



Housing microfinance is a subset of microfinance designed to meet the housing needs, preferences and capacities of low-income groups. It allows low-income families to build the value of their main asset: their home.

Building Assets, Unlocking Access is a project that provides technical assistance to six leading financial institutions in Uganda and Kenya to develop housing microfinance products and nonfinancial support services for people living on less than US\$5 per day. The aim is to enable these people to secure adequate and affordable housing and improve their living conditions. Kenya Women Microfinance Bank, or KWFT, developed a housing microfinance product branded as Nyumba Smart Loan in 2013.

Highlights

- Over 90 percent of the improvements were carried out by local artisans called *fundis*.
- The most popular improvements for which clients borrowed from Nyumba Smart Loan were exterior walls, roofs,

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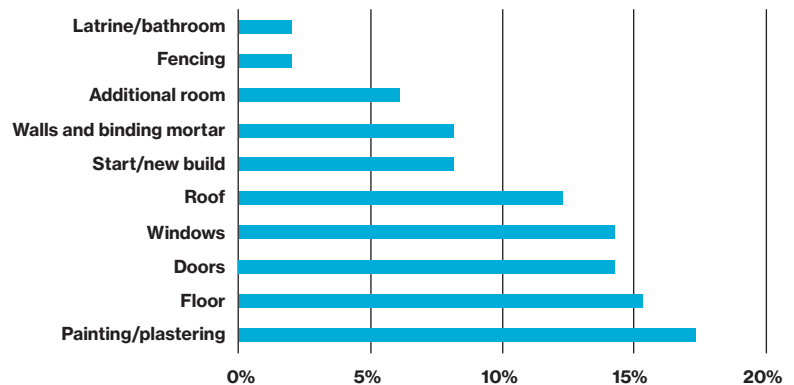
Nyumba Smart Loans

Background

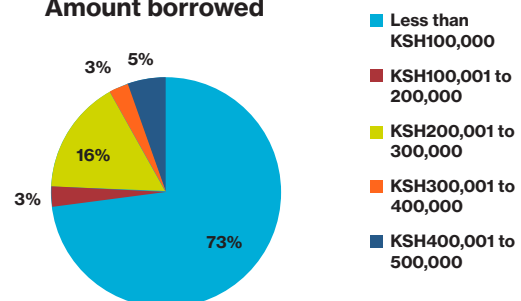
- In Kenya, Habitat for Humanity’s Terwilliger Center for Innovation in Shelter provided technical assistance to Kenya Women Microfinance Bank, or KWFT, to develop a housing microfinance product branded as Nyumba Smart Loan. On average, KWFT disburses 1,600 Nyumba Smart Loans every month. At the end of June 2017, more than 38,000 loans had been made through its network of over 200 branches countrywide.
- To better understand the level of client satisfaction and the quality of construction undertaken, the Terwilliger Center engaged an architect to assess the quality of home improvements made using Nyumba Smart Loans, reviewed the use and relevance of cost estimate templates and nonfinancial housing support services provided in the form of brochures to support customers through the loan processing and utilization, and determined overall satisfaction with the product (housing support services refers to nonfinancial, construction-related information).
- Forty-two homes were surveyed as a sample, and 56 borrowers were interviewed from seven KWFT branches in Eastern Kenya. Some data were compared to a 2014 baseline.

What was built with the Nyumba Smart Loans?

Type of home improvement



Amount borrowed



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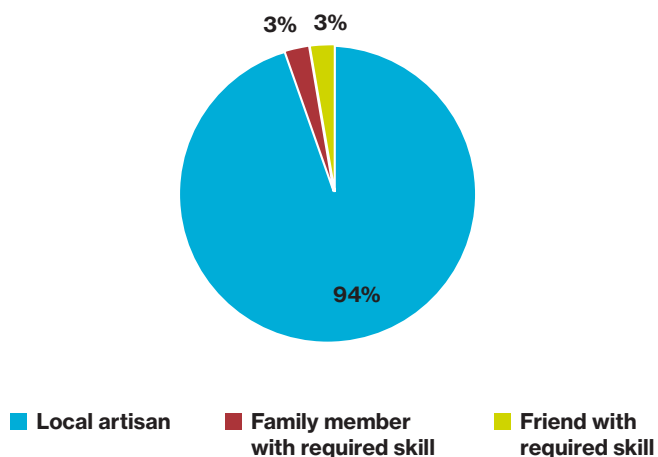
floors, doors and windows (72 percent). Only 5 percent of improvements were for electricity, water and sanitation facilities. Twelve percent used the loans for finishing (increasing the aesthetic value of the home).

- Construction quality was good. All the houses assessed fell within average or better quality. Whereas some houses had quality issues, including cracked walls, short roofs and uneven floors, none of them posed a risk to the occupants.
- Over 80 percent of clients used the loans for the intended home improvement. Over 60 percent had carried out improvements in the three years prior to the survey.
- Borrowers were happy with the quality of their house. The main reason given was that the customers themselves were responsible for the improvement.
- Portfolio at risk for Nyumba Smart Loans is lower than the overall PAR.

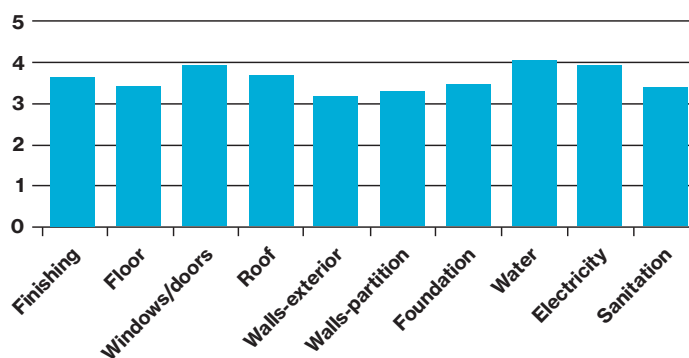
Lessons learned

- Borrowers appreciated the Nyumba Smart Loan because it allowed them to construct a decent house even in rural areas.
- Improvements made were generally good quality, and client satisfaction was in part derived from their own role in the process.
- Loan amounts were generally satisfactory.
- Incentives for borrowers to use hardware stores may have reduced the widespread problem of underestimation of cost.
- The *fundi* ultimately determined the cost and timing of the improvement.
- Brochures were liked by clients and contributed to greater understanding of the benefits and terms of the Nyumba Smart Loan.

Most Nyumba Smart Loans were small (73 percent less than KSH100,000, or US\$964), and resulted in similarly small improvements such as painting and plastering, tiling a floor, or upgrading doors and windows. Very few clients used Nyumba Smart Loans for building a new home or buying land. Nearly 95 percent of borrowers hired a local *fundi*, or expert, to do the work, which is common in sub-Saharan Africa.



Average quality scores

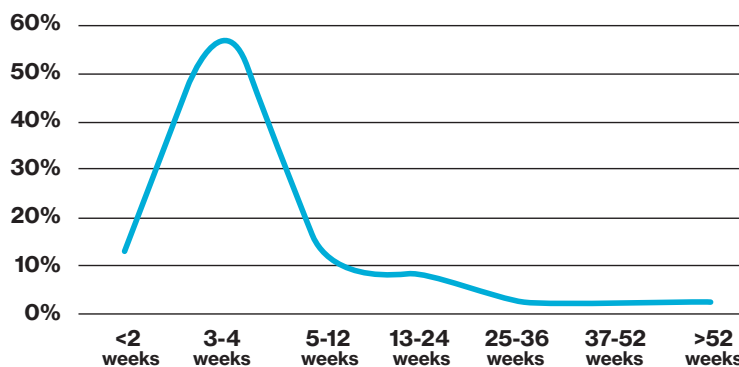


Overall, the quality of the assessed improvements was well within the safety limits (scoring 3 or above). The highest quality was in water and electricity (although the sample size of those improvements was small), and windows and doors. The main quality issues identified were lack of ring beam to reinforce walls, complicated roof designs that leak, and doors built shorter than standard size.

How long did it take?

Most construction took three to four weeks on average. That is far shorter than the time it takes for a client to repay the loan, and longer than expected given the type of improvements. Some projects took up to a year. The unsure nature of timing and cost of improvements were challenges for borrowers.

Construction duration





What worked?

Generally, borrowers were happy with the Nyumba Smart Loan, as evidenced by its strong and rapid growth. Clients cited the following benefits of the Nyumba Smart Loan (in no particular order): the ability to construct a decent house even in rural areas, including latrines and attractive finishing; the ability to stop renting; increased family unity and social standing; the ability to start a cottage business; accumulation of confidence from incremental building; and the ability to speed up the construction process.

Marketing materials and value-added services were generally highly regarded by customers. Clients used the construction-related brochures to share information with their family and other clients about the Nyumba Smart Loan, in addition to using some of the tips to support the quality of the construction.

Having a lower PAR than the overall portfolio without additional administrative cost makes housing microfinance a good investment. It is still too early to understand why, but evidence from global studies indicates that clients prioritize their homes and therefore their home loan repayments. After three years of experience where PAR overall and within the housing portfolio have experienced some volatility, KWFT still sees this effect. A publication on the business case of housing microfinance being developed by Habitat's Terwilliger Center is doing more in-depth research to understand this better.

A lending process made easy for KWFT and clients allowed KWFT to expand the product quickly. The housing microfinance loan terms and processes are very similar to those of other KWFT loans, which make them easy for both credit officers and clients to understand.

Areas for improvement

Cost estimates, whether completed by the borrower or a *fundi*, were prone to error, generally underestimating the costs of materials and labor. This resulted from inadequate knowledge on the part of both the borrower and the *fundi*, but borrowers also cited KWFT's practice of establishing the amount of the loan before the cost estimate is produced. Thus, a borrower who has a KSH150,000 project but qualified only for a KSH100,000 loan would complete the cost estimate for the lower amount, secure the loan, then come up with the additional KSH50,000 from other sources, if possible. This defeats the purpose of the cost estimate and frustrates customers. Interestingly, those customers who got their cost estimates directly from hardware stores did not experience the underestimation of material costs and quantities.

A grace period of two to three months was considered necessary by many borrowers to allow the construction to be completed. Taken together with the high incidence of cost overruns discussed above, it is possible that customers needed the flexibility to pay for additional materials and labor that were not included in the cost estimate.

Distribution of marketing materials was not uniform among business development officers, so many borrowers had not seen a brochure. Customers would also prefer that the brochures be written in their local language so that they do not need to rely on others to translate the information from the brochure.

Working with fundis proved to be one of the most challenging aspects of the Nyumba Smart Loan. Although these challenges were not the direct result of the loan (homeowners would customarily hire a *fundi* regardless of the source of financing), there were ways in which the loan magnified the difficulties customers faced in working with *fundis*. The biggest problem was reliability: *fundis* tended to underestimate time and cost, and they frequently temporarily abandoned the project before completion or increased their fee once work had begun. Borrowers with relatively small improvements and incremental building projects have little leverage to ensure the *fundi* completes the project on time and on budget.

Loan mismatch with construction costs was an issue whether due to borrowers qualifying for lower amounts than necessary or underestimated cost of materials and/or labour. Borrowers must make up the difference out of their own savings or by borrowing from friends and relatives (or, rarely, other financial institutions), often delaying the completion of the project in the process. Borrowers themselves often made changes during construction that had cost and time implications, without necessarily understanding the impact of those decisions on the overall project. This could be an area where the standardization of processes has negative implications.

Areas for further study

The results from this study have shown potential opportunity for additional research on:

Consumer education. Customers borrowing specifically to make improvements to their homes or building in stages would benefit from greater knowledge about the construction process and, specifically, cost estimation and managing *fundis*. Financial institutions are not generally keen to provide such information, so additional research on how to ensure borrowers have the skills they need to complete their projects on time and on budget would be welcomed.

Links with hardware stores. Borrowers using hardware stores to estimate quantities of materials needed for their projects did a better job than homeowners or *fundis*, saving time and money. Identifying ways this role could be formalized, and additional companies that may add value, would be helpful.

Product improvement. Three areas where small improvements in product or construction would lead to better overall improvements are ring beams, roofing systems and standardization of doors. Additional research and practical solutions would help borrowers making these types of improvements, which are some of the most common. Analyzing the process to making changes that reduce mismatch with construction costs also would be helpful.

Improving and expanding brochures. Customers appreciate brochures with construction tips and product details, which can be used to transmit useful information and as a marketing tool for the product. Language and literacy are obvious hurdles, as is including sufficient technical information to be useful to someone undertaking a home improvement without prior experience. More information about how to create and disseminate brochures, and which information is the most useful to borrowers, would provide helpful guidance to lenders.

The Building Assets, Unlocking Access project is implemented by Habitat for Humanity International's Terwilliger Center in partnership with MasterCard Foundation to develop housing microfinance products and nonfinancial support services for people living on less than US\$5 per day. The aim is to enable these people to secure adequate and affordable housing and improve their living conditions.

To learn more about the partnership between Habitat for Humanity's Terwilliger Center and MasterCard Foundation, and about the lessons emerging from the Building Assets, Unlocking Access project, visit

habitat.org/impact/our-work/terwilliger-center-innovation-in-shelter/shelter-solutions-for-people-in-sub-saharan-africa.

