market share.

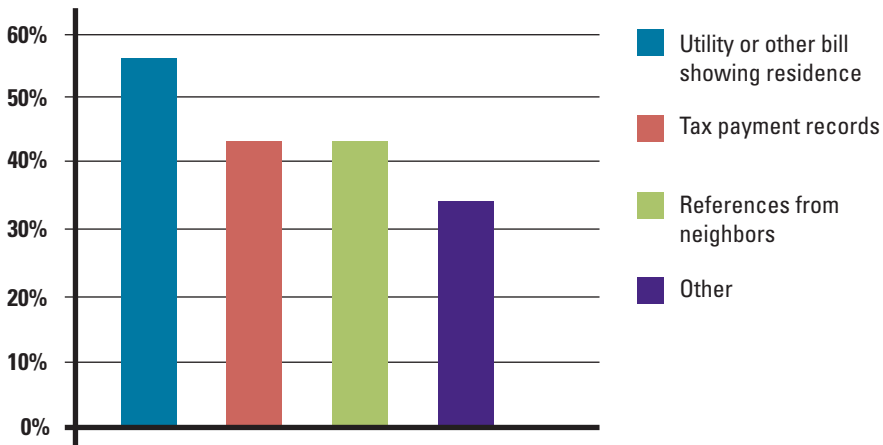
On the other end of the spectrum are financial institutions that require absolutely no verification of a client's tenure status. These lenders tend to see housing microfinance as a type of consumer lending, and assess the client's creditworthiness based on criteria other than their housing tenure, such as current cash flow, loan affordability and credit history. This practice may accelerate loan uptake, but it is likely to result in a higher percentage of investments being diverted to non-housing uses, thereby contributing to a higher-risk portfolio, with performance more in line with consumer lending. This approach is also less likely to produce a portfolio of housing loans that can mature into more formal or semiformal mortgages (micromortgages), a common ambition for many practitioners of housing microfinance.

The CISF's 2014 housing microfinance survey of 48 financial institutions found that the majority of institutions that accept informal land tenure proxies use utility or other bills to show residence.<sup>3</sup> Figure 19 breaks down the informal proxies used by some microfinance institutions. A few included other alternatives, such as "certificate of possession confirmed by a community leader" paired with a visit by the loan or branch officer.

---

3 The full report of the Housing Microfinance Survey can be found at [habitat.org/cisf/publications.aspx](http://habitat.org/cisf/publications.aspx).

**FIGURE 19: Informal land tenure proxies, by percentage of responding financial service providers**



Source: CISF Housing Microfinance Survey

## LAND AS COLLATERAL

An implicit assumption within conventional lending paradigms is that housing finance entails a mortgage on the property being financed.<sup>4</sup> It's no surprise, therefore, that many financial institutions have tended to follow this practice when extending home improvement or housing microfinance loans to low-income borrowers. Nevertheless, experience among housing microfinance practitioners has shown that mortgages are not the only option for this type of lending and are often unsuitable for both clients and lenders for reasons such as the following:

- Low-income households often do not possess a full legal title over their home.
- Local foreclosure laws might not support efficient repossessions, particularly when involving low-cost housing.
- Housing values and resale markets in marginal neighborhoods can be difficult to assess.
- The costs associated with formally registering a mortgage lien are often disproportionate to the loan's size.
- The home improvement loan's size may be disproportionate to the full value of the home, thereby overburdening the borrower.
- The negative social impact of repossessing homes is an outcome that many microfinance lenders prefer to avoid.

---

<sup>4</sup> The term "mortgage" refers to the use of land or real estate as collateral for a loan.

Although mortgage-backed loans might make sense for housing investments over a certain size, lending institutions tend to resort to a variety of alternative guarantees for loans below a set amount. For example, CRECER, a Bolivian microfinance institution, requires mortgage guarantees on housing loans over US\$10,000, while TSPI in the Philippines and Raíz in Peru will make loans up to US\$15,000 before requiring a mortgage. Experience among microfinance lenders has revealed that the cost recovery rates of housing microfinance loans backed by alternative “weaker” guarantees may be as good as or better than those with mortgages.<sup>5</sup> For example, Habitat for Humanity Kenya found that the repayment rates among clients with the strongest tenure security were no better than those with less formal documentation. Clearly, the importance of formal collateral should not overshadow the trademark underwriting practices of microfinance, whereby clients are evaluated primarily in terms of their repayment capacity and character — the primary determinants of loan performance.

In certain contexts, where customary land ownership is widespread, the mortgaging of properties with “soft” land titles is an increasingly acceptable and legally enforceable practice. One such context is Uganda, where “Kibanja mortgage” agreements may be used to pledge land held with only customary title as collateral for a loan (e.g., a purchase agreement with a local council official’s stamp). UGAFODE, a Ugandan microfinance institution, has established in its “flexible housing loan” policies that loan officers need to fill out preprinted Kibanja mortgage forms, which are signed in the presence of local council officials, who both certify the land ownership and attest that the property is free of other legal obligations. Although the Kibanja mortgage is legally enforceable, cases are processed through civil courts, making them lengthy and costly. UGAFODE has never actually foreclosed on a client’s home. Thus, in UGAFODE’s case, the Kibanja mortgage functions primarily as a highly effective form of psychological collateral.

Another country where “soft titles” are used for mortgages is Cambodia, where microfinance institutions such as First Finance and TPC require that land be registered as collateral on all housing loans. Customary land ownership must be certified by local authorities (e.g., village, commune or district chiefs) before the property may be pledged through a mortgage agreement, which is then registered with the same local authority. While the mortgaging of customary land opens up financial opportunities for the low-income majority, it also introduces potential challenges to financial institutions, such as land ownership disputes and multiple certifications being issued for the same property to different lenders. Given the above, it would seem that the mortgaging of customary land is perhaps best viewed as a tighter form of psychological collateral.

## ALTERNATIVE TYPES OF LOAN GUARANTEES

Because housing microfinance products typically involve individual loans, it is most common for lenders to require guarantees similar to those used for other types of individual microfinance loans. These may include guarantors, collateralized household assets, possession of property documents, authorizations for payroll deductions, and fixed savings. Descriptions of different types of loan guarantees are listed in greater detail in Table 15.

---

5 For relevant findings from Latin America, see “Land and Collateral Issues” by Irene Vance in “Housing Microfinance: A Guide to Practice,” Kumarian Press, 2004.

**TABLE 15: Alternative guarantees for housing microfinance**

Type of guarantee	Description
Guarantor	Fiduciary guarantee assumed by either a salaried worker with a verified source of income (and sufficient to cover loan installments), or owning assets or real estate beyond the value of the loan.
Property documents	Formal or informal statements validating homeownership. A financial institution may choose to keep photocopies of these documents or hold the original or official documents in “custody” for the duration of the loan. An agreement may be signed with the borrower, stating that the property is somehow tied to the loan obligation.
Collateral/moveable assets	A legal or informal commitment to turn over physical assets that hold sufficient value to cover the loan obligation.
Pledge on gold	Formal or informal commitment of gold (or other valuable jewelry) that can be sold to cover debt obligations.
Authorized payroll deductions	Legal commitment allowing a financial institution to withhold a client’s payments (or those of a guarantor) if loan obligations are not met.
Promissory note	Legal document backing the value of the loan.
Fixed savings/deposits	Where fixed savings are required of borrowers (most common in group loans), these balances may be used as a partial guarantee on loans.
Group guarantee	Where housing microfinance is part of a group loan (Solidarity Groups, Village Banking, Grameen), a solidarity or mutual guarantee may cover loan defaults.

It’s worthwhile to note that guarantors are by and large the most common type of guarantee accepted by microfinance institutions for housing microfinance loans. In particular, guarantors (often relatives) with fixed income streams that sufficiently cover loan repayment obligations are favorably evaluated by housing microfinance lenders.

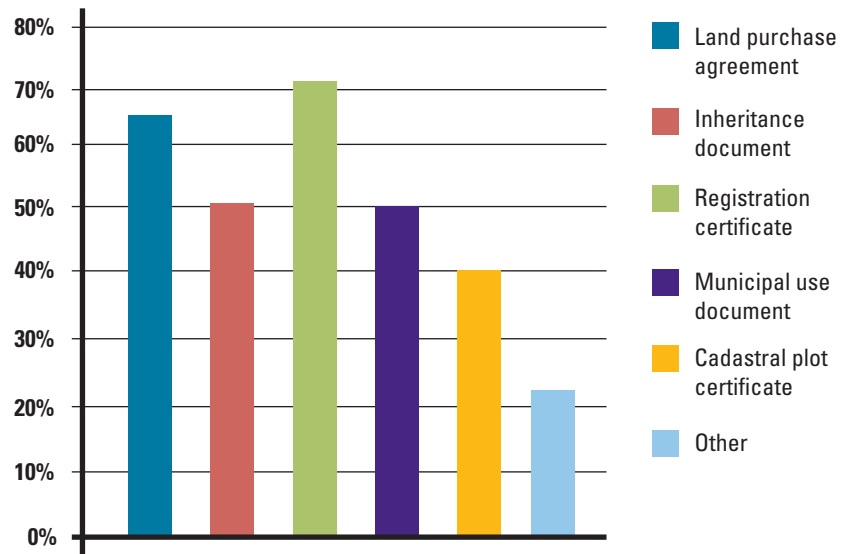
Another notable practice that is relevant to housing finance is informally binding the borrower’s loan obligation to his or her home property. Since the property is not legally tied to a registered mortgage and is often owned via informal tenure, this connection is essentially psychological, exerting moral pressure through association with a borrower’s most valued asset. Commonly referred to as “psychological collateral,” the association is apparently quite effective, as the use of property documents as guarantees is very popular among housing microfinance lenders and has most likely contributed to the high repayment rates evidenced in housing microfinance portfolios worldwide.

Registration certificates and land purchase agreements were the most common non-title tenure documents accepted as loan guarantees by financial institutions responding to the 2014 CISF Housing Microfinance Survey.<sup>6</sup>

6 The full report from the Housing Microfinance Survey can be found at [habitat.org/cisf/publications.aspx](http://habitat.org/cisf/publications.aspx).

Recognizing alternative forms of land tenure is critical to making housing markets more inclusive for the base of the pyramid.

**FIGURE 20: Nontitle documents used as loan guarantees, by percentage of responding financial service providers**



Source: CISF Housing Microfinance Survey

### GOOD PRACTICE: HOUSING MICROFINANCE AND LAND TENURE

As presented in the above sections, there is a growing awareness among housing microfinance practitioners that families' land realities, and specifically their level of tenure security, are of critical importance to doing good business. Below is a summary of recommended practices in housing microfinance for assessing tenure security and leveraging this assessment for the benefit of financial institutions and the clients they serve.

1. **Verifying tenure status is good due diligence**, and a socially responsible practice, since length and security of tenure can be associated with loan risk. Most financial institutions with significant housing microfinance portfolios (representing at least 10 percent of their total loan portfolio) realize the value of allowing for a variety of tenure options when evaluating potential clients, as this legitimately increases their outreach to a much broader market. Furthermore, socially minded housing lenders are increasingly aware that recognizing alternative forms of land tenure, in addition to freehold title, is critical to making housing markets more inclusive for the base of the pyramid.



### **PROMISING PRACTICE 1: Linking maximum loan amounts to land ownership documentation**

Balancing their mutual goals of increasing financial access to legitimate land owners and mitigating risk, several microfinance institutions have set loan ceilings based on the types of land documentation provided by their clients. For example, TSPI in the Philippines has based its housing loan ceilings on a classification of types of land documentation, segmented into three categories:

1. Loans up to 30,000 pesos (US\$700): Clients may provide any type of government-issued land documentation, which must be validated by a neighborhood, municipal or national authority.
2. Loans between 30,000 and 70,000 pesos (US\$1,600): Clients must include a copy of a municipal land tax declaration as further proof of ownership.
3. Loans between 70,000 and 100,000 pesos (US\$1,600-2,250): Clients need to present formal land title.

Another notable case is that of Raíz in Peru, which requires that clients present some form of “certification of lot possession” (*Certificado de Posesión*) to qualify for a home improvement loan. These documents vary among localities, and serve to validate clients’ stable possession of their homes. Families unable to produce these documents are allowed only to borrow consumer loans for home improvements — at smaller amounts (a maximum of US\$800), shorter terms and higher interest rates. Unsurprisingly, the more attractive rates and terms of the home improvement loans often serve to motivate Raíz clients to obtain basic certification documents for their land.

2. **Evaluating informal tenure often requires special skills and tools.** In countries or contexts where land titling is scarce and tenure is highly informal, financial institutions have had to equip their loan officers with both skills and tools to properly assess land tenure status. For example, in Sub-Saharan Africa, where most of the poor own their homes informally, microfinance institutions often require loan officers to consult with a variety of sources to confirm homeownership, including family members, neighbors, local chiefs, community leaders and municipal authorities. Microfinance institutions operating in contexts with widespread customary land ownership are likely to follow steps such as the following to assess clients’ land tenure status:
  - Visiting clients’ homes to verify location, estimated value, boundaries, dimensions, etc.
  - Consulting neighbors as references, including asking about the clients’ length of time at their current residence. For example, CRECER in Bolivia requires two neighbors’ testimonies, along with documentation (e.g., utility bills) confirming residence of a minimum of five years, if proper ownership is undocumented.
  - Receiving the original land documents or a copy, if these exist.

- If appropriate land ownership documents with valid certifications are not available, the loan officer may request that these be obtained before the loan application is submitted. For example, TPC in Cambodia requires that all clients submit a properly certified hard or soft title as a prerequisite to applying for a housing loan. Clients who do not possess even a soft title are encouraged to pursue this. Sinapi Aba in Ghana sought to address the issue of undocumented properties by offering clients a Property Folio loan before applying for a housing loan.
- In certain contexts, even when certified land documents are presented, the loan officer might need to validate them with local authorities. Housing loan officers at TSPI in the Philippines, Sinapi Aba in Ghana, and UGAFODE in Uganda are all required to obtain land document validations from the respective land commissions, registries or local officials.

Once a client's land tenure information is gathered, a further challenge is qualifying or rating a household's degree of tenure security based on an assessment of the former. Generally, the loan officer reports on the status of a client's land tenure for credit committee consideration, but several lending institutions require an independent assessment based on a review of the land documents and information presented (see Good Practice 2, below).

Habitat for Humanity India developed a simple tool to be embedded within the loan application form called the Secure Tenure Assessment Tool, or STAT, card (see Example A), which measures five tenure-related indicators with a numeric score, facilitating a more standardized analysis of secure tenure status, especially when formal ownership documents are unavailable. Other housing microfinance lenders have developed their own sets of questions, guides or indicators to support informal tenure assessment. The application of these tools forms part of the training that loan officers must undergo in order to properly evaluate housing microfinance loans.

#### EXAMPLE A: STAT card (Habitat For Humanity India)

Secure Tenure Assessment Tool (STAT) India	0 / 1 / 2
Neighbors (ask two) agree that client can stay on current site for at least twice the length of the loan period.	
Neighbors agree (ask two) that in the case of client death or disability, the family would stay in occupancy.	
Utility bill comes to this address in loan applicant's name.	
Local community leader agrees to stability of tenure for period of at least twice that of the loan amount.	
Property is not located within 0.25 kilometer of a highway, railroad, dam, airport or major infrastructure project.	
<b>TOTAL</b>	

## PROMISING PRACTICE 2: Internal validation of land tenure assessment

Properly assessing the land tenure status of potential clients can be complicated or even problematic, especially when undertaken by credit officers who already are burdened by many tasks, or when operating in regions with high levels of tenure insecurity. In order to address this, several microfinance institutions have created internal processes to validate clients' land tenure status, in addition to the loan officer's initial assessment. For example, while loan officers of Raíz in Peru are required to gather pertinent land documentation from clients, internal legal advisers must review these and submit an independent opinion of each client's land tenure condition. If needed, they will request additional information or certification to validate a client's tenure status. TPC in Cambodia also requires that loan supervisors review the land tenure information of clients assessed by their home improvement loan officers in order to validate the tenure security of prospective clients.

Another example is that of Solucion ASEA in Mexico, where the leadership is concerned that loan officers might be overly driven to reach disbursement targets, and therefore not sufficiently cautious in verifying land tenure documentation. As a result, both compliance officers in the central office and branch credit committees are tasked with reviewing all land documents before a housing loan is approved.

- 3. Although the homes of the poor might not be well-suited for mortgage-based loans, housing can be very effectively leveraged as psychological collateral, strengthening clients' moral obligation to repay their loan.** Mortgaging homes for housing microfinance loans is uncommon, given the many reasons cited above, but lending institutions frequently create an informal association between a housing microfinance loan and a family's home property. Even when homeownership is not backed by a legal title, the financial institution can strengthen the association between the loan obligation and the client's claim on his or her property by means of the following:

  - By assessing the value of the home property (as part of due diligence), the institution communicates a relationship between the housing microfinance loan and the client's property, strengthening this association.
  - Lending institutions often hold original property documents in "custody" throughout the duration of the loan, as these are of tangible value to families. In countries where this is not legally permitted, lenders resort to keeping copies of pertinent property documents. Both practices reinforce the connection between the client's loan commitment and physical property.
  - Associations may be amplified with written agreements that specifically state that a family's home is tied to their loan obligation. Even if these agreements are informal (i.e., not legally enforceable), they hold moral weight and strengthen the effect of psychological collateral. An example of such an agreement is the house pledge form (see Example B) used by Opportunity International Savings & Loans in Ghana.

**EXAMPLE B: House pledge (Opportunity International - Ghana)**


OPPORTUNITY  
 International

**PLEDGE AGREEMENT - HOUSE**

I agree to pledge the house specified below, as collateral security for the Loan Amount **GHC.....** disbursed to ..... by Opportunity International Savings and Loans Ltd. I declare that the said house is solely owned by me and that no other person or group of persons has a claim over it, and that I shall freely offer it as security.

I acknowledge that I will continue to use the house. I accept that the said house shall be taken by Opportunity International Savings & Loans Ltd. in the event of noncompliance with the repayment schedule agreed upon.

I accept that a charge is made in favor of Opportunity International Savings and Loans Limited until the total repayment of the said Loan and all interest accruing.

I undertake not to sell, give away, remove or pledge the house to any third party without prior approval or consent from Opportunity International Savings and Loans Limited.

DESCRIPTION	LOCATION	HOUSE NUMBER

Date (dd/mm/yy) \_\_\_\_\_ Place \_\_\_\_\_

<i>Current Owner(s)</i>	<i>Witness</i>	<i>Representative of Opportunity International Savings and loans Ltd.</i>
<i>Name</i>	<i>Name</i>	<i>Name</i>
<i>Signature</i>	<i>Signature</i>	<i>Signature</i>

### **PROMISING PRACTICE 3: Coordinating with communal land authorities**

Solución ASEA in Mexico concentrates its home improvement lending in rural areas of Chiapas, where land tenure is predominantly communal (*ejidos*). Consequently, coordination with customary land authorities is critical to their business. Whenever ASEA enters a new area, it first contacts the communal land authorities and discusses its intentions with them, seeking their guidance and support. For example, the land commission will indicate which types of documents it authenticates, and will often collaborate in validating land documents from potential clients. Furthermore, when clients within their community fall into arrears, land authorities will frequently assist ASEA in exerting pressure on them to repay.

Increasing low-income families' access to housing finance through the recognition of informal tenure options is an extremely valuable contribution of housing microfinance. Furthermore, empirical evidence has shown that as families increase their housing infrastructure and acquire basic services, their claim over their property may be strengthened.<sup>7</sup> In many countries, evidence demonstrates that improving property value (akin to improving land productivity) strengthens a family's "adverse possession" status. In other words, by making home improvements, homeowners essentially increase their claims and rights over their property. Therefore, housing microfinance can contribute to a de facto "lift" in households' tenure status, with the resulting social and economic benefits that this implies.

Although the path that institutions should follow to incorporate secure tenure considerations into their housing microfinance product is not always straightforward, the two steps below have proved useful in the experience of the Center for Innovation in Shelter and Finance. As mentioned previously, this section does not provide detailed instructions on how to incorporate secure tenure, but these steps can guide financial institutions interested in dealing with tenure security.

#### **STEP 1. Be intentional about assessing property rights and levels of secure tenure during market research**

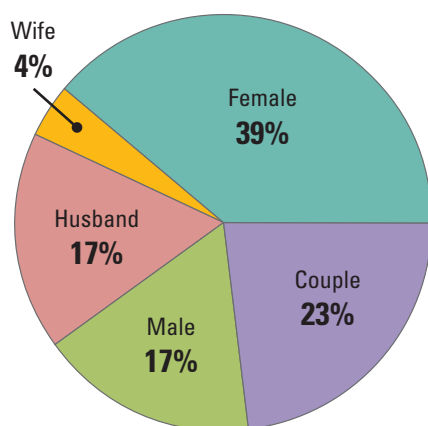
It is not uncommon for financial institutions coming from a microfinance background to have limited understanding of the property rights landscape and their clients' situations around property rights. The traditional microfinance operating model has often not required them to know much. Gaining an understanding of clients' property rights can be an informative step to understanding clients' demands for financing housing and home improvements. Chapter 9 on market research mentions several research tools that include basic questions related to property rights, easily customizable by your institution (see annexes 7, 8, 10 and 11).

---

7 For example, this was a finding from a study conducted within an informal settlement in Lahore, Pakistan, as documented in "Tenure Security, Home Improvement, and Access to Basic Services: Does Property Titling Matter?" by Fatima Wajahat, Florida State University, July 2012. Available at [diginole.lib.fsu.edu/cgi/viewcontent.cgi?article=6773&context=etd](http://diginole.lib.fsu.edu/cgi/viewcontent.cgi?article=6773&context=etd).

The information collected can serve various purposes, such as establishing the type of documentation that can be requested from clients to assess their level of secure tenure and the types of guarantees they will be able to provide. It also can contribute to the design of a product — or a feature of the overall housing microfinance product — that helps clients increase their tenure security.

The section below is an example of the type of secure tenure information that can be collected during the market research stage. This example belongs to a microfinance institution in Latin America. The research allowed the institution to understand the differences in property rights between two regions where it worked, and gained insights into clients' perception of the importance of inheritance rights. Many of these insights fed into the design of the housing microfinance product.



**FIGURE 21: Ownership of dwellings**

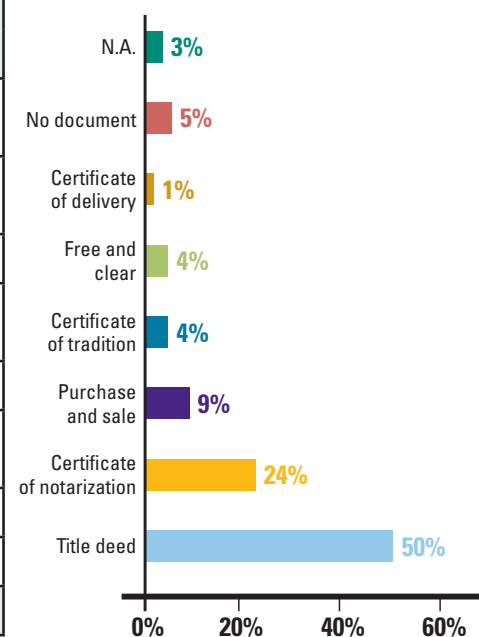
Category of client	Clients		Nonclients		Total	%
	District A	District B	District A	District B		
Female	8	8	1	10	27	39
Male	4	1	4	3	12	17
Wife	1	1	0	1	3	4
Husband	4	3	1	4	12	17
Couple	4	5	3	4	16	23
<b>Total</b>	<b>21</b>	<b>18</b>	<b>9</b>	<b>22</b>	<b>70</b>	<b>100</b>

Regardless of the homeowner (the client, his or her spouse, or both), 50 percent stated that they had a title, while 24 percent said they had only a certificate of notarization as proof of ownership. Other documents referred to included retail, certificate of tradition, free and clear certificate, and certificate of delivery. Eight percent of respondents said they have no homeownership document or might not know about it.



**FIGURE 22: Documents that support homeownership of clients**

Category	Clients		Nonclients		Total
	District A	District B	District A	District B	
Title deed (original or copy)	15	11	5	7	38
Certificate of notarization	0	7	0	11	18
Purchase sale	1	0	1	5	7
Certificate of tradition	1	1	0	1	3
Free and clear	1	0	2	0	3
Certificate of delivery	1	0	0	0	1
No document	2	0	1	1	4
N.A.	0	0	1	1	2
<b>Total</b>	<b>21</b>	<b>19</b>	<b>10</b>	<b>26</b>	<b>76</b>



Only 6 percent of respondents reported that they fear losing ownership of their homes, most of them in District B. Their fears were based primarily on the location of their homes, which are considered geographic high-risk areas for landslides by the authorities.

Interest in getting the title is stronger in the town of District A (91 percent) and slightly smaller but equally predominant in District B (88 percent).

The main reason why clients who have no title are interested in getting one is “security of having the property in their own name” (44 percent). Other less frequently mentioned reasons include:

- “Have legalized and up to date documents.”
- “Have a guarantee (for credit).”
- “Leave an inheritance to my children.”
- “Because the procedure for my deed is being processed.”
- “To not pay rent.”

## STEP 2. Monitor land rights of housing microfinance clients

An institution will need to make some important decisions about how its product considers the land rights of clients applying for housing loans. Because land rights are different from country to country — and even within countries — an institution is likely going to have to try new things and learn by doing. Proper monitoring of the housing microfinance product and related issues of land rights will be important.

**FIGURE 23: Example of tracking information on land tenure requirements to extend housing microfinance products**

	Number of loans	Percent growth last year	Portfolio outstanding	Average loan size	PAR	Percentage of women
Legal title	130	11%	384,400	2,957	0.35%	67%
Informal title	670	22%	1,242,330	1,854	0.68%	82%
Loan officer verified alternative	890	36%	1,338,540	1,504	0.57%	79%

If an institution is already asking about land tenure security status on loan applications, this monitoring exercise can be done easily through an analysis of the housing loan portfolio, producing information for management, such as the example shown above. Such analysis allows management to make decisions about the future of the housing product and consider potential risks and growth opportunities in the market.

Institutions that have not yet delineated land rights status as a condition in their loan applications can incorporate monitoring of property rights into their client monitoring systems to derive similar, though less comprehensive, information such as that shown above. Figure 21 is a sample of a monitoring form that incorporates secure tenure questions, used by an institution in Africa.

**FIGURE 24: Loan monitoring form with secure tenure questions**

Verification of Improvement	
11.	Has your land ownership documentation changed since the loan was disbursed? 1 = Yes, 2 = No If Yes, what is it now? (1) Title deeds (2) Certificate of Ownership (3) Letter from local authorities (4) Letter from Chief (5) Land sale agreement (6) Land rate receipts (7) Site plans (8) Indenture (9) Building permit (10) Other _____
12.	How long have you lived on the property?
13.	Do you think there is a possibility that your property or land can be taken away from you? (1) Yes (2) No Reason for response _____

As this chapter indicates, the Center for Innovation in Shelter and Finance is committed to continuing to explore secure tenure implications of housing microfinance as a way to better support financial institutions interested in increasing their outreach through the design of products that address or improve tenure security among their clients.

# ANNEXES

## ANNEXES

Annex 1. Institutional Assessment Criteria .....	2
Annex 2. Sample Terms of Reference, Market Research and Prototype Design Consultants .....	3
Annex 3. Housing Microfinance Product Development Workshop Agenda .....	6
Annex 4. Pilot Location Pre-Feasibility Worksheet .....	7
Annex 5. Product Development Work Plan Template .....	9
Annex 6: Country Level Assessment Template.....	12
Annex 7. Client Focus Group Interview Guide.....	13
Annex 8. Non-Client Focus Group Interview Guide .....	18
Annex 9. Product Attribute Ranking group exercise .....	19
Annex 10. Loan Officer Focus Group Interview Guide.....	20
Annex 11. Construction Material Supplier Interview Guide .....	23
Annex 12. Contractor or Foremen Interview guide .....	25
Annex 13. Market Research Analysis Template .....	26
Annex 14: Outline for Market Research Report.....	27
Annex 15. The 8P's Prototype Design Template .....	28
Annex 16. Prototype Validation Survey Example .....	29
Annex 17: Prototype Validation Report Outline.....	37
Annex 18. Prototype Design Workshop Agenda .....	40
Annex 19. Pilot Readiness Worksheet .....	41
Annex 20. The 10 Steps of Pilot Planning .....	42
Annex 21. Housing-Related Trainings for Clients.....	48
Annex 22. Documentation Form for Potential Customer .....	49
Annex 23. Diagnostic and Continuous Home Improvement Plan.....	50
Annex 24. Example Verification and Close form .....	52
Annex 25. Categories and Examples of HSS.....	53
Annex 26. Job Profile of a Construction Technician.....	54
Annex 27. Example Process Flow Diagram - Loan with Housing Support Services .....	55
Annex 28. Example of Quarterly Pilot Monitoring Report.....	56
Annex 29. Virtual Monitoring Minutes Template .....	56
Annex 30. M&E Client Questionnaire for On-Site Monitoring.....	60
Annex 31. M&E Interview Guide for Loan Officers .....	65
Annex 32. Method for Documenting Lessons Learned.....	68

## ANNEX 1: INSTITUTIONAL ASSESSMENT CRITERIA

The following is a list of criteria for assessing your institution's capacity for introducing a housing product.

### 1. Financial statistics and performance

- Portfolio exceeds US\$1 million.
- PAR (portfolio at risk) of 30 days or more is within the limits required by the banking regulatory authority of the country or oversight agency responsible for that sector.
- Total assets have seen positive growth for the past three years.
- Return on assets, return on equity, and financial self-sufficiency are positive or are improving.
- Institution produces trustworthy and updated financial reports.
- Institution is preferably experienced in extending individual credit.
- Institution is capable of verifying a customer's credit history.
- Institution has access to a centralized agency that verifies customer indebtedness.

### 2. Sales force

- Sales unit has clear processes and defined incentives.
- Sales unit has experience in placing individual loans.
- Sales force has access to a main verification office to assess the client's level of indebtedness.
- Institution has short-term availability to adjust incentives, sales targets and training for field staff.

### 3. Services for low-income population groups

- Percentage of female customers is greater than 40 percent.
- Institution offers group loan products (community banks, solidarity groups, etc.) in its portfolio.
- Upper management has a commitment to designing strategies for low-income populations.
- Institution offers nonfinancial services such as technical assistance and training.
- Supports Consultative Group to Assist the Poor's client protection principles.
- The average loan size indicates that it caters to low-income populations.

### 4. Governance and management

- Institution has a clearly expressed vision and mission.
- Strong leadership exists at different levels within the organization.
- Institution's management and field personnel have stability and energy.
- Institution has a clear and functional organizational structure.
- Board members represent a variety of professions, areas of expertise and gender.
- Institution has legal standing that facilitates and boosts the implementation of a housing program.

### 5. Interest in housing microfinance

- Institution has a mission that supports housing products.
- Institution has a strategic plan or vision for the next three years that includes the implementation or growth of housing products.
- Upper management, the board of directors and operational staff are convinced of the importance of housing microfinance for their clients.
- Institution is able to link services to access housing to a housing microfinance product.
- Institution is able, in the short term, to adjust policies, procedures and systems in order to reach a wider scale and to maintain the validity of the housing product.

### 6. Funding

- Institution is self-funded or has access to funding sources to implement a pilot project.<sup>1</sup>

---

<sup>1</sup> The Center for Innovation in Shelter and Finance has developed a self-assessment Excel scorecard that can help you evaluate your institution's readiness for embarking on the product development process. For a copy, email [global-cisf@habitat.org](mailto:global-cisf@habitat.org).

## ANNEX 2: SAMPLE TERMS OF REFERENCE, MARKET RESEARCH AND PROTOTYPE DESIGN CONSULTANTS

### BACKGROUND

[Insert context here]

Overall project objectives are to:

- (1) Develop, validate and pilot scalable housing microfinance products at [institution] and strengthen institutional capacity to increase the potential of taking the housing microfinance product with housing support services to scale.
- (2) Develop, validate and pilot scalable housing support services.
- (3) Demonstrate and document the impact of housing finance and housing support services on households and communities in areas such as health, education, greater base of assets, and secure tenure, and on institutions' performance through rigorous research.
- (4) Disseminate practical knowledge on housing microfinance to other providers and influence the housing and finance industries.

### SCOPE OF WORK: OBJECTIVES AND ACTIVITIES

#### General objective

Coordinate and implement a qualitative market assessment on the needs, preferences and capacities of the potential target population for a housing microfinance product (financial component and housing support services) at selected geographic areas, which will enable [institution] to design a prototype of a housing microfinance product with housing support services.

#### Specific objectives

- Review and adapt the individual and group interview guides to the context.
- Coordinate the fieldwork and implement the market assessment using individual and group interviews, along with participatory rapid appraisal, or PRA, tools with the potential target population and other key actors.
- Compile, analyze and elaborate a report with the findings that will support the institution in designing a product according to the needs, preferences and capacities of the potential target population of the housing microfinance product.

#### Activities

- i) Review the secondary data available on the demand and supply of housing microfinance products and the housing value chain.
- ii) Review literature on the operations of [institution].



- iii) Prepare a market research plan, including the methodology, tools to be used and the timeline to conduct the market research in the field. It should include the composition of the sample to be interviewed (individually or groups), and any additional documents required before and during the market research.
- iv) Adapt or create the tools to be used for the market research exercise according to the sample of the potential target population and other stakeholders to be interviewed.
- v) Conduct a qualitative market research.
- vi) Create the system to compile and analyze the information gathered in the field.
- vii) Elaborate a report with the key findings on the needs, preferences and capacities of the potential target population, in regard to the financial product and the nonfinancial component of the product (housing support services).

## **THE PRODUCTS**

The consultant will deliver the following documents in written and electronic form:

- i) Market research plan, including the timeline to develop each activity according to the terms of reference.
- ii) Adapted or developed tools and guides to be used during the fieldwork.
- iii) The compilation of the information gathered in the field, in Excel or another supported program.
- iv) The report with the findings on the needs, preferences and capacities of the target population on both the financial and nonfinancial components that will support the design of the housing microfinance product.

## **PLACE AND DATES FOR THE CONSULTING ASSIGNMENT**

[Information on place and dates]

## **COORDINATION AND SUPERVISION**

[Information on coordination and supervisory roles during the assignment]

## **FEES**

[Information on payment for assignment]

## **REQUIRED EXPERTISE**

Consultants with the following qualifications will be considered:

- a. A solid track record in market research for financial product design.
- b. Prior experience with microfinance product design.
- c. Prior experience with housing microfinance products is highly desirable.
- d. Having a MicroSave certification in market research is an added advantage
- e. Experience having conducted similar assignments will be preferred.

## ANNEX 3: HOUSING MICROFINANCE PRODUCT DEVELOPMENT WORKSHOP AGENDA

Below is an example of the agenda for a housing microfinance product development workshop offered by the Center for Innovation in Shelter and Finance. It was made for a one-day training session but can be customized according to the time of the team.

Opening		8-8:10 a.m.
Task 1: 30 minutes	Warm-up and expectations	8:10-8:40 a.m.
Introduction to:	Housing microfinance market opportunity	8:40-9:30 a.m.
<b>PART 1: Housing microfinance and the market research and product development process</b>		
Task 2: 30 minutes	Exploring successful experiences	9:30-10 a.m.
Break		10-10:15 a.m.
Task 3: 30 minutes	Social habitat production	10:15-10:45 a.m.
Task 4: 45 minutes	Systematic process for developing a housing microfinance product and service	10:45-11:30 a.m.
Task 5: 45 minutes	The questions and steps of Stage 1	11:30 a.m.- 12:15 p.m.
Lunch		12:15-1:15 p.m.
<b>PART II: Listening to the customer</b>		
Task 7: 30 minutes	Identifying the gap between supply and demand	1:15-1:45 p.m.
Task 8: 1 hour	Listening to the customer	1:45-2:45 p.m.
<b>PART III: Designing together</b>		
Break		3-3:15 p.m.
Task 9: 45 minutes	The eight P's of product design	3:15-4 p.m.
Task 10: 45 minutes	Nonfinancial housing support services success factors in housing microfinance	4-4:45 p.m.
Closing: 15 minutes	<b>Reflection and closing</b>	4:45-5 p.m.

### Workshop objectives:

- ✓ To present the market opportunity for housing microfinance.
- ✓ To differentiate between microfinance in general and housing microfinance, and analyze different approaches to offering construction technical assistance as an integral part of the housing credit.
- ✓ To introduce a systematic process to design market accepted housing microfinance products and services.
- ✓ To develop housing microfinance products with less trial and error.

## Topics and specific objectives:

Topic	Objective: By the end of the workshop, the participants will have ...
Market opportunity for housing microfinance	Received an overview on the market opportunity for housing microfinance.
Housing microfinance success factors	Identified success factors from their previous work and examined those factors from the customer's perspective.
Progressive housing process and elements of an adequate house	Identified how microfinance favors the progressive housing process for adequate housing.
Integration of institutional capacity with customer needs and preferences	Explored the tension between institutional capacity and strategy, and customer needs and preferences.
The four stages of market assessment and product design	Examined the four stages of the market assessment and product design process.
Stage 2: Market research	Reviewed the steps of market research and visualized how to implement them in their work.
Eight P's of product design	Used the eight P's to design a prototype of a housing microfinance product and service, using a case study and providing feedback to two other prototypes.
Nonfinancial housing support services	Understood the definition and types of housing support services and analyzed the inclusion of housing support services with housing credit, from the institutional and customer perspectives.

Depending on the team's level of knowledge, the facilitators can choose from the topics listed below and customize a training that emphasizes some topics more than the others.

- Session 1: Financial Inclusion, Housing Microfinance and the Market Opportunity
- Session 2: Housing Support Services
- Session 3: Institutional Assessment
- Session 4: Preparation for Housing Microfinance Product Development
- Session 5: Preparation for Market Research
- Session 6: Tools for Qualitative Market Research
- Session 7: Analyzing Qualitative Market Research Findings
- Session 8: Adding Secondary Data and Market Mapping Findings to the Analysis
- Session 9: Housing Microfinance Prototype Design – The Eight P's of Design
- Session 10: Housing Support Services Model Design
- Session 11: Product Costing and Financial Projections
- Session 13: Pilot Planning and Preparation
- Session 14: Pilot Implementation – Monitoring and Evaluation of the Housing Microfinance Product
- Session 15: Refining the Housing Microfinance Product

# ANNEX 4: PILOT LOCATION PRE-FEASIBILITY WORKSHEET

**Municipality:** ..... **Neighborhood:** ..... **Date:** ...../...../.....

## I. NEIGHBORHOOD CHARACTERISTICS

### 1. Population

Number of families in the neighborhood or zone..... Number of lots in the neighborhood .....

### 2. Geographic location

Latitude: .....° ..... ' ..... " Longitude: .....° ..... ' ..... " Height: .....asl

Do neighborhoods and lots have documents to credit the right of ownership? Yes  No

Is there land for new settlements? Yes  No

### 3. Geographic dispersion of houses

The houses in the neighborhood are: Concentrated  Semidispersed  Dispersed

Observations: .....

#### Definitions:

- **Concentrated:** The houses are next to each other.
- **Semidispersed:** The houses are not immediately next to each other but at a distance of less than 100 meters between each other.
- **Dispersed:** The houses are at a distance greater than 100 meters from each other.

### 4. Access

4.1. Access roads to the neighborhood: Paved  Gravel road  Dirt road

Observations: .....

4.2. Type of road: Dirt  Shingle  Sand  Pavement  Tiles  Rocks

Average width of road: ..... mts

4.3. Vehicle access: Light  Mid-tonnage  High-tonnage

4.4. Season for vehicle access: Dry  Which months?: .....  
Any season  Comments: .....

4.5. Distance from ..... to downtown:..... Km. Estimated travel time: ..... Hrs.

### 5. Basic services

#### 5.1. Water sources

Water is from: Spring  Well  River  Dam

Availability is: Permanent  Temporary  In which months is it scarce?: .....

Water quality is: Good  Bad  Observations: .....

*Quality: Verify by observation.*

#### 5.2. Water

Is there piped water?: Yes  No

If "Yes": The service is permanent: Yes  No  In which months is it scarce?: .....

The service is provided through tanks: Community  Family

How many families benefit? .....

#### 5.3. Electricity

Is there electricity?: Yes  No

If "Yes": How many families benefit?: .....

If "No": Is any electrification project in process?: .....

#### 5.4. Sewer service

Is there sewer service? Yes  No

If "Yes": How many families benefit? .....

If "No": Is any sewer project in process?: .....

Does the sewer system in the zone or municipality have a residual water treatment system? Yes  No

**5.5. Service and access to paid telephone**

In the zone, is there paid telephone service? Yes  No

Is there a land-line telephony network to the houses? Yes  No

Is there cellular telephony? Yes  No

**5.6. Road and transportation service**

In the zone, is there public transportation service? Yes  No

If "Yes": What type of transportation? Bus  Mini bus  Taxi  Other.....

Roads can be used All year  Dry season  Other .....

**6. Urban environment**

What type of community organization is there?.....

When do they usually hold their ordinary meetings? .....

Is there an urban construction regulation code in the municipality? Yes  No

Are there construction materials suppliers in the zone? Yes  No

Do suppliers recommend the labor? Yes  No

Are there institutions in the neighborhood or municipality providing construction technical assistance? Yes  No

**7. Physical risks of the environment**

Are there records or data on natural disasters in the zone? Yes  No

Possible events: Floods  Earthquakes  Landslides  Volcanic eruptions  Cyclones

The information available evidences: Imminent risk  Moderate risk  Minimum risk

Possible impact of disasters: Life Risk  Severe damage  Partial damage  Minimum damage

Recommendations for risk prevention and mitigation:

.....

.....

**II. GENERAL CHARACTERISTICS OF THE HOUSES****1. Mark the predominant materials (in percent) in the houses of the neighborhood or community:**

Walls: Adobe..... Brick .....

Concrete block..... Partition .....

Wood ..... Other: .....

Floor: Dirt ..... Brick .....

Concrete ..... Wood .....

Other: .....

Roof: Mix of mud and hay .....

Palm ..... Concrete tile .....

Ceramic tile ..... Fiber-cement plate .....

Solid slab ..... Light slab .....

Other: .....

**2. Environments available in the houses**

Stoves outside the house ..... Stoves inside the house..... No stove .....

Bathroom outside the house ..... Bathroom inside the house .....No bathroom .....

One-room houses ..... Two-room houses .....

Three-room houses..... Four-room houses .....

Other.....

Living room outside the house..... Living room inside the house..... No living room.....

Dining room outside the house..... Dining room inside the house..... No dining room .....

**3. House tenure**

Rent houses .....

Borrowed houses .....

Owned houses .....





## Detailed implementation plan

This section breaks down the tasks to be completed during the housing microfinance product development process and provides space to indicate people involved in the project implementation by using a RASCI (responsible, approver, support, consulted, informed) plan. Add lines of activities as needed, and adjust according to the scope of the project.

PHASE	ACTIVITIES	START DATE	COMPLETION DATE	RASCI				
				RESPONSIBLE	APPROVER	SUPPORT	CONSULTED	INFORMED
1. Plan and preparation for the project implementation	1.							
	2.							
	3.							
2. Preparation for the market research	1.							
	2.							
	3.							
3. Market research execution	1.							
	2.							
	3.							
4. Product prototype validation and refinement	1.							
	2.							
	3.							
5. Product prototype validation and refinement	4.							
	5.							
	6.							
6. Pilot implementation plan	1.							
	2.							
	3.							
7. Pilot preparation	1.							
	2.							
	3.							
8. Pilot implementation	1.							
	2.							
	3.							

PHASE	ACTIVITIES	START DATE	COMPLETION DATE	RASCI				
				RESPONSIBLE	APPROVER	SUPPORT	CONSULTED	INFORMED
9. Monitoring, refinement and evaluation	1.							
	2.							
	3.							

### Housing microfinance product development team

Use this section to identify the key personnel involved in the housing microfinance product development.

#### 4.1. Financial institution team

Name	Role (position)	Phase

#### 4.2. Consultants

Name	Role (position)	Phase

## ANNEX 6: COUNTRY-LEVEL ASSESSMENT OUTLINE

Country-level assessments are also referred to as market mapping exercises, and a separate handbook on this process is being developed by the Center for Innovation in Shelter and Finance. The example below shows the main categories typically explored during this assessment.

Outline for a country-level assessment:

### I. Country profile

### II. Microfinance sector

*A. Regulatory framework*

*B. Credit quality*

### III. The housing microfinance sector

*A. Role of government in promoting housing sector development and regulations*

*B. Private-sector and NGO support for housing*

*C. Housing and the mortgage market*

### IV. Conclusion

## ANNEX 7: CLIENT FOCUS GROUP INTERVIEW GUIDE

**Objective of the interview:** Gather information about the needs, preferences, capacities, experiences and opportunities of an institution's customers to improve their homes. This information will complement the design of a home improvement credit product that will include housing support services.

**Notes:** This guide is shared as an example. Guides should be adjusted for length and for the local context and validated in the field before use. Before starting the focus group, facilitators should conduct a short individual interview with each participant to gather demographic information that would be inappropriate to share with the larger group.

<i>Individual interview</i>	
<b><i>Residence in the community</i></b>	
1. How long have you lived in the community?	
<b><i>Legal aspects and characteristics of the house</i></b>	
2. Who owns the house where you live? If the respondent is not the homeowner, ask who owns the home.	
3. What type of legal document do you have for your land?	
4. What type of material is your house built from?	
5. What types of utilities does your home have (drinking water, electric power, bathrooms/toilets)?	
6. How many rooms are in the home?	
<b><i>Family structure and family income</i></b>	
7. What is the composition of the family in your household (number of family members who live at home and their ages and relationship to one another)?	
8. What are the sources of income?	
9. Who are the main family providers?	
10. Do you have any outstanding debts?	
<i>Start of group interview</i>	
Welcome	
<ul style="list-style-type: none"> <li>• Thank you for coming. We are very grateful to you for taking the time to help us.</li> <li>• On behalf of [name of institution] we have organized these groups to try to understand and comprehend your needs, experiences, preferences and opportunities related to financing home improvements.</li> <li>• We would like to ask if we could tape the discussion so that we won't miss any details or ideas that you provide. These recordings will not be shared with anyone outside of the people involved in this study. So feel free to state your opinions regarding what we will be doing.</li> <li>• Now we will introduce ourselves and ask you to introduce yourselves.</li> </ul>	
Main questions	Optional follow-up questions <sup>2</sup>
<b><i>Background questions</i></b>	
1. What improvements have been made in your community in the past 12 to 24 months?	<ul style="list-style-type: none"> <li>▪ What is the reason for these improvements?</li> <li>▪ How have these improvements benefited you?</li> <li>▪ How have you become involved in helping improve your community?</li> </ul>
2. What other people or institutions have made contributions to improve your community?	<ul style="list-style-type: none"> <li>▪ What is your opinion regarding the participation of these institutions or companies?</li> <li>▪ What other improvement plans do you know will be made to your community?</li> </ul>
3. What other improvement does your	

<sup>2</sup> These questions can be used to explore the topic in more detail.

community need?	
4. Have you ever thought of moving to another community?	If the response is affirmative, ask, "What has caused you to think about moving?"
<b>Credit history with [institution]</b>	
5. How long have you been a customer of [institution]?	
6. What motivates you to continue to be a customer of [institution]?	Ask about perception of and loyalty toward [institution].
7. What have you liked the most about your relationship with [institution] and the services it offers?	
8. What have you liked the least about your relationship with [institution] and the services it offers?	
9. What have been some positive or negative results of your relationship with [institution]?	For your business? For your house? Other?
10. How do you think [institution] could improve the services it offers?	
<b>Home improvements</b>	
11. <b>Improvements made in the past:</b> What types of improvements, renovations or expansions have you made to your home in the past two years? (Examples of responses include roofs, ceilings, floors, bathrooms, electricity, drinking water, walls, doors and windows, security windows, room expansion).	<ul style="list-style-type: none"> <li>▪ Have these improvements been made in stages or all at the same time?</li> <li>▪ What type of support or direction have you received for carrying out the improvements? Examples of responses include support with the design, budget, and hiring of contractors and labor.</li> <li>▪ Who provided you with this support or direction?</li> <li>▪ What materials did you use to make the improvements? Why did you select these materials?</li> <li>▪ What construction material suppliers did you use?</li> <li>▪ Who helped you make the improvements?</li> <li>▪ What was the cost of these improvements?</li> <li>▪ What time of year did you make the improvements?</li> </ul> <p><b>For those who have not made any home improvements:</b></p> <ul style="list-style-type: none"> <li>▪ Why haven't you made any improvements to your house? What have been the main obstacles or limitations?</li> <li>▪ What would you be willing to do to improve your house?</li> </ul>
12. <b>Financial resources:</b> How did you finance your home improvements, repairs or expansions?	<p>What resources did you use for financing your house improvements?</p> <p><b>For those who have applied for credit in the past:</b></p> <ul style="list-style-type: none"> <li>▪ Who extended the credit?</li> <li>▪ What was the process you had to follow in order to apply for credit?</li> <li>▪ What was the most difficult aspect of the entire process?</li> <li>▪ What was the amount?</li> <li>▪ What was the term?</li> <li>▪ What requirements and guarantees were requested?</li> <li>▪ What are or were your home improvement credit payoff amounts? How frequent were the payments?</li> <li>▪ What difficulties have you faced in paying off your home</li> </ul>

	<p>improvement credit or other parallel credits on time, such as credit extended by [institution]?</p> <ul style="list-style-type: none"> <li>▪ What other family members (children or spouse) help you pay your house improvement credit? Why and how are they helping you?</li> <li>▪ In addition to credit, what service or support would you have liked to receive from the financial institution for your house improvement?</li> <li>▪ If you applied for credit at another institution, why didn't you apply for credit at [institution]?</li> </ul> <p><b>For those people who did not apply for credit:</b> Why didn't you apply for home improvement credit?</p>
<p><b>13. Future improvements and financing:</b> <i>What improvement, repairs or expansions do you plan to make to your house in the next two years?</i></p>	<ul style="list-style-type: none"> <li>▪ Why would you like to make those improvements?</li> <li>▪ What legal requirements, such as permits, must be met before executing the improvements?</li> <li>▪ What resources do you have access to in order to improve your house?</li> <li>▪ If you had the money to make improvements to your house, what would be the main improvements?</li> <li>▪ What would be the order for executing the improvements? What is the first improvement you would like to see in your house? Why?</li> <li>▪ What would be the cost for the first improvement?</li> <li>▪ What type of materials would you use for this improvement? Why would you use those materials?</li> <li>▪ Would you be willing to use other types of materials that do not jeopardize the quality and safety of your home? Why?</li> <li>▪ Where and how do you generally purchase your construction materials?</li> <li>▪ During what time of year would you prefer to carry out your home improvement?</li> </ul>
<b>Home improvement credit product</b>	
<p>14. How do you plan to finance your house improvement, repair or expansion?</p>	<ul style="list-style-type: none"> <li>▪ What resources do you have for making improvements to your house? (Response examples: Materials, savings, family support.)</li> </ul> <p><b>If you are thinking about financing with credit:</b></p> <ul style="list-style-type: none"> <li>▪ What requirements are you willing to meet for requesting credit?</li> <li>▪ What are you willing to use as collateral to back your credit?</li> <li>▪ What is your preferred minimum and maximum payment time for paying off the credit?</li> <li>▪ How much of your current annual income can you spare from your current income to pay back this credit without compromising other expenses and debts that you currently owe?</li> <li>▪ How would you like your house improvement credit to be disbursed? (Response examples: a one-time cash payment, in-kind (construction materials), direct payments to the materials supplier.) Why?</li> <li>▪ What other family members (children, spouse) are</li> </ul>



	<p>willing to help you pay off your house improvement credit? Why and how?</p> <ul style="list-style-type: none"> <li>▪ Are you able to make additional payments? Why? During what time of the year?</li> <li>▪ What would motivate you to apply at [institution] for a house improvement credit?</li> <li>▪ What concerns or limitations do you have in applying for credit at [institution] for improving your house?</li> <li>▪ Where would you prefer to make the credit payments? (Response example: at the bank or offices of [institution].)</li> </ul> <p><b>For those individuals who are not interested in a home improvement credit:</b></p> <ul style="list-style-type: none"> <li>▪ Why aren't you interested in obtaining a home improvement credit?</li> </ul>
<b>Technical assistance in construction</b>	
15. What type of direction or advice do you need or would like for making the improvements, repairs or expansion to your house?(Here, the organization must present a brief introduction of the different types of assistance, which can be found at the end of this guide.)	<ul style="list-style-type: none"> <li>▪ Who would make the improvement?</li> <li>▪ What type of support or direction would you expect from this person?</li> <li>▪ What type of training would you like to receive to be better prepared to negotiate or follow up on the improvements to be made?</li> <li>▪ In what areas and when would you like to receive direction from specialized staff members? Why?</li> <li>▪ Are you willing to pay for that direction or advice? Why?</li> </ul>
16. If an institution would like to communicate with you, what is the best way? (Response examples: radio, leave message on your cell phone, TV, newspaper, hold meetings with the community.)	<ul style="list-style-type: none"> <li>▪ By radio: What time? What station? What program?</li> </ul>
<b>Tenure security</b>	
17. What type of legal documents do you have for your land?	
18. Is acquiring legal title for your land, and property important to you?	<ul style="list-style-type: none"> <li>▪ Why?</li> </ul>
19. Do you know which entities manage or facilitate legal processes for acquiring title?	
20. What are the main challenges of acquiring a land title?	
21. If yes, how much would you be willing to pay to acquire legal title?	<ul style="list-style-type: none"> <li>▪ Do you have any idea of the cost to acquire a legal title?</li> </ul>
22. Would you borrow from a microfinance institution to acquire legal title? Please give a reason for your response.	<ul style="list-style-type: none"> <li>▪ Why?</li> </ul>
23. Have you or any of your neighbors had any land or property incidents?	<ul style="list-style-type: none"> <li>▪ Why?</li> </ul>
<b>Housing asset protection</b>	
24. Have you ever experienced loss of housing or significant property due to natural disaster, fire, theft, etc.?	<ul style="list-style-type: none"> <li>▪ If so, how did you recover?</li> <li>▪ How do you mitigate housing loss risks?</li> </ul>

25. Under what circumstances would you be willing to purchase insurance that would protect your housing asset?	
<b>Close</b>	
26. What type of maintenance do you generally do to your current house?	<ul style="list-style-type: none"> <li>▪ Mention the different types of home maintenance that you regularly do.</li> <li>▪ Why don't you do maintenance on your house?</li> </ul>
27. What do you and your community do to care for the environment?	<ul style="list-style-type: none"> <li>▪ What improvements remain to be done on your house? (Response examples: adequate disposal of garbage, sewage and waste water.)</li> </ul>
Thank you for your time, responses and comments. They have been extremely useful and informative. We are truly grateful for the information you have provided us. Do you have any other questions or suggestions?	

### Possible housing support services

Budget calculation	The initial cost estimate of a construction project. Costs may be divided into four types: Materials, labor, contracts with suppliers (gates and windows, for example) and indirect costs. Indirect costs include supervision, management, construction permits, food and beverage for contractors.
Improvements design	Define living spaces, structural aspects (especially columns and beams), electric power elements (circuits and cables), drinking water network and sewage network. The design proposal can be presented as a sketch or plan.
Selecting the type and quality of the construction materials	Procedure for identifying materials that are best adapted for the construction. Description of the types of material and the minimum quality standards for purchasing them.
Supply of materials	Estimates, request, purchase and transportation of materials to the construction site
Support for hiring labor	Assistance provided for hiring contractors, which includes defining the type of labor required, the method for hiring labor, a cost estimate and follow-up.
Supervision during construction	On-site inspection of quality and extent of the work in progress.
Final inspection of the improvement	Last visit to the construction site to verify that the work was completed as was originally planned and defined.

## ANNEX 8: NONCLIENT FOCUS GROUP INTERVIEW GUIDE

Use the focus group interview guide in Annex 7 and substitute the questions under “Credit history with [institution]” (questions 5-10) with the following:

Main questions	Optional follow-on questions
<i>Credit history with other financial institutions</i>	
5. Have you ever heard of [name of your institution]?	What have you heard about it? What is your opinion of [name of your institution]?
6. What financial institutions are you or have you been affiliated with?	If you have received credit from another institution, what was the credit used for? In addition to credit, were any other services offered?
7. What have you liked the most about your relationship with the financial institutions you have worked with in the past?	
8. What have been some of the positive or negative results of your relationship with the financial institutions you have credit or have had credit with?	At your business, home, other?
9. What have you liked the least about your relationship with the financial institutions that you have worked with in the past?	(Ask about key positioning factors).
10. If you would need credit, what would motivate you for starting a credit relationship with [name of your institution]?	<ul style="list-style-type: none"> <li>• What type of credit (productive, housing or other) would you be interested in? Why?</li> <li>• What other options or institutions would you consider? Why?</li> </ul>



## ANNEX 10: LOAN OFFICER FOCUS GROUP INTERVIEW GUIDE

**Objective of the interview:** Know and understand the experiences, challenges and suggestions of loan officers, credit advisers and promoters of microfinance institutions who offer a home improvement product.

**Notes:** This guide is shared as an example. Guides should be adjusted for length and for the local context and validated in the field before use. Before starting the focus group, facilitators should conduct a short individual interview with each participant to gather any relevant background information.

Welcome	
<ul style="list-style-type: none"> <li>• Thank you for coming. We are very grateful to you for spending time with us.</li> <li>• We are part of an organization called [name of institution]. Our organization specializes in [objective of the institution].</li> <li>• On behalf of [name of institution], we have organized these discussion groups to try to understand the needs, experiences, preferences and opportunities of potential clients regarding home improvement loans.</li> <li>• We would like to ask if we could tape the discussion so that we won't miss any details or ideas that you provide. These recordings will not be shared with anyone outside of the people who are involved in this study. So feel free to state your opinions regarding what we are doing.</li> <li>• Now we will introduce ourselves and ask you to introduce yourselves.</li> </ul>	
Questions	Optional follow-on questions
<b>Background questions</b>	
1. How long have you been working for [name of the institution]?	
2. What do you like most about extending home improvement credit?	
<b>General questions</b>	
3. <b>Demand:</b> In the past two years, what type of home credit have families most frequently applied for?	<ul style="list-style-type: none"> <li>▪ During what time of the year do families generally apply for home improvement credit?</li> <li>▪ During what months of the year is there an increase in people who default on their credit payments? What do you think is the reason for this?</li> <li>▪ In your opinion and in order of priority, what are the home improvement credit characteristics offered by your organizations that are most important for customers?</li> </ul>
4. What other services related to home improvement have people requested?	<ul style="list-style-type: none"> <li>▪ Were these services offered? If not, why?</li> <li>▪ What changes or adjustments to the policies or procedures would be required to offer them?</li> <li>▪ What resources would you need?</li> </ul>
5. What are the main challenges that you face in extending home improvement credit?	<ul style="list-style-type: none"> <li>▪ What causes these challenges?</li> <li>▪ What have you done to counteract them or convert them into strengths?</li> <li>▪ What else could you do?</li> </ul>
6. Policies and procedures: What policies or procedures must be modified or added to strengthen home improvement credit?	<ul style="list-style-type: none"> <li>▪ What factors are considered when denying someone credit?</li> <li>▪ What factors are considered for approving a credit application in which the original requested amount has been modified?</li> </ul>

	<ul style="list-style-type: none"> <li>▪ What types of improvement credits have been rejected the most? Why?</li> <li>▪ If you could calculate as a percentage: How many applications are approved without modifying the requested credit amounts? How many credit applications are approved with a modification to the original amount? Why?</li> <li>▪ Were the loans disbursed in installments, in stages as the construction advanced, or all at once?</li> </ul>
7. <b>Competence:</b> In what other ways do families finance their improvements, repairs or expansions?	<ul style="list-style-type: none"> <li>▪ How can you take advantage of other ways of financing house improvements to offer new credit products?</li> <li>▪ Individuals who applied for credit at other institutions: <ul style="list-style-type: none"> <li>○ What were those institutions?</li> <li>○ What was the interest rate?</li> <li>○ What was required as guarantee?</li> </ul> </li> </ul>
8. What other institutions offer this product in your work area?	<ul style="list-style-type: none"> <li>▪ How have these organizations reacted to the presence of the organization or institution you represent?</li> <li>▪ What are the characteristics or skills that distinguish your organization or institution from others?</li> <li>▪ What is it missing compared with the others?</li> </ul>
9. What improvements have been made or observed in the past two years at the organization or institution you represent?	<ul style="list-style-type: none"> <li>▪ How have you contributed to the execution of these improvements?</li> <li>▪ How have these improvements contributed to increasing the volume of customers?</li> <li>▪ What improvements are required to increase competitiveness?</li> </ul>
9. What image (positive or negative) do you think your customers have of your organization or institution?	
10. <b>Technical assistance:</b> What type of housing support services are provided to families? (Response examples: calculating the budget, selecting the type and quality of the construction materials, supply of construction materials, support for hiring contractors supervision during the construction project, final review of the improvement.)	<ul style="list-style-type: none"> <li>▪ What other type of assistance do they require?</li> <li>▪ What are the current challenges to the current technical assistance in construction?</li> <li>▪ What can be done to make this service more effective and efficient?</li> </ul>
11. Why do you think it is important to offer technical assistance in construction to customers?	<ul style="list-style-type: none"> <li>▪ If you were a customer, what type of technical assistance in construction would you like to receive?</li> <li>▪ How do you feel about the additional costs associated with technical assistance in construction offered to customers?</li> </ul>
<b>Questions about remittances</b>	
12. How could remittances received by the families be included with a home improvement loan product?	<ul style="list-style-type: none"> <li>▪ What are the mechanisms for channeling remittances for this product?</li> <li>▪ What improvements or changes would have to be</li> </ul>



	<p>made to the current product?</p> <ul style="list-style-type: none"> <li>▪ What would be some worries or concerns?</li> <li>▪ What challenges should be considered? What advantages?</li> <li>▪ Do you know any institutions that link remittances with their products? What have you heard or observed? What has been your experience?</li> <li>▪ Do you know any people who have used institutions that link their products to remittances?</li> </ul>
13. What experience have you had with customers who receive remittances?	<ul style="list-style-type: none"> <li>▪ How has this situation influenced (if it, in fact, has influenced) how you make payments or manage your credit?</li> <li>▪ Do you think the relatives of those customers who live abroad are willing to send money so they can improve their homes? If the answer is yes, why? What would be the conditions?</li> </ul>
<b>Tenure security</b>	
14. What type of legal documents do people in this community have for their land or homes?	
15. What are the main challenges of acquiring land title? What are the costs?	
16. Which entities manage or facilitate legal processes for acquiring title?	
17. Is a land title important for your institution to give housing loans? Given your internal policies, which loan sizes for incremental building would require a land title or a form of security?	
18. Do clients borrow from [institution] to acquire legal titles?	
19. Does it make sense for bank management to quantify its clients' level of tenure security?	<ul style="list-style-type: none"> <li>▪ Do you use a tool to measure or assess the level of security of tenure? Which?</li> </ul>
<b>Housing asset protection</b>	
20. Are you aware of clients experiencing housing or significant property loss due to natural disaster, fire, theft, etc.?	<ul style="list-style-type: none"> <li>▪ If so, how do they recover?</li> <li>▪ How do they typically mitigate housing loss risks?</li> </ul>
21. Under what circumstances would clients be willing to purchase insurance that would protect their housing asset?	
<b>Close</b>	
22. What is the safest and most effective way to communicate with customers or potential customers? (Response examples: radio, cell phone message, TV, newspaper, community meetings.)	<ul style="list-style-type: none"> <li>▪ How can home improvement credit be promoted?</li> <li>▪ What have been the results of these promotions?</li> <li>▪ What strategies or plans are in place for strengthening this area? What is missing?</li> </ul>
<p>Thank you for your time, responses and comments. They have been very useful and informative. We are very grateful for all of the information you have provided us. Do you have any questions or suggestions?</p>	

## ANNEX 11: CONSTRUCTION MATERIAL SUPPLIER INTERVIEW GUIDE

**Objective of the interview:** To learn about the products and services offered by construction material suppliers in the community where the target population resides. In addition, to identify needs not met by this type of business.

**Note:** This guide is shared as an example. Guides should be adjusted for length and for the local context, and should be validated in the field before use.

<p><b>Good morning/afternoon/evening ...</b></p> <ul style="list-style-type: none"> <li>I am _____ and you are? _____ Name of business (hardware store): _____</li> <li>Thank you for coming. We are very grateful for the time that you have taken to meet with us.</li> <li>We belong to an organization called [<i>name of the organization</i>]. Our organization specializes in _____.</li> <li>We are currently in the process of interviewing suppliers in the area to get to know and understand the services that they offer the community with regard to the sale and distribution of home construction materials.</li> <li>We would like to ask if we could tape the discussion so that we won't miss any details or ideas that you provide. These recordings will not be shared with anyone outside of the people involved in this study. So feel free to state your opinions.</li> </ul>
<b>Background questions</b>
1. How long have you been located in the area?
2. How long have you been in business?
3. What motivated you to open this type of business?
<b>Questions related to demand</b>
4. Where are most of your customers from — the same neighborhood or community, or other areas? What areas?
5. Who usually buys the construction materials? The families who make the improvements to their houses, or the contractors or foremen?
6. How often do you purchase materials? Do you buy all materials at once to finish the construction, or do you buy them in stages?
<i>Materials and types of improvements</i>
7. In the past year, what materials have the people from the community purchased the most?
8. Do you know what the materials are used for (construction of a business or house)?
9. What are the most common types of improvements (include repairs and expansions)?
<i>Purchase of materials and home improvement seasonality</i>
10. During what time of year do construction supplies sell the most? Why do you think sales increase during this time?
11. What time of year are sales low or practically nonexistent? What do you think is the reason for this?
<i>Technical assistance in construction</i>
12. Given what you know about home improvements carried out by families, who usually advises them?
13. Do you know what type of direction or technical assistance is required by families when they initiate a home improvement project (please refer to the list at the end of Annex 6)? Why do they receive or require this service?
14. Do you provide any technical assistance or direction to families, foremen or contractors? What type of customer asks for technical assistance?
15. Do you know whom they hire or who actually does the improvements (mention who is most frequently in first place)?
<i>Funding for improvements</i>
16. In order of importance, how do most families pay for those materials? Possible responses include: Check, credit card, cash, or monthly payments with credit extended by your organization or another institution.
<b>Questions related to supply</b>
17. How have you distributed materials to your customers, or rather, how do customers usually take the materials

to the construction site?
18. What incentives do you offer your customers to make their construction material purchases (discounts, transportation, reduced prices, better-quality materials, credit, other)?
19. For those cases in which you extend credit: <ul style="list-style-type: none"> <li>• What are the established conditions and requirements?</li> <li>• Do you charge interest?</li> <li>• How often do customers have to make payments?</li> <li>• What is the term?</li> <li>• What is the maximum and minimum amount?</li> <li>• How often are payments made?</li> </ul>
20. In addition to selling construction supplies, what other services do you offer your customers? ( <i>Ask about labor for construction and contact with financial service providers, be they formal or informal.</i> )
21. Are there any formal or informal agreements with the contractors of foremen in the area? If the response is affirmative, what types of agreements do you have with contractors?
22. Do you belong to a network, or are you associated with a chain or group of distributors of construction materials? If you answered yes, which ones? What advantages are there in belonging to these networks? ( <i>Ask about any credits received by the hardware or construction supply store.</i> )
23. Why do you think people prefer you to other construction materials suppliers in the area?
24. What other construction materials suppliers in the area do customers also go to?
25. What advantages do these materials suppliers offer the community?
26. What improvements are needed for you to better serve your customers?
<b>Home improvement needs</b>
27. What do you think are the main home improvement needs in the community?
28. What would have to be done for families to quickly improve their homes and, thus, purchase construction supplies?
<b>Questions about credit</b>
29. Do you know about any organizations that extend home improvement credit in the community? If the response is affirmative, can you mention some of the ones that are most well-known?
<b>Tenure security</b>
30. What type of legal documents do people in this community have for their land or homes?
31. What are the main challenges of acquiring land title? What are the costs?
32. Which entities manage or facilitate legal processes for acquiring title?
<b>Housing asset protection</b>
33. Are you aware of clients experiencing housing or significant property loss due to natural disaster, fire, theft, etc.? If so, how do they recover?
34. Under what circumstances would they be willing to purchase insurance that would protect their housing asset?
<i>Thank you for your time, responses and comments. They have been very useful and informative. We are truly grateful for the information you have provided us.</i>

## ANNEX 12: CONTRACTOR OR FOREMEN INTERVIEW GUIDE

**Objective of the interview:** To learn about the services offered by contractors and construction foremen and the home improvement needs of the target population.

**Note:** This guide is shared as an example. Guides should be adjusted for length and for the local context and validated in the field before use.

<p><b>Good morning/afternoon/evening</b></p> <ul style="list-style-type: none"> <li>• I am _____, and you are? _____?</li> <li>• We are very grateful to you for taking the time to meet us. We are part of an organization called [<i>name of organization</i>]. Our organization specializes in [<i>objective of the organization</i>]. We are interviewing foremen and contractors in order to understand their experiences and the services they offer the communities.</li> <li>• We would like to ask if we could tape the discussion so that we won't miss any details or ideas that you provide. These recordings will not be shared with anyone outside of those involved in this study.</li> </ul>
<p><b>Background questions</b></p>
1. How long have you been a foreman or contractor?
2. What do you like most about what you do?
3. How did you learn your trade?
4. How could you improve your skills?
5. Have you recently had training opportunities? If the answer is yes, where and for how long?
<p><b>Questions about supply and demand</b></p>
6. What types of clients do you have? Possible responses: construction companies, low-income families.
7. What do you estimate to be the income for the majority of the families to whom you have provided your services in [ <i>names of the communities</i> ]?
8. In the past year, what construction projects have you worked on in these communities? Possible responses: floors, roofs, expansions.
9. What construction materials are most frequently used for house improvements? Why do you think they use those materials? Do these materials cause any problems?
10. During what months do families usually make house improvements? Why do you think people make home improvements during those months?
11. During what months do you have less work because families are making few or almost no house improvements? What do you think is the reason for this?
12. What house improvement services do you provide to families? What services are requested the most?
13. Would you mind telling us the approximate cost for these services?
14. Why do you think families need or seek support from people, such as yourself, to improve their houses?
15. In order of importance, how do families usually pay for services? Possible responses: at the beginning of construction, at the end of construction, in stages.
16. Based on what you have heard or seen in [ <i>name of communities</i> ], what would have to be done for families to improve their houses there and hire or use your services more often?
17. How would you like to participate in helping more families improve their houses?
18. What people or organizations related to house improvement are present in the communities and could or should be involved to help more families improve their houses?
19. Currently, what are the main problems, difficulties or challenges you have faced in offering your services?
20. What do you think are the causes of these problems? What have you done to counteract them?
21. Currently, what image (either positive or negative) do you think your customers have of you? Why? What distinguishes you from other businesses that offer the same services? What would you like to improve in order to better serve your customers?
22. How do you promote your products and services?
23. How else can you promote your products and services among low-income groups?
24. Do you have any comments or questions?

## ANNEX 13: MARKET RESEARCH ANALYSIS TEMPLATE

The form below provides a simple template that can be used to analyze the qualitative information gathered during market research. A form like this allows evaluators to compile in one place all the responses collected from focus group discussions and interviews for individual questions. Comparing answers side by side allows the evaluator to summarize the key findings from the research and compose recommendations for the financial institution to use in designing the housing microfinance loan product.

QUESTIONS	FOCUS GROUP 1 ANSWERS: Active clients	FOCUS GROUP 1 ANSWERS: Nonclients	INTERVIEW 1 ANSWERS: Active clients/savers	Comprehensive summary	RECOMMENDATIONS
What improvements (social and economic) have been made in your community in the past 12 to 24 months?					
What other people or institutions have made contributions or supported activities to improve your community?					
What other improvements does your community need?					
Have you ever thought of moving to another community?					

## ANNEX 14: OUTLINE FOR MARKET RESEARCH REPORT

### Executive summary

1. Background
2. Objectives of the market research
3. Methodological approach
  - 3.1. Geographic areas
  - 3.2. Sample stratification
  - 3.3. Tools used according to the sample stratification
4. Research findings
  - 4.1. Findings from the potential target populations' perspective
    - 4.1.1. Demographic information on target population
    - 4.1.2. Home improvements, financing and housing support services
    - 4.1.3. Characteristics of a housing microfinance product
    - 4.1.4. Target population satisfaction levels with financial service providers
  - 4.2. Findings from interviews with key actors in the housing sector (local leaders, masons, foremen, building material suppliers)
    - 4.2.1. The home improvements, financing and housing support services findings of the potential target population
    - 4.2.2. The products, services and needs of key actors to support the home improvements of the potential target population
    - 4.2.3. The challenges of foremen and masons to provide technical services to the potential target of housing microfinance products
  - 4.3. Findings from the financial institution's perspective (loan officers)
5. Conclusions and recommendations
  - 5.1. Conclusions and recommendations for the attributes of the housing microfinance product
  - 5.2. General conclusions and recommendations



## ANNEX 15: THE EIGHT P'S PROTOTYPE DESIGN TEMPLATE

Use this worksheet during the housing microfinance prototype design workshop to make observations and define prototype attributes based on the eight P's of product design. Refer principally to the market research findings report.

Attribute	Attribute definition	Observations
<b>Population</b>		
<b>Product</b>		
• Loan amount		
• Term		
• Payment frequency		
• Collateral		
<b>Price</b>		
• Interest rate		
• Commissions		
• Extra payments		
• Fees		
<b>Place</b>		
<b>Personnel</b>		
<b>Process</b>		
<b>Promotion</b>		
<b>Positioning</b>		

## ANNEX 16: PROTOTYPE VALIDATION SURVEY EXAMPLE

This is an example of a survey used in the field during quantitative prototype validation. Validation allows the financial institution to determine the level of acceptance of its housing microfinance prototype and estimate demand among potential clients before the pilot test. This survey is used with clients of the institution; nonclient surveys also can be developed using this form. The survey should always be adapted to local contexts and tested before being used in the validation exercise.

No.

*Introduce yourself appropriately to the interviewee (preferably a head of household, accompanied by her or his spouse) and greet them cordially. Identify yourself with your badge and a cover letter. State that a study is taking place to validate a home improvement loan product that will soon be launched in the area. State that this activity will not last longer than 30 minutes.*

### A. SCREENING

**1. Are you currently a customer of [name of the organization]?** 1 Yes 2 No

(If the response to Question 1 was **2=No**, thank the respondent and conclude the interview)

**2. How long have you been a customer?** \_\_\_\_ years \_\_\_\_ months

(If the response to Question 2 was **less than one year or 12 months**, thank the respondent and conclude the interview.)

**3. During this time, how many loans have you taken out?** \_\_\_\_ loans.

**4. What is the current status of the house you live in?**

1 Own → **4a. What document do you have to prove that the property for the home is yours?**

1 Land title

2 No document available

3. Loan

4. Other \_\_\_\_\_

(If the response to Question 4 was **3=Rented**, **4=Loan** or **5=Other**, thank the respondent and conclude the interview)

### B. RESPONDENT PROFILE

**5. Address** \_\_\_\_\_

**6. First and last names** \_\_\_\_\_

**7. Sex** 1 Male 2 Female

**8. Age** \_\_\_\_ (years)

**9. Civil status** 1 Single 2 Married 3 Common-law 4 Divorced 5 Widower

**10. Educational level** 1 None 6 Technical/vocational school incomplete

2 Elementary school incomplete 7 Completed technical/vocational school

3 Completed elementary school 8 College or university incomplete

4 High school incomplete 9 College/university degree

5 High school graduate 10 Other: \_\_\_\_\_

### C. PROFILE OF HOUSEHOLD INCOME

**11. Number of family members living at home** \_\_\_\_ people

**12. Sources of regular family income** (You may select more than one response.)

1 Business

2 Other income → **12a. Specify?**

1 One or more family members receive salary on freelance basis.

- (You may select more than one response.)
- 2 One or more family members receive regular salary as permanent employees.
  - 3 One or more family members receive money for odd jobs (freelance basis).
  - 4 Receive money from relatives in other cities in your own country or abroad.
  - 5 Other \_\_\_\_\_

(Continue if your response to Question 12 was 1: Business. If not, go to Question 15.)

**13. Economic sector of business** 1 Commercial 2 Service 3 Production      **13a. Type of business** \_\_\_\_\_

**14. Is the business located in your house?** 1 Yes 2 No →

**14a. The business site is?** 1 Self-owned 2 Rented 3 Loaned 4 Other \_\_\_\_\_

**15. Considering all of the sources of income mentioned, can you tell us your approximate total family income?**  
\_\_\_\_\_ per month

**16. Your family income is?**

- 1 Practically the same year-round.
- 2 Higher during some months and lower during others.

**16a. During what months is your income higher?**      Jan Feb Mar Apr May June July Aug Sep Oct Nov Dec

**16a.1 Why?** \_\_\_\_\_

**16b. During what months is your income lower?**      Jan Feb Mar Apr May June July Aug Sep Oct Nov Dec

**17. What do you consider to be the three main risk factors that could harm your family income?**

- 1 Drop in business sales (because of competition or customers buying less).
- 2 Lack of work capital for the business or agricultural production/trade.
- 3 Family member loses his or her job.
- 4 Cutbacks in the amount of remittances sent from relatives in other cities in your country or abroad.
- 5 Sickness.
- 6 Accidents.
- 7 Emergency situations that may affect the business (fire, earthquake, theft, etc.).
- 8 Other \_\_\_\_\_

**18. Can you give us an approximate amount of your daily expenses?** \_\_\_\_\_

**18a. Does your family save money?** 1 Yes 2 No **Why not?** \_\_\_\_\_

**19. Do you have nonfinancial savings?**

1 No	3 Food
2 Construction materials	4 Animals
Other _____	

**20. How does your family save money?**

- 1 At home, "under the mattress."
- 2 In a ROSCA (rotating savings and credit association). \_\_\_
- 3 At a financial institution. \_\_\_\_ **20a. Which one?** \_\_\_\_\_
- 4 Other \_\_\_\_\_

**21. What do you plan to do with the money you are saving?**

- |                          |                          |               |
|--------------------------|--------------------------|---------------|
| 1 Invest it in business. | 3 Children's educations. | 5 Other _____ |
| 2 Home improvements.     | 4 Health care emergency. |               |

## D. THE HOUSE

**22. Characteristics of the neighborhood**      1 Roads      4 Public streetlamps      7 Delinquency/gangs

- |             |                      |                           |
|-------------|----------------------|---------------------------|
| 2 Sidewalks | 5 Public telephones  | 8 Community organizations |
| 3 Parks     | 6 Garbage collection | 9 Internet cafes          |
|             |                      | 10 Telephone booths       |

23. How long have you lived in this house? \_\_\_\_ Years

24. Do you plan to continue living in this house? 1 Yes, for a long time. 2 No, I am thinking of moving soon.

25. How many rooms are in your house? \_\_\_\_ rooms

26. Does your house have?

1 Electricity                      **Do you have a meter?** 1 Yes 2 No      **What is your average monthly payment?** \_\_\_\_

2 Access to drinking water      **Do you have a meter?** 1 Yes 2 No      **What is your average monthly payment?** \_\_\_\_

3 Sewer

4 Landline phone                      **What is your average monthly payment?** \_\_\_\_

5 Cable TV                              **What is your average monthly payment?** \_\_\_\_

6 Internet                              **What is your average monthly payment?** \_\_\_\_

7 Bathroom                              **What type?** 1 Connected to a sewer. 2 Silo/latrine.

8 Are the floors in good condition? 1 Yes 2 No      **What are they made of?** 1 Tile 2 Vinyl 3 Cement 3 Other

9 Is the roof in good condition? 1 Yes 2 No

**What is it made of?** 1 Hard 2 Clay tiles 3 Calamine 4 Wood 5 Thatched 6 Other \_\_\_\_\_

10 Are the walls in good condition? 1 Yes 2 No      **What are they made of?** 1 Brick 2 Adobe 3 Wooden 4 Thatched 5 Other

27. In the past two years, have you made any improvements to your house? 1 Yes 2 No (Go to Question 30.)

28. What type of improvements have you made? (You can select more than one answer.)

Concept	Repairs	Expansions	Construction
01 Roof	1	2	3
02 Paint	1	2	3
03 Windows	1	2	3
04 Doors	1	2	3
05 Electric installations	1	2	3
06 Walls	1	2	3
07 Floors	1	2	3
08 Water installations	1	2	3
09 Rooms	1	2	3
10 Bathrooms	1	2	3
11 Living room	1	2	3
12 Kitchen	1	2	3
13 Porch	1	2	3
14 Laundry	1	2	3
15 Protective wall	1	2	3
16 Second floor	1	2	3
17 Basic housing module (individual roof)	1	2	3

29. Where does the money come from? (You may select more than one response.)

- 1 Self-employed (business or salary).                      4 Loans from relatives or friends.  
 2 Savings.    5 From relatives in other cities in your own country or abroad.  
 3 Loans from institutions.                                      6 Other \_\_\_\_\_.

**30. What type of home improvement are you interested in, and how much do you think it costs?** (You may select more than one response.)

	Repairs	Cost (\$/.)	Expansions	Cost (\$/.)	Construction	Cost (\$/.)
01 Roof	1		2		3	
02 Paint	1		2		3	
03 Windows	1		2		3	
04 Doors	1		2		3	
05 Electric installations	1		2		3	
06 Walls	1		2		3	
07 Floors	1		2		3	
08 Water installations	1		2		3	
09 Rooms	1		2		3	
10 Bathrooms	1		2		3	
11 Living room	1		2		3	
12 Kitchen	1		2		3	
13 Porch	1		2		3	
14 Laundry	1		2		3	
15 Protective wall	1		2		3	
16 Second floor	1		2		3	
17 Basic housing module (individual roof)	1		2		3	

If the respondent selected more than one option, ask:

**30.a Out of all the improvements mentioned, which is the most urgent, or which would you like to begin as soon as possible?** \_\_\_\_\_ (Add code.)

**31. How do you plan to cover the cost of these improvements?** (You may select more than one response.)

- 1 Self-employed (business or salary).                      4 Loans from relatives or friends.  
 2 Savings.    5 From relatives in other cities in your own country or abroad.  
 3 Loans from institutions.                                      6 Other \_\_\_\_\_.

**32. Many times a person is not able to immediately cover the total cost of their house improvements. If this were the case, what would you do?**

- 1 Wait until you save up the entire cost for the improvement.  
 2 Execute the home improvements in stages (gradually) based on what you can afford.  
 2 Find other ways of covering the cost and do the entire improvement.

**32a. How would you accomplish that?**

- 1 Loans from institutions.                                      3 Money sent from relatives in your own country or abroad.  
 2 Loans from friends or family.                              4 Other \_\_\_\_\_.

**33. Are you or a family member willing to help in the construction as labor (without receiving any payment)?**

- 1 Yes 2 No

**35. If you were to receive an assessment, training or recommendations for your home improvements, repairs or expansion, what would you like to know more about?** (List in order of priority.)      Priority 1: \_\_\_\_\_ Priority 2: \_\_\_\_\_

- 1 Budget and costs.    4 Negotiation with contractors.  
 2 Design.    5 Supervision during construction.  
 3 Type and quality of materials.                              6 Final assessment of the construction project.

36. Are you willing to pay for assessment, advice or training? 1 Yes 2 No (Go to Question 38.)

37. What motivated you to pay for the assessment, advice or training?

- 1 Usefulness. 3 Low cost.  
2 Services were provided quickly. 4 Other \_\_\_\_\_.

38. Considering your entire monthly income and expenses, how much do you think you can set aside for paying back your credit installment for a progressive improvement to your house?

39. If you had to sell everything\* you currently own, how much do you think you would be paid? \_\_\_\_\_.

(\*Everything includes all family and business real estate and other assets.)

40. On average, how much money would you need for monthly payments to cover all of your current debts?

(Including family and business debts.)

41. Have you ever applied for a (housing credit)? 1 Yes 2 No (Go to Question 43.)

42. Were you approved for the credit that you applied for? 1 Yes 2 No →

42a. Why do you think you weren't approved?

- 1 I did not have enough income. 3 I was not able to obtain a credit approval.  
2 I did not have the required documentation. 4 I had other outstanding debts.  
5 Other \_\_\_\_\_.

## E. PROTOTYPE FOR HOUSING FINANCING

43. Are you and your family interested in applying for credit according to the following requirements?

Characteristics	Conditions (examples included below).	Accept		Comments
		Yes	No	
01 Definition	<b>Progressive credit</b> (the amounts can be gradually increased) <b>and recurrent credit</b> (after paying back the credit, you can apply for more) <b>for gradually improving, repairing, expanding and finishing an adequate home.</b>	1	2	
02 Type of credit	<b>Parallel and individual for current customers based on the community banking methodology</b> of [name of microfinance institution].	1	2	
03 Average amount	_____ (Maximum cost value referenced in Table 1, based on improvement mentioned by respondent in question 30 or 30a. <u>If this value exceeds S/.2,500 =&gt; write S/.2,500 and ask if this amount is adequate for them to "progressively initiate" the desired improvement.</u> )	1	2	
04 Average term period	<b>15 months.</b>	1	2	
05 Average installment amount	_____ <b>monthly</b> (Payback installment referenced in Table 1 based on improvements mentioned by respondents in question 30 or 30a. <u>If the installment exceeds S/.212 =&gt; write S/.212 and ask if it is possible for them to pay a higher installment in order to increase the loan amount.</u> You can show the respondent Table No.1 to give him or her an idea of what the installments would be based on the improvements and how much it would cost).	1	2	
06 Payment frequency	<b>Monthly</b>	1	2	
07 Interest rate	<b>38.4 percent annually or 2.74% monthly.</b>	1	2	



<b>08 Possibility of automatic renewal</b>	<b>If the previous credit was completely paid off.</b>	1	2	
<b>09 Compulsory savings fund</b>	09.1 <b>As monthly installments</b> (based on the same payment frequency as the credit installments).	1	2	
	09.2 <b>For the term of the loan.</b>	1	2	
	09.3 <b>To save a minimum of 10 percent of the disbursed amount.</b>	1	2	
	09.4 <b>To be used exclusively for home improvement, repair, expansion or completion</b> (not as a loan for an internal account).	1	2	
<b>10 Increase in disbursed amounts</b>	10.1 <b>Provided that customer fulfills the compulsory savings fund requirement.</b>	1	2	
	10.2 <b>Maximum increase equivalent to 10 percent of the previous credit.</b>			
<b>11 Requirements</b>	11.1 <b>To have been a customer at the [name of institution] for at least one continuous year.</b>	1	2	
	11.2 <b>DNI.</b>	1	2	
	11.3 <b>Utilities (water, electricity) bill.</b>	1	2	
	11.4 <b>Document that proves secure tenancy of the area where the construction will be executed</b> (land title, document proving secure tenure or community possession).	1	2	
	11.5 <b>Proof of income</b> (through receipts reflecting payments from salary, business, family members, etc.).	1	2	
	11.6 <b>Good credit score.</b>			
	11.7 <b>No outstanding debts in more than three financial institutions</b> (including FINCA).	1	2	
	11.8 <b>Signature of spouse</b> (if customer has a spouse) <b>who will also be held responsible for the credit loan.</b>	1	2	
<b>12 Guarantees</b>	12.1 <b>Property title deed.</b>	1	2	
	12.2 <b>Collateral</b> (fixed asset valued at the market price).	1	2	
	12.3 <b>Signature of the homeowner</b> [in the event that the community bank partner is not the homeowner] <b>who will also be held responsible for the credit loan.</b>	1	2	
	12.4 <b>Loan note.</b>	1	2	
	12.5 <b>Approval.</b>	1	2	
<b>13 Technical assistance</b>	<b>The housing credit adviser will provide basic direction on home improvement projects and will help design your “progressive home improvement plan.”</b>	1	2	
<b>14 Legal assistance</b>	For providing support in <b>legalizing tenancy for the homes.</b>	1	2	

15 Annual lotteries for free home improvements	For customers with excellent credit payment history, free home improvements will be raffled for up to S/.1,000.	1	2	
16 Discounts or special services for purchasing construction materials.	Through agreements with supplier chains.	1	2	

**44. Which aforementioned characteristics do you consider most important for you to make the decision to apply for a loan such as the one described** (list code in order of priority)? \_\_\_\_\_

**45. Which do you think is the best way of finding out about the loan just described?**

- 1 Informational fliers and posters at the offices of [name of the organization].
- 2 Delivery of letters to people's homes.
- 3 Talks about the product at community banks.
- 4 "Door-to-door" promotion of the product by credit advisers.
- 5 Direct promotions at hardware stores and construction material supply stores.
- 6 Other \_\_\_\_\_.

***Say goodbye to the interviewee and thank him or her for taking time out for this interview.***

**Table No.1****Example reference chart: Costs for housing improvement and monthly payments for 15-month loans**

<b>Desired repair/ expansion/construction</b>	<b>Cost of the construction (P/.)</b>	<b>Monthly installment (P/.) 1/</b>
14 Laundry	Less than 500	41
02 Paint 04 Doors	500 - 1,000	82
08 Water installation/drains	1,000 - 1,500	123
03 Windows 07 Floors	1,500 - 2,000	164
05 Electric installations	2,000 - 2,500	205
06 Walls 09 Rooms 10 Bathroom 11 Living room 12 Kitchen 13 Porch 15 Walls 16 Second floor	3,500 - 4,000	329
01 Roof	6,000 - 6,500	534

## ANNEX 17: PROTOTYPE VALIDATION REPORT OUTLINE

### Executive summary (maximum two pages)

(Provide a brief summary of the project or a terms of reference (if is a paid-for-fee consulting work), objectives of the validation, dates, geographic areas, population, and the methodological approach. Then share a table (such as the one shown below) with the summary of the levels of acceptance of the validation of the housing microfinance product)

#### *Example:*

PROTOTYPE ATTRIBUTE	LEVEL OF ACCEPTANCE
01 Population	HIGH
02 Type of credit	HIGH
03 Loan amount	HIGH
04 Term	HIGH
05 Average payment	HIGH
06 Frequency of payments	HIGH
07 Interest rate	MEDIUM
08 Early payment	HIGH
09 Requirement	HIGH
10 Guarantees	MEDIUM
11 Housing support services model	HIGH

#### 1. Introduction

(Provide a description of how the validation report is organized.)

#### 2. General and specific objectives

(List the overall and specific objectives established for the validation of the housing microfinance product prototype. Use bullet points.)

#### 3. Methodological approach for the validation

(Describe the methodological approach that was used for the validation of the product,

including the method used to select the sample. Also share any challenges faced before, during and after the validation in the field that may have implications on the results of the validation, according to the methodological approach that was used).

#### 4. **The tools**

(Provide a description of the tool that was used and the way in which it incorporated the attributes of the housing microfinance product that was validated. If more than one tool was used, include them all.)

#### 5. **Sample stratification**

(Provide a description of the characteristics of the sample selected to participate in the validation, including the total number of participants.)

#### 6. **Geographic area selected for the validation**

(Provide a brief description of the geographic areas selected, total population of the geographic area, and any other sociodemographic information or emphasizing aspects relevant to the validation, such as housing conditions, infrastructure, etc.)

#### 7. **Results**

(This section presents the results from the validation, divided in parts according to the validation survey.)

##### 7.1 Typology of population interviewed (respondent's profile)

(This section describes the population that participated from the validation. Use tables and graphics to present the information.)

##### 7.2 Respondent's housing improvements (past and future)

##### 7.3 Level of acceptance of housing microfinance product prototype

(Within the survey for the validation, there is a section that needs to be customized according to the characteristics of the prototype put together for the institution. The best way to present the information is using a matrix, as in the example below).

<b>ATTRIBUTE</b>	<b>DEFINITION OF THE ATTRIBUTE</b>	<b>LEVEL OF ACCEPTANCE</b>	<b>COMMENTS</b>
List each of the attributes of the product prototype that will be validated.	This is the definition or description of the attribute that was validated. It should be extracted textually from the final product prototype. If within one attribute there is more than one aspect to be validated, you should include each of the aspects of the attribute that were validated.	This is the quantification of the level of acceptance according to the ranking established within the survey. It is suggested that you use different colors to highlight and distinguish those attributes with a high level of acceptance from those with medium or low levels.	This is the space to provide comments on the level of acceptance of each attribute, emphasizing the reasons why it got that particular level of acceptance, based on the results of the survey.

<b>01 Population</b>			
<b>02 Type of credit</b>			
<b>03 Average loan size</b>			
<b>04 Average term</b>			
<b>05 Average payment</b>			
<b>06 Frequency of payment</b>			
<b>07 Interest rate</b>			
<b>08 Early payment</b>			
<b>09 Requirements</b>			
<b>10 Guarantee</b>			
<b>11 Housing support Services</b>			

## 8. Conclusions and recommendations

(This section must present the main conclusions of the validation relevant to the housing microfinance prototype. It should include recommendations to increase the level of acceptance of attributes that had low or medium acceptance levels.)



## ANNEX 18: PROTOTYPE DESIGN WORKSHOP AGENDA

### Objectives of the meeting:

- Analyze preliminary secondary research findings.
- Analyze qualitative research findings.
- Design a housing microfinance prototype based on these findings.

### Activities:

Time	Activity	Method	Materials	Person responsible
8:00	Presentation of participants and agenda.	Plenary session	Agenda	
8:15	Presentation of preliminary and qualitative research findings.	Presentation at plenary session	PowerPoint document	
8:45	Analysis of the implications of the findings.	Group discussion		
10:00	Based on the research results, define the eight P's: Population, Product, Price, Place, Personnel, Promotion, Positioning and Process.	Work in two groups using the Concentric Circle Technique <sup>3</sup>	Cards and markers	
11:00	Presentation and discussion of prototypes	Group discussion		
12:00	Lunch			
13:00	Selecting the prototype	Group discussion	Cards and markers	
14:00	Internal policies and systems: <ul style="list-style-type: none"> <li>- What policies and systems must be changed in order to offer these products?</li> <li>- What authorization must be obtained?</li> </ul>	Group discussion		
15:00	Defining the next steps, including: <ul style="list-style-type: none"> <li>- Costing the prototype.</li> <li>- Designing and administering a validation survey.</li> <li>- Follow-up on potential sources of capital (funding) for the pilot.</li> </ul>	Plenary session		
16:00	Close.			

---

<sup>3</sup> Through this technique, a circle of loan officers contributes ideas on the prototypes. Afterward, a circle of the organization's middle management provides feedback on the work of the first circle. Finally, a circle of senior management and consultants who have participated in the research give feedback on the results of the second circle.

## ANNEX 19: PILOT READINESS WORKSHEET

The following questions can be used to assess your institution's readiness for implementing the housing microfinance pilot.

Question	Yes/no	Explain your response
Is the new product backed by the institution's leaders and board of directors?		
If housing support services are offered with the product, is the institution fully coordinated on this aspect?		
Is the pilot adequately funded?		
Does the institution have appropriate administrative and operative skills for this product to be successful?		
Does the institution have an adequate staff (number and capacity) to implement the pilot? Staffing should include those individuals involved with the credit and construction services components. <sup>4</sup>		
Has a training plan for the product been organized for all key personnel?		
Does each department that will directly or indirectly handle the product understand any special requirements of the product?		
Does the institution have the capacity to make timely adjustments to the product and pilot (including adjusting software parameters to incorporate the new product)?		
Have you evaluated and analyzed the risks and implications of the new product with regard to:		
o Institutional strategy		
o Financial viability		
o Organizational structure		
o Human resources		
o Marketing		
o Information systems		
o Credit, processes and procedures policies		

<sup>4</sup> It is assumed that the institution has already selected the type of construction service it will offer. The response to this question will depend on that selection.

## ANNEX 20: THE 10 STEPS OF PILOT PLANNING

The following section shows the 10 steps that the Center for Innovation in Shelter and Finance typically advises institutions to follow in planning the housing microfinance prototype pilot.

	<b>Step</b>	<b>Responsible person</b>	<b>Deadline</b>
1	Establish the housing microfinance pilot <b>implementation team</b> .	▪	
2	Define the <b>objectives</b> of the housing microfinance pilot.	▪	
3	Elaborate the <b>protocol</b> for the pilot execution plan.	▪	
4	Adjust management information systems to incorporate the new housing microfinance product.	▪	
5	Carry out <b>financial projections</b> for the housing microfinance product.	▪	
6	Define the <b>policies, processes and procedures</b> of the new housing microfinance product.	▪	
7	<b>Train</b> the entire team involved in managing, implementing and monitoring the housing microfinance product.	▪	
8	Elaborate a <b>marketing</b> strategy and materials.	▪	
9	Design the pilot <b>monitoring and evaluation</b> system.	▪	
10	Select a <b>launch date</b> for the housing microfinance pilot.	▪	

<b>STEP 1</b>	
<b>Establish the housing microfinance pilot implementation team</b>	
<b>Responsible:</b>	<b>Deadline:</b>
<p><b>Purpose:</b> This team is responsible for implementing the housing microfinance product. The team must be composed of members from various areas of the institution who will interact with the housing microfinance product and contribute to its success. The participation of each member requires that the institution initially determine the percentage of time necessary for the team to achieve its objectives. This last aspect is important because each member has his or her own regular work activities, and participating in this team will require additional time.</p> <p><b>Recommendation:</b> Appoint the same team responsible for the market research and prototype design, and add individuals who are considered necessary. This ensures that the team will have a good understanding of the prototype. It is preferable that the team be small.</p>	
<b>ACTIVITIES</b>	
<p>Establish who will be team members and who will be the team leader.  Assign responsibilities for each team member.  Determine the percentage of time that each person will dedicate to the team.  Appoint a supervisor for the implementation team who is not a member of the pilot team.</p>	

The following two tables include information about the pilot implementation team.

Table 1: Team members, department, name, responsibility and percentage of time.

<b>Department</b>	<b>Name and responsibility</b>	<b>Number of days or hours spent by each team member</b>

Table 2: Activities by area

<b>Department</b>	<b>Activities</b>

<b>STEP 2</b>	
<b>Define objectives of the housing microfinance pilot</b>	
<b>Responsible:</b>	<b>Deadline:</b>
<p><b>Purpose:</b> Help the team quickly determine the action plan for pilot implementation, and provide criteria for the pilot implementation team to use as a baseline for monitoring and evaluating the pilot's success.</p>	
<b>ACTIVITIES</b>	
<ul style="list-style-type: none"> <li>▪ Establish general and specific objectives for the following areas: <ul style="list-style-type: none"> <li>⇒ Sustainability of the housing microfinance product.</li> <li>⇒ Growth (number of loans and percentage of the portfolio they represent).</li> <li>⇒ Effectiveness of the promotion and marketing efforts of the housing microfinance product.</li> <li>⇒ Customer satisfaction (credit and construction services).</li> <li>⇒ Other.</li> </ul> </li> </ul>	

<b>STEP 3</b>	
<b>Elaborate the protocol for the pilot execution plan</b>	
<b>Responsible:</b>	<b>Deadline:</b>
<b>Purpose:</b> The protocol defines what will be done, who will do it and when. The team should develop a guide for the implementation of the pilot that discusses all the details of required activities during the pilot.	
<b>ACTIVITIES</b>	
At a minimum, the protocol must include:	
<ul style="list-style-type: none"> <li>▪ <b>Number of customers</b> expected to be attained during the pilot.</li> <li>▪ <b>Location</b> where the pilot will take place.</li> <li>▪ <b>Duration</b> of the pilot (dates of the beginning and the end).</li> <li>▪ <b>Data</b> that must be analyzed, along with how and when it must be analyzed.</li> <li>▪ <b>Format</b> for reports showing the pilot's progress.</li> <li>▪ Presentation <b>dates</b> for the reports that show the pilot's progress.</li> <li>▪ <b>Criteria for suspending or canceling</b> the pilot.</li> </ul>	

<b>STEP 4</b>	
<b>Adjust management information systems to incorporate the new housing microfinance product</b>	
<b>Responsible:</b>	<b>Deadline:</b>
<b>Purpose:</b> Establish parameters and adjust the current portfolio and accounting software for managing the new product so that it will be ready to operate as part of the normal routine of the branch offices and agencies before the pilot launch date; in addition, guarantee that the staff responsible for managing it clearly understands the modifications for the housing microfinance product.	
<b>ACTIVITIES</b>	
<ul style="list-style-type: none"> <li>▪ Assess whether the current software can incorporate the product.</li> <li>▪ Make the necessary adjustments to the MIS to incorporate the housing microfinance product.</li> <li>▪ Define the type of reports that will be generated for the housing microfinance product.</li> <li>▪ Establish how the new reports will be generated.</li> <li>▪ Train the information technology staff in managing the new housing microfinance product.</li> </ul>	

<b>STEP 5</b>	
<b>Carry out financial projections for the housing microfinance product</b>	
<b>Responsible:</b>	<b>Deadline:</b>
<b>Purpose:</b> To prepare a financial map for the institution to estimate when and under what conditions the product will reach its break-even point and become sustainable. This will help the team execute an informed follow-up of the housing microfinance portfolio.	
<b>ACTIVITIES</b>	
<ul style="list-style-type: none"> <li>▪ Learn about the institution's credit processes and procedures for other microfinance products.</li> <li>▪ Learn about the cost structure of the institution.</li> <li>▪ Make financial projections for the new product.</li> <li>▪ Make adjustments to the financial projections after validating the prototype.</li> <li>▪ Elaborate final financial projections for the pilot phase of the housing microfinance product.</li> <li>▪ Generate an economic indicator summary table to be reviewed periodically by the institution. It will serve as a basis for reports.</li> <li>▪ Make the budget for the housing microfinance pilot.</li> </ul>	

<b>STEP 6</b>	
<b>Define policies, processes and procedures for the new housing microfinance product</b>	
<b>Responsible:</b>	<b>Deadline:</b>
<b>Purpose:</b> To standardize pilot implementation. This will serve as a work guide for all people involved in the implementation and monitoring of the housing microfinance product.	
<b>ACTIVITIES</b>	
<ul style="list-style-type: none"> <li>▪ Establish the policies and procedures of the new housing microfinance product, taking into account:               <ul style="list-style-type: none"> <li>⇒ Credit advisers/officers and their supervisors.</li> <li>⇒ Marketing and promotion of the product.</li> <li>⇒ Technical operations:                   <ul style="list-style-type: none"> <li>○ <i>Portfolio and accounting.</i></li> <li>○ <i>Computerized management information systems.</i></li> </ul> </li> </ul> </li> <li>▪ Develop a draft document (based on the format used by the institution for other financial products) that includes:               <ul style="list-style-type: none"> <li>⇒ Detailed instructions for filling out forms (from application to credit follow-up).</li> <li>⇒ Detailed documentation of the procedures for each housing microfinance product process.</li> </ul> </li> </ul>	
<b>Note:</b> This document is a draft. The final version will be available at the end of the pilot. Some adjustments may be made to the document as the housing microfinance product pilot is implemented.	



<b>STEP 7</b>				
<b>Train the team involved in managing, implementing and monitoring the housing microfinance product</b>				
<b>People responsible:</b>		<b>Deadline:</b>		
<b>Purpose:</b> To guarantee that everyone involved in the implementation, monitoring and direct or indirect management of the housing microfinance product knows the policies, processes and procedures. This will help everyone to speak the same language and facilitate follow-up during pilot implementation.				
<b>ACTIVITIES</b>				
<ul style="list-style-type: none"> <li>▪ Select the team to be trained. We suggest you include:               <ul style="list-style-type: none"> <li>⇒ Housing microfinance product credit advisers and officers.</li> <li>⇒ Credit supervisors.</li> <li>⇒ Office or branch heads.</li> <li>⇒ Accounting and portfolio personnel.</li> <li>⇒ Computerized management information systems personnel.</li> <li>⇒ Marketing personnel.</li> <li>⇒ Other nonfinancial services personnel.</li> </ul> </li>   <li>▪ Determine the training areas. We suggest that you include:               <ul style="list-style-type: none"> <li>⇒ Product characteristics.</li> <li>⇒ Product policies and procedures.</li> <li>⇒ Housing support services for the product.</li> <li>⇒ Product marketing.</li> <li>⇒ Computerized management information systems.</li> </ul> </li>   <li>▪ Establish the training intensity required for each team member. The following table suggests the level of training for each team member depending on his or her area.</li> </ul>				
TEAM	Policies and procedures	HSS	MARKETING	MIS
⇒ Housing microfinance credit advisers/officers	In-depth	In-depth	In-depth	In-depth
⇒ Credit supervisors	In-depth	In-depth	In-depth	In-depth
⇒ Office or branch supervisors	In-depth	In-depth	In-depth	In-depth
⇒ Accounting and portfolio personnel	In-depth	N/A	N/A	In-depth
⇒ Computerized management information systems personnel	In-depth	N/A	N/A	In-depth
⇒ Marketing personnel	In-depth	In-depth	In-depth	N/A
⇒ Training and other nonfinancial services personnel	In-depth	In-depth	In-depth	N/A
<ul style="list-style-type: none"> <li>▪ Elaborate training materials:               <ul style="list-style-type: none"> <li>⇒ Policies and procedures.</li> <li>⇒ Housing support services.</li> <li>⇒ Marketing.</li> <li>⇒ Management information systems.</li> <li>⇒ Other.</li> </ul> </li> </ul>				

<b>STEP 8</b>	
<b>Elaborate a marketing strategy and materials</b>	
<b>Responsible:</b>	<b>Deadline:</b>
<b>Purpose:</b> To have a positioning strategy ready internally (for the institution) and externally (for potential customers) before the launch of the housing microfinance pilot.	
<b>ACTIVITIES</b>	
<ul style="list-style-type: none"> <li>▪ Establish marketing objectives.</li> <li>▪ Establish marketing strategies and activities.</li> <li>▪ Elaborate materials to support marketing strategies.</li> <li>▪ Define indicators and verification methods for monitoring the marketing strategies.</li> </ul>	

<b>STEP 9</b>	
<b>Design the monitoring and evaluation system for the housing microfinance pilot</b>	
<b>Responsible:</b>	<b>Deadline:</b>
<b>Purpose:</b> To develop a tool that facilitates monitoring and evaluation of the housing microfinance pilot in order to maintain the status quo or adjust the product, as may be required. This will be a tool for making management and investment decisions during and after pilot implementation.	
<b>ACTIVITIES</b>	
<ul style="list-style-type: none"> <li>▪ Establish monitoring indicators for: <ul style="list-style-type: none"> <li>○ Financial attributes.</li> <li>○ Home improvements and housing support services.</li> <li>○ Marketing.</li> <li>○ Other areas to be defined by the team.</li> </ul> </li> <li>▪ Establish sources of information, verification methods and frequency for measuring the established indicators.</li> <li>▪ Establish reporting formats.</li> </ul>	

<b>STEP 10</b>	
<b>Select product launch date</b>	
<b>Responsible:</b>	<b>Deadline:</b>
<b>Purpose:</b> Guarantee that all the previous steps are in place to meet the pilot launch date.	
<b>ACTIVITIES</b>	
<ul style="list-style-type: none"> <li>▪ Verify that all the previous steps have been completed.</li> <li>▪ Organize an activity that will commemorate the implementation plan for the housing microfinance product pilot.</li> </ul>	

## ANNEX 21: HOUSING-RELATED TRAINING FOR CLIENTS

Below is a list of potential housing-related training that financial institutions and partners have offered to clients among the housing support services that are often bundled with the loan product.

### **Home improvement planning**

- Development of a housing improvement plan, according to family priorities.
- Identification of the steps to implement the plan.

### **Budgeting for housing improvements**

- Preparing a budget.
- Planning for unexpected expenses.
- Meeting the budget.

### **Borrowing wisely to improve housing**

- Identification of risks and responsibilities of taking out loans.
- Calculation of ability to pay, based on income and running costs.

### **Selecting the best loan to pay for your home improvement**

- Identification of the conditions of the loan.
- Comparing loan costs.
- Decision on how to repay the loan.

### **Saving for home improvements**

- Identification of obstacles to save and how to overcome them.
- Identification of the benefits of saving to meet unforeseen expenses.

### **Choosing the best manufacturer and supplier of building materials**

- Defining the characteristics of a good builder and materials supplier.
- Identifying steps to find and choose a good builder and a good supplier of building materials.
- Reviewing a sample contract of execution of the work.

## ANNEX 22: DOCUMENTATION FORM FOR POTENTIAL CUSTOMERS

This is an example of a form that can be used during the first contact with a client and is useful for documenting the potential customer profile. It also will create a preliminary inventory of the client's needs and preferences regarding home improvements. Ultimately, this information should be incorporated into the loan application form.

General data		
<b>Name:</b>		
<b>Telephone number:</b>		<b>Branch:</b>
<b>Address:</b>		
<b>Neighborhood:</b>		<b>Municipality:</b>
<b>Total income:</b>		<b>Sources of income:</b>
<b>Savings:</b>		
<b>Other interesting data:</b>		
Interest in improvements		
<b>Improvements desired</b> (Circle the preferences of the client.)		
<b>Observations</b>		
<b>Requested by:</b>	<b>Date:</b>	



Brick		Mud/adobe		Iron		Plastic		Wood		Fixtures	Windows/glass					
Block		Stone		Other/notes:					Plastering							
Other:				Plot/area information					Painting							
Roof construction				Drainage:					Tile work							
Iron		Clay		Access:					Other (note below)							
Grass		Wood		Hazards:					Bath							
Other:				Other:					Toilet							
Land tenure				Loan officer name and signature:					Kitchen							
Purchase agreement		Title		Client signature					Other (note below)							
Family		Customary							Misc.					Note:		
Other:																

Note that you, the owner(s), is (are) responsible for the proper implementation of solutions, construction work and recommendations for improvements made and for the quality of purchased materials and services contracted with third parties for the construction, extension or improvement of your house, and your compliance with the standards and procedures before the appropriate authorities.



## ANNEX 24: EXAMPLE VERIFICATION AND CLOSE FORM

This is an example of a form used by financial institutions to follow up with clients once the home improvement is completed and the loan is closed out.

General data			
<b>Client's name:</b>		<b>Date of visit:</b>	
<b>Telephone:</b>		<b>Pride loan number:</b>	
<b>Address:</b>			
<b>Description of the improvement:</b>			
Verification of the improvement	Yes/no	Quality of service satisfactions	G-R-B
1. <i>Is work completed?</i>		<i>Satisfaction with work done:</i>	
2. <i>Was the work done as per the purposes stated in the application?</i>		<i>Next improvement to be done (per the client):</i>	
4. <i>Was the loan amount enough for the planned work? If not, why?</i>		<i>Photograph of improvement</i>	

G= Good; R = Regular; B = Bad

<b>General observations:</b>
CO's name/contact: _____
Sign: _____

## ANNEX 25: CATEGORIES AND EXAMPLES OF HOUSING SUPPORT SERVICES

Type of housing support services		Key characteristics	Examples (not exhaustive)
1	<b>General pre-prepared information</b>	<p><b>Brochures and pamphlets:</b> Often short “one-pagers” that deal briefly with one subject and also promote the housing microfinance product — for example, a brochure with tips on how to properly plaster a wall.</p> <p><b>Technical sheets:</b> Also about one specific topic, but more technical in nature and dealing with a specific aspect of construction — for example, how to build a ventilated improved pit latrine toilet.</p> <p><b>Construction guides:</b> A more detailed description — often in the format of a book — of proper house construction and related technical aspects of housing.</p>	Information kits; list of recommended builders and suppliers; referrals to microfinance institutions; financial education and construction technical brochures; construction manuals; videos; etc.
2	<b>Preconstruction advice and services</b>	<p><b>Client consultations:</b> Discussions with the clients about their desires, wants and needs for their house, both in the immediate term and in the long term. Advice is given on the best ways to achieve the goals that the clients express.</p> <p><b>Develop plans:</b> There are two types of plans: a house plan for the construction work to be performed with the first loan, and a master plan that maps out the total incremental building process that may entail multiple loan cycles to reach completion. Bills of quantities, estimations, and assistance with permitting and titling.</p>	Design advice or services; assistance with permits; secure tenure support; builder training. Assistance with estimation and materials and labor scheduling; recommendations on materials/techniques; inspection of works; etc.
3	<b>Construction assistance</b>	<p><b>Advice and services</b> related to a specific construction project, involving one or more site visits. Require advanced construction skills. Typically associated with repairs, extensive maintenance, more complex home improvements, substantial renovations and extensions, and for the building of new homes.</p> <p><b>Basic, nonstructural and structural work:</b> Review of simple home improvement work, repairs or installation of utilities. Consists of advice, quality control, and technical assistance or details, quality inspections, structural design, and disaster risk mitigation.</p>	Nonstructural works such as non-load-bearing masonry, bricklaying or carpentry; electrical and plumbing works; nonstructural roofing; etc. Load-bearing masonry, bricklaying or carpentry; structural roofing; earthquake or other disaster mitigation.

## ANNEX 26: JOB PROFILE OF A CONSTRUCTION TECHNICIAN

For financial institutions seeking to hire a trained construction technician, this form provides an example of a job profile and methods for assessing potential candidates.

<b>Area</b>	<b>Requirement</b>	<b>Assessment method</b>
Prior experience in similar positions.	At least four years' experience.	Request CV and confirm prior work references.
Knowledge of how to elaborate budgets for construction projects.	Ability to calculate quantity of construction materials needed for a project and use a price list for the materials.	Give a written test where the person estimates the cost of the improvement based on a price list.
Elaboration of technical reports.	Capacity to draft and prepare reports.	Request a brief technical report no longer than one page.
Capacity to train credit advisers on construction topics.	Experience in facilitating training sessions.	Perform a test, such as role play, to assess the person's capacity and vocation for teaching. In addition, ask for references from prior jobs.
Uses Word, Excel and other packages	Experience in using packages from prior jobs.	To execute brief practice tests for using the software.
Gives the customer direction	Capacity to listen to the needs of the customer, and general service attitude.	Ask for references. Assess the person's communication skills and perform a field test where the contractor must interact with customers or potential customers.
Promotes partnerships with construction materials suppliers, labor and other interested parties.	Capacity to make proposals and convince others, in addition to fluid verbal communication.	Assess their personal presentation, communication skills and capacity to relate with other people. For example, administer a field test that includes meetings with construction materials suppliers from the area.
Technical studies in construction	Took construction courses at a technical institute.	Request certificates of technical courses.

## ANNEX 27: EXAMPLE PROCESS FLOW DIAGRAM — LOAN WITH HOUSING SUPPORT SERVICES



## ANNEX 28: EXAMPLE OF QUARTERLY PILOT MONITORING REPORT

FSP name

Reporting: Month/quarter:

Branch name	Planned	Actual
Indicators	housing microfinance loans	housing microfinance loans
<b>Financial and operative</b>		
Loans portfolio yield percentage		
Total number of loans disbursed		
<ul style="list-style-type: none"> <li>• US\$2,500 or less</li> <li>• US\$2,501 and &lt; \$7,500</li> <li>• &gt; US\$7,501 and &lt; \$15,000</li> </ul>		
Value of loans disbursed (cumulative) total portfolio		
<ul style="list-style-type: none"> <li>• US\$2,500 or less</li> <li>• US\$2,501 and &lt; \$7,500</li> <li>• &gt; US\$7,501 and &lt; \$15,000</li> </ul>		
Outstanding housing microfinance loan portfolio value		
Outstanding number of housing microfinance loans		
Total outstanding loan portfolio value		
Total outstanding number of loans		
Average loan balance (dollars) total		
Write-off ratio		
Loan loss coverage ratio		
Operational sustainability of housing microfinance product %		
<b>Portfolio at risk</b>		
Housing microfinance portfolio at risk (%) past due > 30 days		
Total portfolio at risk past (%) past due > 30 days*		
<b>Housing support services</b>		
Number of clients receiving housing support service interventions total		
Number of clients receiving home improvement education (including financial education)		

\* If institution provides products other than microfinance, please report only PAR for the microfinance portfolio.

Number of clients receiving brochures/guides		
Number of clients receiving office consultations preconstruction		
Number of clients receiving some form of professional service such as a plan, bill of quantities, assistance with permits		
Number of clients receiving on-site advice and services		
<b>Gender inclusion</b>		
▪ Number of housing microfinance loans disbursed to women		
▪ Percentage of outstanding housing microfinance loans to women		
▪ Percentage of outstanding housing microfinance portfolio due from women		



## ANNEX 29: VIRTUAL MONITORING MINUTES TEMPLATE

The form below provides a template for recording the minutes of a virtual or off-site monitoring call during pilot or product expansion activities.

(Pilot location)

**Project:**

**Date:**

**Previous meeting held on:**

**Participants**

Institutional staff	
Housing support services provider/consultants	

### Pilot project objective

[Add the background information here.]

### Key information

Total disbursements (#) by branch	
Total disbursements (\$) by branch	
PAR 30 (% , \$)	
Average loan amount	
Home improvements (nonstructural) (#)	
Small constructions (structural) (#)	
Micromortgages (#)	
Loan officers trained	
Loan officers (turnover)	

### Description of current situation around eight P's and housing support services

1. Population – Existing and new clients, methodology (individual, village banking, solidarity groups)
2. Product characteristics (current vs. designed)
3. Pricing – (current terms and conditions vs. designed)
4. Place (branches, disbursement and alternative collection channels, etc.)
5. Personnel – training (number of loan officers trained, staff turnover)
6. Promotion – campaigns: expectation, ongoing or permanent, seasonal, etc.
7. Positioning – internal, external, competition
8. Processes – current process vs. designed
9. Internal product competition? (Cannibalism?)
10. HSS – incremental/progressive delivery, material

**Key findings and conclusions** - Based on the above points, highlight examples:

- Loans:
- Promotions
- Product:
- Housing support services:
- Partnership:

### **Key risks and limitations**

[Add the background information here.]

### **Recommendations**

[Add the background information here.]

**Next meeting date:** \_\_\_\_\_

## ANNEX 30: MONITORING AND EVALUATION CLIENT QUESTIONNAIRE FOR ON-SITE MONITORING

This questionnaire can be used for on-site client visits during monitoring and evaluation of the product as part of the pilot or expansion activities. Please see Chapter 12 for further reference.

<b>Interview date:</b>		
<b>Names of evaluators:</b>		
<b>SECTION 1: BASIC INFORMATION</b>		
<b>1</b>	<b>Client's name</b>	
<b>2</b>	<b>Area/region/country</b>	
<b>3</b>	<b>Type of economic activities/income sources (mark all that apply to family members)</b>	
	A. Trading from home	
	B. Trading from marketplace	
	C. Farming	
	D. Salaried employee	
	E. Artisan	
	F. Other (please specify):	
<b>4</b>	<b>Total average monthly family income</b>	
<b>5</b>	<b>Gender of the responsible borrower</b>	Male/female
<b>6</b>	<b>Family unit (indicate the number)</b>	
	A. Spouse	
	B. Children	
	C. Parents	

D. Other relatives, please specify:

--

**7 Type of homeownership**

- A. Ownership
- B. Rental
- C. Free of charge


**8 What are the available documents for secure tenure?**

- A. Title deed
- B. Certificate of ownership
- C. Letter from local authorities
- D. Letter from chief
- E. Land sale agreement
- F. Land rate receipts
- G. Site plans
- H. Indenture
- I. Building permit
- J. Other (specify aside)


**SECTION 2: LOAN PRODUCT**

**9 How did you learn about the housing microfinance product?**

--

**10 Are you a new or existing client of the financial service provider?  
Have you used other loan products in the past to make improvements to your living conditions or home? If so, what was done?**

--

**11 Please answer the following questions about your current housing microfinance product:**

- A. The purpose of the loan
- B. Loan amount
- C. Loan term
- D. Collateral requirement


E. Monthly installment -		
<b>12</b> Was the loan amount enough for you, or did you add more finances? If more finances were added, please specify the source.		
<b>13</b> Were the monthly installments affordable?		
<b>14</b> How long did it take from the loan application until you got the funds (number of days)? What were the channels of loan disbursement and repayment?		
<b>15</b> How transparent was the pricing? Do you know what components are included in the price of the loan?		
<b>16</b> What other nonfinancial services have you received from the microfinance institution?		
<b>17</b> Any other comments or recommendations about the loan product?		
<b>SECTION 3: DEMAND FOR FINANCIAL SERVICES</b>		
<b>18</b> Do you need an additional loan? If yes, please specify the purpose.		
<b>19</b> If the purpose is related to housing, please answer the questions below:		
A. The purpose of the loan		
B. Preferable loan amount		
C. Preferable loan term		
D. Preferable collateral offered		
E. Affordable monthly installment		
<b>SECTION 4: HOUSING SUPPORT SERVICES AND CONSTRUCTION TECHNICAL ASSISTANCE</b>		
<b>20</b> Did you receive any advice for the construction of the home improvement? If yes, who was the provider?		
<b>21</b> If no, would you like to get such advice? What would be the priority topics or issues for you?		
<b>22</b> If yes, what kind of advice or guidance did you receive?		

23	Did you pay for it?	
24	Did you receive any printouts with construction advice?	
25	How did the advice or guidance contribute to a better improvement outcome or further improvements?	
26	Did the guidance or advice you received help you save in the construction of your home? Where?	
27	What did you like about this guidance or advice? What did you not like?	
28	What recommendations would you have to improve the consultancy?	
29	Have you developed a plan for further improvements to your home? What are the next steps for improvement? Who helped you develop this plan?	
30	In your opinion, should the loan for home improvements include a construction technical assistance component? Was it important to you?	
31	Would you recommend this type of loan with construction technical assistance to others? Why or why not?	
32	Are building materials purchased/not purchased/used?	
33	Has the repair or building work started? Is it according to the construction schedule?	

**SECTION 5: SATISFACTION, OBSERVATIONS AND OTHER COMMENTS**

34	Are you satisfied with the product and organizations (financial service provider, housing support services provider, any other partner organizations)? <small>(Please specify.)</small>	
35	Are you satisfied with the branch location/work schedule? Please explain.	
36	Do you know other financial service providers that offer similar housing microfinance products? Please name them.	
37	Why do you prefer borrowing from microfinance institution “ABC” rather than from them?	
38	What worked well for you in this project?	



39 What did not work well for you in this project?

40 What changes would you suggest?

41 Would you recommend the services of the microfinance institution to your friends and family? Why?

42 Add any other comments or observations that were not included in any of the sections above. Please write them in the box below:


## ANNEX 31: MONITORING AND EVALUATION INTERVIEW GUIDE FOR LOAN OFFICERS

This questionnaire can be used with loan officer focus groups and interviews to evaluate and better understand their experiences, challenges and suggestions about the product and pilot. It can be used for on-site monitoring or evaluation purposes during the pilot.

<b>INTRODUCTION:</b> Welcome, Thank you for coming and taking the time to help us get feedback on the housing improvement loan product/project that you have been part of. We are holding these discussion groups to evaluate and better understand your experiences, wishes, preferences, challenges and recommendations regarding the design or redesign of the housing microfinance loan product that you have been working with.	
Interview date:	Name of interviewer:
TOPICS	DETAILED QUESTIONS AND INQUIRIES
<b>1 Background information</b>	
<b>1.1 Names of the participating loan officers.</b>	
<b>1.2 How long have you worked for the financial institution?</b>	
<b>1.3 Please describe your involvement within the financial service provider/with the housing microfinance product or process?</b>	Understand how they are involved in the housing improvement loan project and process.
<b>1.4 What are the general challenges, strengths, weaknesses and improvements (recommendations for improvement)?</b>	Assess how familiar the participants are with the overall project or product. Get their general feedback on the project. Get the responses that will help you evaluate the overall efficiency of the project.
<b>2 Loan product and process</b>	
<b>2.1 When you communicate with clients, what is their feedback about the housing microfinance product or process?</b>	Get clients' feedback on the product from the loan officers' perspective. Compare the responses with clients' feedback on the same question during the analysis phase.
<b>2.2 What's the placement process? Please describe.</b>	Check on all the stages starting from promotion stage, first contact with client, disbursement, post-placement stage. Backup questions may include: - Is there a placement plan? Number of visits per day? - Are you responsible for certain territories? - Do you have any targets related to the housing microfinance product? - What's the percentage of successful applications vs. visits or received applications?

2.3	<b>What do the clients appreciate the most about the housing microfinance product?</b>	Try to understand the value-added elements of the product.
2.4	<b>Does the housing microfinance product address the demand?</b>	What types of home improvements have been most frequently cited by families as the reason for their loan application? What months tend to be the busiest in terms of applications for housing improvement loans? In what months do delinquency rates tend to go up for housing improvement loans? Why do you suppose this happens?
2.5	<b>What other services related to housing improvement loans have been requested?</b>	Could you offer them to clients? Why or why not? What policy or procedure changes or adjustments would be necessary for this? What resources would you need?
2.6	<b>Have there been any changes in the process since the launch of the product?</b>	What role did you play in these changes or improvements? How have these improvements helped increase the demand? What improvements are still required to increase competitiveness?
2.7	<b>Have there been any changes in the external factors?</b>	Are you aware of any legislative changes? Have there been major changes in the general economic situation in the community where you work?
<b>3 Promotion</b>		
3.1	<b>Do you have a marketing strategy for this housing microfinance product?</b>	Understand the housing improvement loan product marketing strategies that they have implemented.
3.2	<b>How do you communicate or promote the housing microfinance product with clients, within the branch?</b>	How do you advertise the housing microfinance product? What are the promotional materials or tools you are using? What other campaigns do you have? Is the approach different for existing clients vs. new clients? Which of the options works better in your opinion?
3.3	<b>Do you think the promotion strategy helped increase the number of clients?</b>	Check on which components of the marketing strategy have been successful in their opinion.
<b>4 Internal and external competition</b>		
4.1	<b>How different is the housing microfinance product if you compare with other loan products in your financial service provider, positive/negative sides?</b>	Understand the major differences of servicing between housing microfinance loan product and other loans.

4.2	<b>What are the challenges that you are facing internally related with the housing microfinance product?</b>	Check on internal competition. Identify the most challenging parts. Try to get details on the reasons for difficulties.
4.3	<b>What other organizations or financial service providers work in this community or offer this kind of product?</b>	How have these organizations reacted to the presence of the organization or institutions you represent? What competency(ies) or characteristic(s) distinguish your institution from the others? What do you lack in comparison with the others? For those who apply for loans at other institutions: With what institution? What was the interest rate? What kind of collateral was required?
<b>5 Internal monitoring and evaluation</b>		
5.1	<b>What monitoring tools are you using for the housing improvement loan product?</b>	Check how the loan officers are involved in the monitoring process.
5.2	<b>Did you conduct any evaluation of the housing improvement loan product or process?</b>	Get the understanding of the monitoring and evaluation process. What do they do? How do they do it? Who does it? How does it help to improve the product or process?
<b>6 Housing support services</b>		
6.1	<b>What kind of housing support services are offered to families?</b>	What kinds of technical support are provided? Who is the provider? What other kinds of assistance do they require? What challenges do you face in providing the existing technical assistance service?
6.2	<b>Why is it important to offer housing support services to clients?</b>	Check on the added value of housing support services from the loan officers' point of view.
6.3	<b>What should we do differently to provide better housing support services?</b>	How have you experienced the technical assistance? What have you liked best of the technical assistance? Why? What have you liked least of the technical assistance? Why? What recommendations would you make to improve the technical assistance and make it more efficient and effective?
<b>7 Recommendations</b>		
7.1	<b>Do you think that something is missing in this project?</b>	Understand what the participants think is missing in this project (product, partnership, process)?
7.2	<b>What are your recommendations for improvements in this project?</b>	Find out what they would do differently and what they think would work better.

## ANNEX 32: METHOD FOR DOCUMENTING LESSONS LEARNED

One important objective of executing a pilot project is to extract the lessons from the experience and provide recommendations to maximize success in the next phases or future projects.

The adaptation of the German Agency for International Cooperation, or GTZ, methodology presented here is a simple and useful way to document lessons learned.<sup>1</sup> It consists of analyzing difficulties and problems encountered during any project and the way they were overcome, identifying successes and their causes, and highlighting the mistakes made in order to avoid them in the future.

*Tip: We suggest that you analyze the difficulties, successes and mistakes made in each phase of the project and document this in a summary form, similar to the suggested format below.*

### Difficulties overcome

Phase	Difficulty	How it was overcome (strategies and results)	Suggestions for preventing in future

### Success situations

Phase	Successes	Factors influencing each success (external and internal)	Recommendations for future projects

### Mistakes found

Phase	Mistakes identified	Mistake causes	Recommendations for future projects

*Note: The Center of Innovation in Shelter and Finance advises using the term “critical challenges” instead of “mistakes” when the list of identified mistakes is large (more than 10). However, the person in charge of coordinating this process is free to use any term she or he deems appropriate.*

*The way in which the results of the “systematization” process are presented (e.g., a formal report, PowerPoint presentation, etc.) should be based on the criteria or preferences of the intended audience.*

<sup>1</sup> Adapted from Anja Nina Kramer and Silvia Rubio (eds.), “Systematization Guide,” the German Agency for International Cooperation.



INTERNATIONAL HEADQUARTERS: 121 Habitat St. Americus, GA 31709-3498 USA  
229-924-6935 800-HABITAT fax 229-928-8811 publicinfo@habitat.org habitat.org