



Case Study:
Achieving
affordable
housing through
microfinance
loans in Nepal

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Affordable Housing in Nepal

Nepal has achieved notable economic growth in the past, averaging 4.9 percent over FY09-FY19¹. The country, however, faces significant challenges in achieving inclusive and sustainable growth due to ongoing disruptions caused by the COVID-19 pandemic, and persistence of long-term structural constraints such as slow domestic job creation, high vulnerability to climate change-led natural disasters, and significant infrastructure gaps. The 2015 earthquake also undermined efforts to reduce poverty by taking thousands of lives and destroying infrastructure worth billions of dollars. According to Climate Investment Funds (CIF), Nepal ranks 4th² out of 200 countries in climate change vulnerability³.

Nepal has both quantitative and qualitative housing deficits and faces significant housing demand due to its growing population.

Population growth is highly concentrated in cities and towns. Although Nepal is predominantly rural – having the lowest urbanization rate in South Asia at 14 percent, the situation is fast changing. Due to urban-rural migration, the country is experiencing the highest urban growth rate – 6.4 percent⁴ – of South Asia. This is creating significant demand for housing.

Most housing demand is concentrated in the lower and the lower-middle-income groups. There is significant affordability gap between housing costs and household income: as per UN-HABITAT estimates, 30,000 urban dwelling units need to be built annually from 2010 to 2020 to meet the housing demand. Yet, more than 75 percent of the urban population does not have sufficient income to afford the minimum standard 50 square meters self-constructed house on an 80 square meter plot in the outskirts of a city, and 95 percent cannot afford to purchase a ready-built property⁵.

In Nepal, 85 percent of the population lives in self-owned houses (National Census 2011). The Department of Building Construction's Business Plan (2014) has projected an additional need of 2.02 million housing units for the next ten years. Of the 660,000 housing units demand in rural areas, 15 percent would be met by adding an extra room or floor, and 85 percent (561,000) by new construction.

Nepal at a Glance

29 million
Population in 2022

20 % Urban
80% Rural
51% Female
49% Male

25.2%
Poverty Rate

434,930
Estimated affordable
housing backlog

(Source: UN Habitat 2016, Nepal – Urban Housing Sector Profile accessed March 2022)

1 Source: <https://www.worldbank.org/en/country/nepal/overview#1>; accessed February 2022.

2 Source: <https://www.climateinvestmentfunds.org/country/nepal>; accessed March 2022

3 Source: Market assessment for climate resilient low-low - cost housing in Nepal, The Energy and Resource Institute, accessed March 2022

4 Source: UN Habitat 2016, Nepal – Urban Housing Sector Profile accessed March 2022

5 Source: UN Habitat 2016, Nepal – Urban Housing Sector Profile accessed March 2022

The earthquake of April 2015 and the floods of September 2017 have destroyed more than 800,000 houses. The Constitution of Nepal describes housing as a right of a citizen. The Nepal Government has been implementing housing programs, namely Safe Citizen Housing, Integrated Settlement Development, Public Housing, Mayor Housing Program (Mayor aawas), Chief Minister Housing Program and Rural Housing Reconstruction Program⁶.

Lack of affordable housing finance options exacerbates the housing challenges. The mortgage market in Nepal is still in its early stages, with the total amount of home mortgage loans outstanding as a percentage of GDP being 6.48 percent as of 2018⁷. Home loans are provided by commercial and development banks and finance companies. Due to the requirement of collateral and proof of income sources, low-income families are not capable of affording such financing.

Formal housing finance solutions fail to serve low-income households, leading the majority to depend on their own funds to construct houses incrementally⁸. In Nepal, 80 percent of residential structures are built by owners, incrementally, mainly from personal savings and remittances income. They remain unserved by formal financial institutions due to a lack of stable and formal income and collateral.

The Shelter Policy of Nepal classifies only 10 percent of shelters in Nepal as good-quality permanent structures, while the National Population and Housing Census (2011) points out that most houses are built with materials that cannot withstand climate risks. Moreover, there is a significant demand for affordable and climate-resilient housing in the country. A market assessment study conducted by The Energy and Resources Institute shows that 88 percent of households planning to build or buy a house indicated their preference for climate-resilient construction. The study estimated the potential market for climate resilient, low-cost houses at 700,000 homes in the next 10 years, with a capital investment of US\$ 7.35 billion⁹.

The Role of Microfinance Institutions

Like the majority of the developing countries, microfinance institutions are an important channel in Nepal through which low-income families can access financial services. Many microfinance providers in the country give traditional loan products for income generation purposes – via short-term loans – to low-income segments. However, home improvement financing is currently underserved.

Research by organizations such as Habitat for Humanity Nepal and Habitat's Terwilliger Center for Innovations in Shelter have highlighted a significant market opportunity for housing microfinance solutions, as 62 percent of households surveyed plan to undertake home improvement and/or new construction within the next two years. Similarly, a recent study by the Terwilliger Center revealed a significant demand for housing microfinance in Nepal, presenting a potentially untapped market for MFIs.

For low-income households, existing housing quality and resilience can be significantly improved through suitable finance solutions that lead to incremental housing and WASH solutions, both on rural and peri-urban areas. However, as MFIs have minimal exposure to housing microfinance, the market penetration of such products is still relatively low and the gap between demand and supply of such products continues to be significant.

6 Source: World Bank Country Brief – Nepal, accessed March 2022

7 Source: Housing Finance Information Network, Nepal accessed March 2022

8 Source: Building Better and Safely: Stimulating the Private Sector for Sustainable Solutions in Nepal, 2016 section 3.6 page 12, accessed February 28, 2022.

9 Market assessment for climate resilient low-low - cost housing in Nepal, The Energy and Resource Institute, accessed March 2022

The underserved housing microfinance market presents a sizeable business and social impact opportunity for financial intermediaries such as MFIs. Diversification towards housing-related offerings allows MFIs to respond to one of the major pain points for low-income households' while simultaneously realizing a substantial business opportunity.

Jeevan Bikas Laghubitta Bittiya Sanstha Limited (JBLBSL), one of the largest MFIs in Nepal, decided to expand the housing-related offerings to low-income households. The decision to introduce a housing offering was carefully made after considering several factors, such as:

- The massive gap in demand and supply of housing microfinance solutions.
- JBLBSL's vision of improving the lives of low-income households.
- JBLBSL's parent organization history and groundwork related to the housing sector.
- JBLBSL's long-term business strategy.

To that end, JBLBSL partnered with Habitat for Humanity Nepal and Habitat's Terwilliger Center for Innovation in Shelter to develop a viable housing product, with the objective of introducing a client-centric housing finance solution that addresses the markets' pain points and promotes adequate housing among low-income households. This case study showcases the journey from product design and training to the pilot program's conclusion, highlighting its challenges, achievements, and opportunities, presenting itself as a useful tool for all market actors such as financial intermediaries, investors, regulators, business consortiums, and others interested in identifying alternative and innovative market solutions to help households build and improve their homes.

About Jeevan Bikas Laghubitta Bittiya Sanstha Limited

Jeevan Bikas Laghubitta Bittiya Sanstha Limited (JBLBSL) started operations in February 2019 as a licensed national level Class-D MFI. It took over the microfinance business of Jeevan Bikas Samaj (JBS), a non-governmental organization established in September 1997. JBS has been operating as a financial intermediary since June 2002.

The company merged with Solve Laghubitta Bittiya Sanstha Limited and Garibi Nyunikaran Laghubitta Bittiya Sanstha Limited, commencing joint operations in September 2020, under the name JBLBSL.

JBLBSL continued its microfinance program, providing loans to landless, marginalized, and low-income communities to improve their socio-economic conditions, with the primary objective of achieving a 'Poverty Free Nepal.'

JBLBSL follows the group-lending methodology of the Grameen Bank Financial System of Bangladesh. It offers income-generating loans, housing loans and emergency loans. Recently, it has introduced larger secured individual loans to graduated group clients with good credit history. Savings mobilization is a priority for JBLBSL: it offers various saving products, such as voluntary personal savings, compulsory savings, child savings, and more.

The organization expanded its product portfolio to include affordable housing loans in 2008, based on significant client demand for house repair and maintenance expenses. Since housing loans differed in core product features and delivery processes, JBLBSL partnered with Habitat Nepal and the Terwilliger Center in 2018 to gain more insights and technical support for this product line. Australia's Department of Foreign Affairs and Trade, Business Partnership Platform (DFAT/BPP) and Jersey Overseas Aid (JOA) for giving financial support for technical assistance under this project.

JBLBSL's mission is to uplift the living standard of poor people. By improving housing conditions, providing safe drinking water, and upgrading safety and sanitation standards for the marginalized, vulnerable and poor households, JBLBSL wants to positively impact their health, social prestige and financial standing.

NPR 20.46 billion

(US\$ 171.86 million)

**Total Outstanding
Loan Portfolio**

304,691

Member clients

NPR 2.098 billion

(US\$ 17.63 million)

Housing Loan Portfolio

146

branches nationwide

“Living standard is not only how much an individual earns and spends, but also the overall wellness on how they live. Housing doesn't mean only a home, but also proper management of a place to sleep, health, education for the children, and all that influences a person's economic, social and psychological situation.”

- Sanjay Kumar Mandal, CEO, Jeevan Bikas Laghubitta Bittiya Sanstha Limited

JBLBSL Housing Microfinance Journey

1997
**Incorporated
as an NGO**

2001
**Issued its limited
banking license
from Central Bank
of Nepal**

2008
**Launch of housing
microfinance**
Meeting the demand
of housing loans to
low-income people

2018
**Habitat for Humanity
Partnership**
For technical support
and improved
product design

2021
**Housing Microfinance
contributes to 10% of
total portfolio**

2019
**Review of Housing
Microfinance Loans**
Based on client
surveys, housing quality
assessments and
strategy workshops



Client Story: **Dewanti's Journey Towards Decent Housing**



“I am happy to live in our house, which better meets our needs. Spending less on repairs has improved our financial situation. PARTnering with JBLBSL has benefitted me.”

- Dewanti

Dewanti Devi Sardar lives in Dhanpalthan rural municipality, Morang district, with her spouse and four children. She has been affiliated with JBLBSL for over ten years and has availed various loan facilities for farming, education and house finance. Prior to the JBLBSL home loan, the family used to live in a one-room, straw-roof house with no windows or toilet. The poor living conditions were impacting the family's health and financial conditions.

After availing JBS's housing finance loans ranging from NPR 20,000 to 200,000 (US\$ 168 to 1,680), Dewanti was able to construct a three-room house, with kitchen, toilet and a septic tank. Savings from reduction in home repairs and medical bills have helped the family secure additional farmland, improve food sufficiency and increasing their income.

Study Methodology

Habitat's Terwilliger Center for Innovation in Shelter pioneered housing microfinance from end to end, working with financial institutions to understand the business case for their respective markets and introducing financially viable offerings. The product development process employed by Habitat for Humanity for the collaboration with JBLBSL incorporated human-centered design approaches, which kept end clients' needs at the center while refining the product, ensuring that the product designed in the process was desirable, feasible, and viable to offer.

The technical assistance project to redesign JBLBSL's housing microfinance product included the following:

Institutional assessment: This exercise allowed a high-level understanding of JBLBSL's organizational background, structure, microfinance operations, and operational model. It enabled understanding of the existing microfinance portfolio of the MFI, management's commitment to launching or refining the product, and funding pipeline. Finally, the assessment helped design a technical assistance package based on the needs of JBLBSL.

Market assessment and client satisfaction survey: Understanding the target household was vital for the product design process. The team engaged in extensive market research and assisted discussions conducted via focus groups to obtain essential information to give a more in-depth and broader analysis of the current housing situation of low-income families served by JBLBSL. This study also evaluated the satisfaction levels of existing clients with the current housing loan offered by the organization.

Housing Quality Assessment: To further complement the findings from the market assessment and client satisfaction survey, Habitat developed the Housing Quality Assessment Tool for MFIs, to understand the type of home improvements performed by borrowers and evaluate the construction quality of houses. The tool collects data on objective indicators, such as a home's workmanship, disaster readiness, access to services, and structure, producing a construction score out of 100. It can be customized to local building codes and is designed to be used alongside qualitative questions that provide a deep understanding of families' needs, aspirations, and pain points to support further MFIs' knowledge of the typical client's journey.

Product Design Workshop: Habitat facilitated a two-day intensive product design workshop incorporating human-centered design approaches. A cross-functional team from JBLBSL's head office and regional offices and the front-facing staff, such as branch managers and loan officers, came together and co-ideated solutions for addressing their clients' housing gaps. Habitat used a persona profile tool (using CGAP's customer experience toolkit) that allowed workshop participants to develop an "archetype" of a typical low-income person served by JBLBSL. The participants produced a uniform understanding of low-income households' characteristics, including their housing needs, motivations, dreams, pain points, and financial behavior. This exercise resulted in product iterations in line with market assessment, client satisfaction survey, and housing quality assessment findings.

Product Monitoring and Implementation Support: Both Habitat for Humanity and JBLBSL worked together to develop the internal systems necessary to launch the refined product. This phase also included regular monitoring of the HMF portfolio and field-based support to ensure smooth product implementation and rollout.

Institutional Assessment

- Research of organizational structure and background
- Operational model analysis
- Review of microfinance operations and housing microfinance funding lines

Market Assessment

- Market research
- Client satisfaction survey
- Focus groups for in-depth client needs assessment

Housing Quality Assessment

- Housing Quality Assessment Tool for MFIs
- Determine types of home improvements carried out by borrowers
- Evaluate the construction quality of houses

Product Design Workshop

- 2-day intensive product design workshop
- Incorporate human design approaches
- Develop typical borrower archetype

Monitoring and Rollout

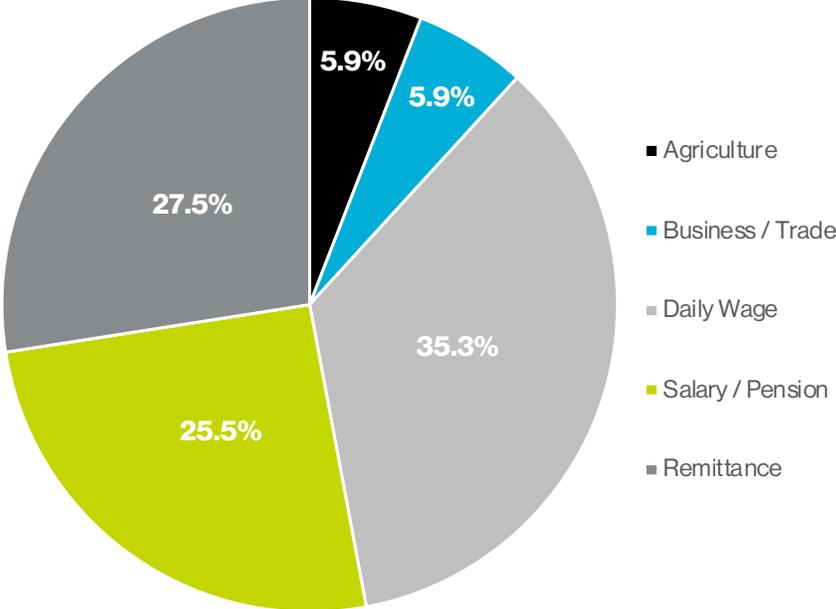
- Develop systems to launch and monitor HMF product
- Regular HMF portfolio review
- Field based support to ensure seamless service delivery

Client Insights

Client Profile

Households accessing loans from JBLBSL belong to the low-income bracket, with limited or no access to other means of financing. These include small landholding farmers, landless families, daily wage earners and migrant workers, with a monthly income range of NPR 8,000 to 131,000 (US\$ 67 to 1,100). The chart shows that 35 percent of survey respondents are daily wage earners, followed by 27 percent reliant on remittances.

Sources of Income



Product Details

Habitat for Humanity conducted the market assessment and client satisfaction survey among existing households served by JBLBSL in June 2019 to obtain insights for product improvement.

Of 202 clients interviewed across four districts of Nepal, 96 percent were married women who borrowed housing microfinance loans ranging from NPR 5,000 to 200,000 (US\$ 42-1,680). The average loan amount offered among respondents was NPR 82,000 (US\$ 689) 1-2 years tenor at an annual interest rate of 18 percent.

76 percent of the households had borrowed for new house construction. The average price of new construction was reported to be NPR 748,064 (US\$ 6,286), indicating a demand for higher financing amounts. 33 percent of the clients wanted to get higher amounts with longer tenor of three or more years.

Growing demand for housing microfinance is also reflected by the fact that 74 percent of the respondents reported plans to undertake further home improvements or construction within the next two years. It was also found that loans from JBLBSL met roughly 20-100 percent of the housing loan needs of the client, further strengthening the argument for higher amounts of housing loans.

Among clients who acquired loans for new construction, 52 percent lived in reinforced cement concrete houses. For clients borrowing for home improvements, primary usage was roofing (36 percent), wall (25 percent), floor (22 percent) and extension (17 percent).

Repayment sources included daily wages, income from agriculture and animal husbandry, and remittances. The majority (83 percent) preferred monthly repayments, with an average amount of NPR 10,928 (US\$ 92).

Overall, survey respondents expressed satisfaction with the JBLBSL loans and services. However, 15 percent of the clients expressed the need for housing technical support –assistance in connecting to material suppliers, masons, and builders to help optimize the costs and quality of house construction and complete the project on time.

Clients' insights pointed towards a need for JBLBSL to be able to offer a housing product of over NPR 500,000 (US\$ 4,201) for up to five years. Higher amounts are provided to clients with good credit history, where loan amounts could go up to NPR 1,500,000 (US\$ 12,605) for a tenor of 10 years. However, in this case, loans are collateralized.

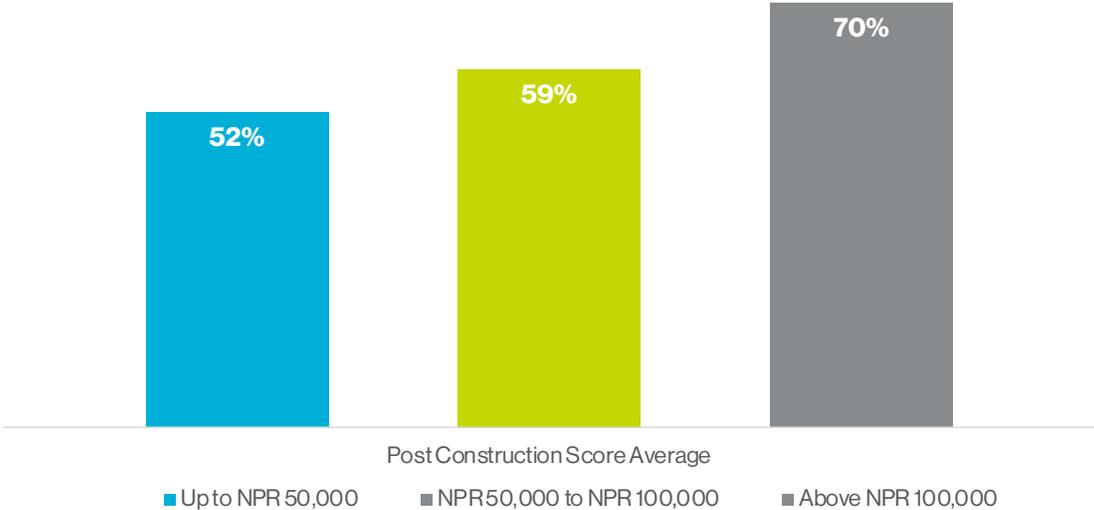
Design features that set JBSBL's product apart from the market are its client-centric approach to giving need-based loans. In the case of a new construction loan, the client is given appropriate tranches of loan to fulfill a particular purpose like buying land or materials. Step-by-step monitoring by field staff helps educate the client base and ensure timely repayments. Flexibility is built into the loan process by allowing field staff to assess clients' financial situation, offer repayment on a monthly or fortnightly basis, and prepayment is offered without any additional fee.

Based on the client insights provided, JBLBSL increased its housing microfinance loan limit to NPR 500,000 (USD 4,202) for collateral free loans. An annual interest rate of 15 percent and a service fee of 1.5 percent are applicable on all loans, which has been reduced from a previous rate of 18 percent per annum, an adjustment also based on client feedback.

Key findings of Housing Quality Assessment

The housing quality assessment revealed an encouraging trend: Among the 152 families borrowing for new construction, the number of families living in permanent housing, rather than temporary or semi-permanent structures, nearly doubled, rising from 31 percent to 60 percent. The survey also found a positive correlation between the size of the loan and the likelihood that the resulting housing would be a permanent structure. Similarly, the post-construction quality was higher for higher-sized loans.

Comparison of Loan Amount and Construction Quality



The housing quality assessment tool led to more in-depth knowledge around the impact of JBSBL's housing microfinance product. The tool ultimately helped the MFI revise its product range to offer larger-sized and longer-tenor loans while also providing clients education in safe and disaster-resilient home construction practices.



शुभ विवाह



JBLBSL Renewed Housing Microfinance Strategy

The housing product has been a growth driver for JBLBSL, scoring high on social impact assessment parameters. JBLBSL has already integrated housing products in its business plan and developed detailed financial projections to manage its growth and resource requirements. With support of Habitat for Humanity, the organization initiated a comprehensive housing microfinance strategy development process and developed the following strategy statement for its portfolio:

Enhance living standards of over 50,000 households with quality and affordable housing products and services through continuous growth in housing loans, by reaching at least 21 percent of the overall loan portfolio.

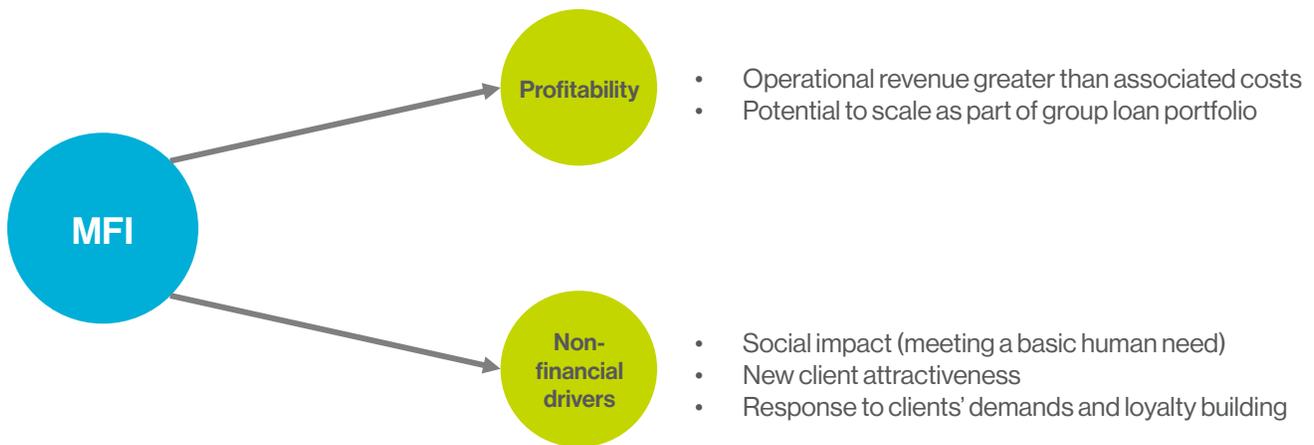
The client satisfaction survey showed that up to 74 percent of the respondents were planning some home improvement and construction activity within the next two years, which would lead to growth in demand for housing microfinance. JBLBSL aims to fulfill this demand through a client-centric, affordable product, estimating a 15-18 percent growth in its housing portfolio for the next five years.

JBLBSL has a clear understanding of the role of housing microfinance in its strategy and business plan and is committed to increasing the capacity of its staff members through training and coaching. Close monitoring of loan portfolios at the branch and head office level also helps maintain the quality of the housing microfinance loans.

Profitability

Housing loans have a significant impact on the lives of clients. Such impact-focused products create business opportunities for MFIs and are a step towards financial sustainability. MFIs can profit from housing loans by generating more revenue than associated costs and scaling the portfolio through a wider geographic coverage. Moreover, solutions that address the pain points of families help build loyalty towards the institution and in turn help attract new clients. These findings, based on responses of over 100 financial institutions to a survey implemented by Habitat's Terwilliger Center in 2016-17 suggests that housing microfinance can be a viable social business for MFIs.¹⁰

¹⁰ Source: Building the Business Case for Housing Microfinance (in Sub-Saharan Africa) accessed March 2022

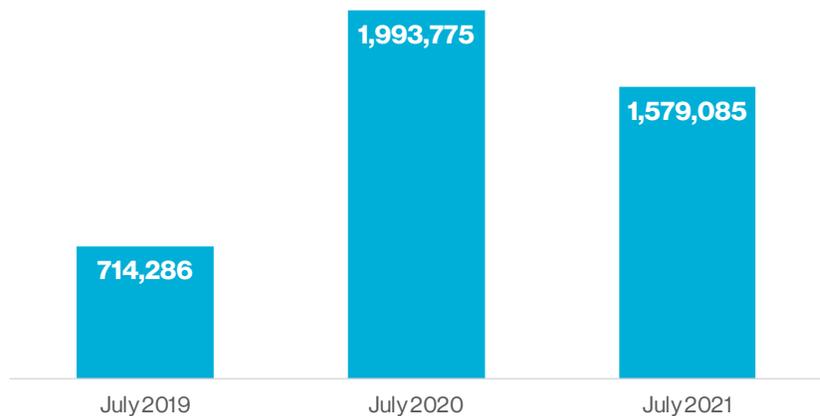


With Habitat’s technical and capacity-building assistance, JBLBSL now offers housing finance for homestead land purchases, new house construction, house repair and maintenance, installation of drinking water systems, and construction of toilet electrification.

As of January 2022, HMF contributes 10.3 percent (US\$ 19.66 million) of the overall loan portfolio (US\$ 191.77 Million) of JBLBSL. The financial performance of this portfolio demonstrates that housing microfinance is a financially viable product for JBLBSL

Between July 2019 and July 2020, JBLBSL HMF portfolio operating income increased almost 180 percent, moving from NPR 85 million (US\$ 714,286) to NPR 238 million (US\$ 2 million). From July 2020 to July 2021, the income dropped by 20 percent to NPR 188 million (US\$ 1.5 million), a fall is associated with the merger with Solve Laghubitta Bittiya Sanstha Limited and Garibi Nyunikaran Laghubitta Bittiya Sanstha Limited. While the merged institutions did not have housing loan products, their operating costs were factored into consideration.

JBLBSL’s housing microfinance portfolio operating income (in US\$)

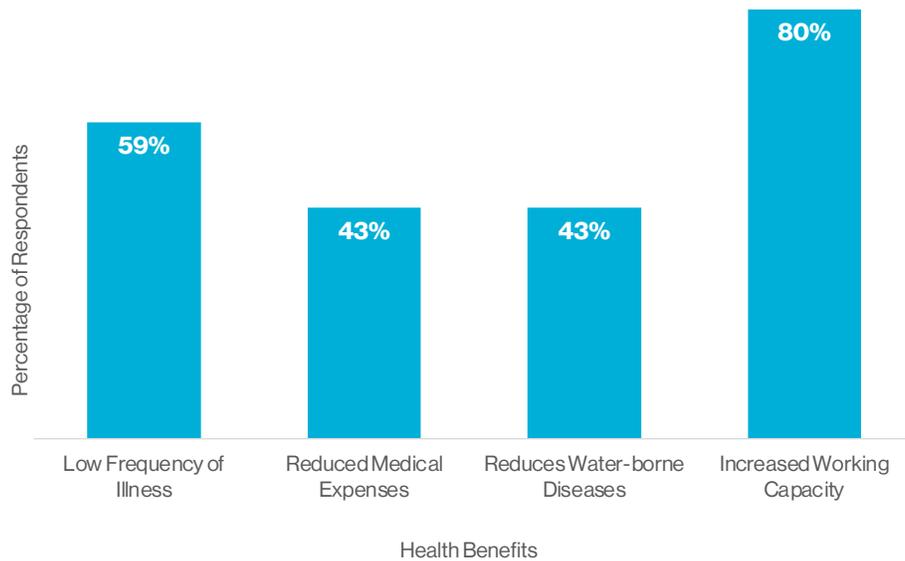


Additionally, the proportion of portfolio at risk (overdue past 90 days or PAR 90) is 0.29 percent, lower than 1.44 percent PAR 90 of the overall loan portfolio. The trend indicates that HMF is a viable product for JBLBSL and has significant potential for growth, while creating social impact at the grass root level.

Benefit and Impact

Additionally, the proportion of portfolio at risk (overdue past 90 days or PAR 90) is 0.29 percent, lower than 1.44 percent PAR 90 of the overall loan portfolio. The trend indicates that HMF is a viable product for JBLBSL and has significant potential for growth, while creating social impact at the grass root level.

Health Benefits From Improved Housing



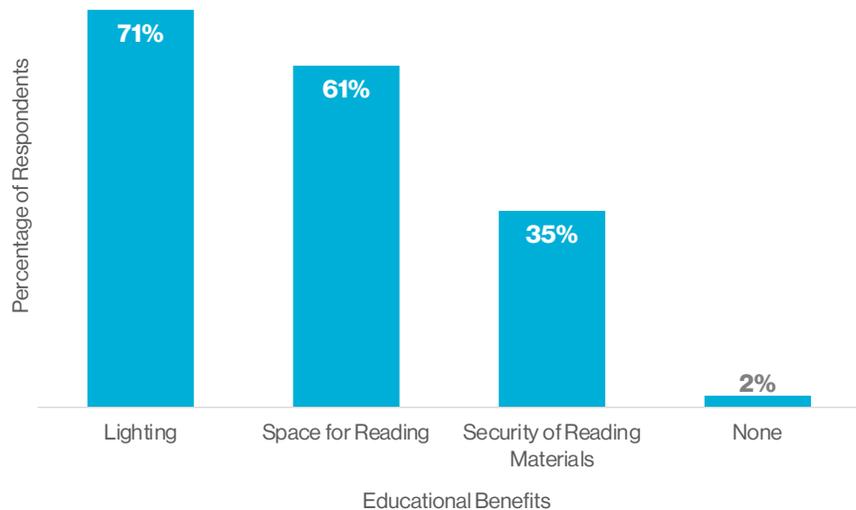
Health

Improved housing has provided clients with better sanitation, drinking water, lighting, clean cooking, and airflow inside the house. Benefits of these facilities are reflected in their improved health situation. Survey results show that 80 percent have realized increased working capacity; 59 percent have lower frequency of illness; 43 percent have reduced cases of water borne diseases; and 43 percent have reduced medical expenses for the family.

Education

Home improvements resulted in a better education environment for the children, giving them access to a separate space for studying and reading. Improved lighting due to access to electricity and ventilation from built-in windows also made homes more comfortable. Among household survey respondents, 98 percent agreed that improved housing led to better education outcomes.

Improved Housing Benefits on Education



Finances

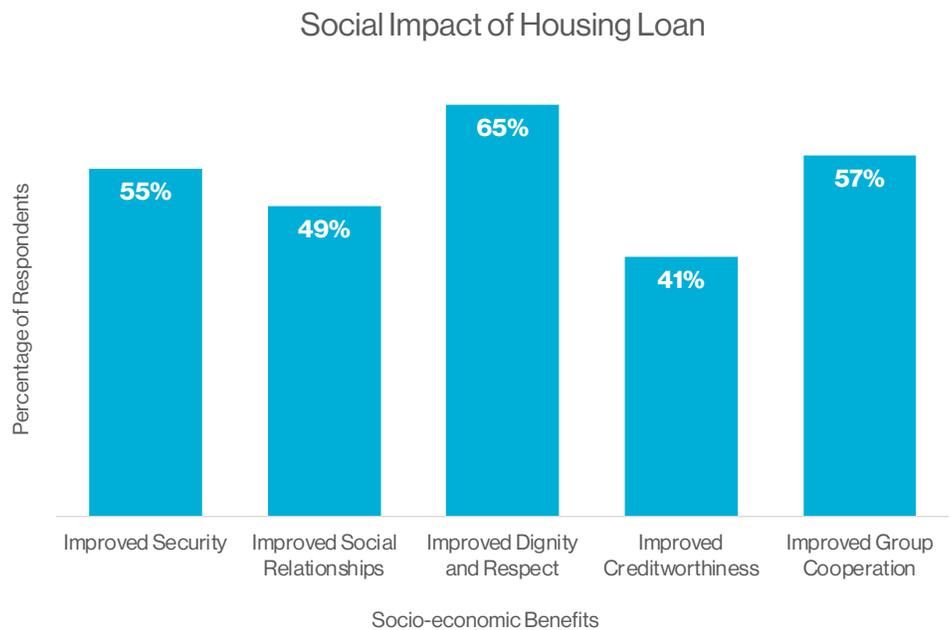
The most significant and direct benefit of housing microfinance loans is the reduction in house maintenance costs. On average, families were spending NPR 10,000 to 20,000 (US\$ 84 to 168) biennially on repair and maintenance. 76 percent of clients surveyed reported reduced house maintenance costs. Additionally, 59 percent reported having improved access to loans from other financial institutions, as they could now offer their new house as collateral. Other savings observed are in the form of rental expenses or earning via rental income.

These statistics highlight the importance of safe housing for disease prevention, poverty reduction and improving of quality of life.

Overall Impact

Housing loan has contributed also on social aspects. JBLBSL officials have found that clients have felt better security, dignity and social relationships; their relatives or friends have started to come and stay. Household survey shows a positive impact in the families as follows:

- 65 percent of respondents have felt improved dignity and respect in their communities
- 57 percent feel improved cooperation in their social group
- 55 percent feel improved security of life and property
- 49 percent expressed improvement in social relationships
- 41 percent have improved creditworthiness, as they can access loan against the housing property.



Client Story: Making It Possible With A Housing Loan



“How would our current situation be possible without JBLBSL? Who would lend us such a large amount? JBLBSL loan made it possible for us to purchase land and in turn get access to financing for home.”

- Shanti

Shanti Devi Sardar had been living in a small, one room house with her husband and two children in Dhanpalthan Rural Municipality – 5, Babarberiya. The house, with a tin roof and unfinished earth floor, offered little protection during storms and rain. She was constantly afraid that the house might collapse due to its unsteady walls and leaky roof. The house had no toilet or a window and her children were often sick due to the unhygienic and unsafe environment.

Shanti has been affiliated with JBLBSL for over 16 years. However, people in her community were afraid of taking loans for even small amounts ranging from NPR 5,000 – 10,000 (US\$ 42 – 84) mainly due to concerns about repayment capacity.

Shanti took a loan for NPR 200,000 (US\$ 1,680) from JBLBSL, to purchase 1.5 Kathha (508 square meters) of land, which she was able to repay within two years. She also took additional loans from JBLBSL in total of NPR 200,000 (US\$ 1,680) for home construction. With the funds from JBLBSL, her own savings and an additional loan with her land as collateral, Shanti was able to build a new house for NPR 400,000 (US\$ 3,361).

Her new home is built with brick and cement and has two rooms, a separate kitchen and a bathroom. Her children have space to study and keep their educational materials safe, without fear of rainwater seeping in and causing damage. The kitchen and toilet have improved their hygiene standards and helped them stay healthy.

Shanti was able to build a shed for livestock, sales of which increase her monthly income and improves her loan repayment capacity. In Shanti's experience, JBLBSL's loan has changed her financial and social standing in the community, by making it possible for her to own land, build her own house and create more avenues for income.

Future of Housing Microfinance

Opportunities

Studies conducted by Habitat for Humanity aimed to assess the needs, preferences, and capacities of target market segments (including existing and potential clients of MFIs) for housing microfinance, to enable partner institutions to better design affordable products and support services. Habitat's market research studies revealed a massive opportunity for housing microfinance in Nepal.

Sixty-two percent of survey respondents reported planning to undertake housing improvements in the next two years, evidencing the market demand. More than 60 percent of the respondents are willing to take a housing loan with a desired loan amount of almost NPR 500,000 (US\$ 4,201), representing a 50 percent increase from current average housing microfinance loan amounts in the industry. Also, 87 percent of clients get repeated housing loans, highlighting the incremental construction process adopted by low-income households.

MFIs can benefit from this growing demand for housing by increasing their focus on housing products. Additionally, the Nepal Rastra Bank has recently increased the loan limit for collateral free lending to NPR 700,000 (US\$ 5,882) in a directive issued on January 4, 2022¹¹. This provides an opportunity for MFIs to grow their HMF portfolios.

Green microfinance is still in the development phase in Nepal, with the most common green products provided by MFIs being solar energy and biogas loans¹². However, based on the high demand for climate-resilient housing (700,000 homes in the next ten years¹³), it offers a major opportunity for growth and product development for microfinance institutions.

Challenges

In Nepal, MFIs are dependent on wholesale loans from Class A, B, and C Bank and Financial Institutions (BFIs) under Deprived Sector Mandatory Lending (DSL) regulation of NRB. These wholesale loans are provided, in general, for one year with a renewal facility. However, housing loans need more extensive repayment period to allow families to receive adequate loan amounts that will enable them to complete the construction and yet be affordable when it comes to monthly amortizations. However, for MFIs, one of the significant constraints has been the scarcity of medium to long-term funding. Currently, MFIs primarily rely on their deposit mobilization to offer HMF products, limiting their capacity for larger and longer tenor loans.

The case study on JBLBSL demonstrates that housing microfinance from a private sector actor could be useful in reducing the housing deficit. The solution is not only an impactful opportunity but is also financially sustainable for the MFI. In this case, JBLBSL realized the opportunity on its own despite the lack of formal recognition of housing microfinance in existing policies and regulations. Despite the challenges, especially around lack of long-term funding, the organization has done reasonably well in tapping the market. However, for a wider adoption and supply of such housing microfinance products, a few recommendations could help all market actors to define and manage the systemic change around the provision of housing microfinance.

¹¹ Source: NRB Directive January 2022

¹² Source: Nepal Social Performance Country Report 2016

¹³ Source: Market assessment for climate resilient low-low - cost housing in Nepal, The Energy and Resource Institute, accessed March 2022

Recommendations to Microfinance Industry Players



Regulatory Authority

Nepal's Rastra Bank, with cooperation and participation of international agencies, has launched several promotional programs to push forward nationwide rural-and-remote outreach of MFIs. To further strengthen the role of MFIs to solve the housing problems of low-income families in Nepal, regulators need to consider housing loans as a core product of MFIs¹⁴ and provide supporting policies and measures. Clear directives to A, B and C Banks and financial institutions with enhanced limits for further lending to MFIs could help them increase their share of housing products, helping alleviate housing constraints of low-income markets. Alternatively, sub-limits in existing Deprived Sector Mandatory Lending (DSL) regulations could also unlock additional capital for the housing microfinance sector.



Capital Supply

Currently, MFIs rely on their deposit mobilization to offer housing products, limiting their ability to offer longer tenor loans at affordable rates. Capital providers, such as impact investors and local banks, must provide MFIs with access to longer-term capital for the on-lending. Local capital markets thus need to foster enabling environments that facilitate cash exchange between investors and intermediaries.



Capacity Building

Light-touch housing support services and consumer education that do not hinder MFIs' core business model, such as orientation and counseling on basic technical matters, costing and budgeting, materials, and labor, could be offered to potential clients before lending to help in their construction process. The design of such services concerning MFIs' context could be an essential part of capacity building.

To ensure that housing microfinance continues to be client-centric and affordable, the product could be regularly reviewed to address the changing needs of the clients better. Product-specific recording, analysis, projection and evaluation systems could be introduced to assess better the status of HMF, its viability and contribution to the MFI.

There is also an opportunity to develop differentiated housing microfinance products. Market assessments need to be conducted on how MFIs can incorporate green financing solutions within the housing sector. There is an opportunity to partner with international organizations with sustainable consumption and production agendas. Similarly, gender-based solutions could also be developed depending on the market potential.

14 Source: Nepal Social Performance Country Report 2016

Conclusion

Over the past two decades, JBLBSL has made remarkable progress in terms of reaching a large number of low-income families through savings and credit service offerings. Expanding into housing microfinance has allowed JBLBSL to respond to one of the major needs of low-income households', while addressing a growing affordable housing demand in the country.

44,000 families have availed housing microfinance loans as of December 2021, making a 10 percent contribution to JBLBSL's overall loan portfolio for the same period. The growth in housing loans within the overall loan portfolio has been achieved without increase in associated credit risks, as housing loans outperform general microfinance loans (PAR 90 of housing loan portfolio is 0.29 percent, lower than 1.44 percent PAR 90 of the overall loan portfolio). Going forward, JBLBSL aims to grow its housing microfinance loans to 21 percent of the overall loan portfolio.

JBLBSL's experience shows how housing microfinance can be a win-win for low-income people and financial institutions. It makes a viable business case for improving the institution's profitability, potential to scale its financial services and contribute towards social impact.



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