Capitalizing Housing for the Poor: Findings from Five Focus Countries

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Acronyms

ATM	Automatic Teller Machine
BSP	Bangko Sentral Ng Pilipinas
CBS	Core Banking System
COFIDE	Corporación Financiera de Desarrollo
CRAT	Centro Regional de Asistencia Técnica
DCB	Development Credit Bank
ECB	External Commercial Borrowings
HFH	Habitat for Humanity
HFHI	Habitat for Humanity International
HMF	Housing Microfinance
HMFTAC	Housing Microfinance Technical Assistance Center
HUDCC	Housing and Urban Development Coordinating Council (Philippines)
IDB	Inter-American Development Bank
IFI	International Finance Institution
INGO	International Non-Governmental Organization
LAC	Latin America and Caribbean
MFI	Microfinance Institution
MIV	Microfinance Investment Vehicle
NABARD	National Bank for Agricultural and Rural Development
NBFC/I	Non-Bank Finance Company/Institution
NGO	Non-Governmental Organization
NHB	National Housing Bank
RBI	Reserve Bank of India
ROA	Return on Assets
SIDBI	Small Industries Development Bank of India
SME	Small and Medium Enterprise
TA	Technical Assistance
USAID	United States Agency for International Development

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Abstract

This report seeks to inform the impact investment community, as well as the microfinance sector at large, about the opportunities and barriers for investment in the growth of housing microfinance. This paper is the result of both desk-based research and in-country investigations facilitated by Habitat for Humanity International on the housing finance “situation gap”. The study presents country-level trends in housing microfinance and the factors that may enable increased scale, impact and social investment. Field-based interviews in the primary study countries supplement the macro-level analysis and serve to verify and provide more nuanced information regarding in-country trends in demand for investments that may alleviate poverty housing, especially in urban areas.

Executive Summary

Habitat for Humanity International (HFHI), with support from the Rockefeller Foundation, commissioned this report with the aim of informing the impact investment community and the microfinance sector at large about opportunities and barriers for investment in the growth of housing microfinance.

Previous publications concerning housing microfinance have cited widespread retail demand,[1] but also noted numerous impediments to effective supply. This report revisits demand estimates at the institutional level and subsequently explores the role of appropriate capitalization of this niche product to better position MFIs that want to make housing loans to grow their portfolios as well as retain existing customers who are seeking better shelter.

The first two chapters of this report, however, also highlight a number of constraints to achieving scale of housing microfinance. These barriers point beyond the traditional larger policy environment questions like land ownership and focus on institutional questions: is working capital the only constraint for MFIs? To what extent can institutional technical assistance play a role in mitigating operational and market risks? To what extent can construction technical assistance leverage borrowers' social capital and get the most housing out of their unsecured loans?

Five countries—India, the Philippines, Peru, Uganda and Mexico—are examined in some detail to provide an understanding of the variability of local housing microfinance markets. Dimensions of urbanization and declared homeownership rates are common factors that link the countries. These are also countries where HFHI has begun to build programmatic expertise in housing microfinance. In-country analysis covers the local business and investment environments, attempts to scope potential pipeline investments, and outlines existing domestic resources and their impact on the market. The following indicate broad country findings:

India

- Investors are gravitating towards Tier I and larger Tier II institutions, restricting smaller institutions from accessing new domestic capital and equity.
- The capacity or willingness to engage in individual lending and the cash flow analysis that accompanies housing credit assessment is relatively weak, and management information systems may also be weak in adapting to new individual loan products.
- Domestic debt flows into microfinance are strong for some Tier 1 MFIs due in part to government's stringent external commercial borrowing policy, while cross-border investments are limited to equity or grants, particularly to larger MFIs.
- Absorptive capacity is a concern among smaller MFIs as human capacity and equity are relatively scarce; these institutions are especially dependent on government wholesalers and some commercial lenders, but mid-size MFIs with good credit ratings will constitute a sustainable market for investors.

Philippines

- Recent support by the Central Bank to the government's housing loan program and approval of a housing microcredit product promoted by the Rural Bankers Association demonstrate a policy commitment to HMF.

[1] Mesarina and Stickney (2007), Ferguson and Daphnis, eds. (2004), Hokans (2008).

- Some rural banks possess the liquidity necessary to provide slightly longer term funding and have developed their own housing micro-loan products with institutional technical assistance (TA) support. Some of the rural banks are seeking longer-term subordinated debt to make even longer term loans for plot purchase and progressive self-building.
- Several NGOs and cooperative banks are also seeking long-term debt for housing, and institutional TA from SEED Finance, a commercial wholesale lender established by CARE, is also also stimulating demand.
- The existence of third-party institutional TA providers with knowledge of housing microfinance, especially from MABS and Mercy Corps, ensures market readiness by several MFIs.
- Commercial wholesale lenders, such as the Bank of the Philippines, are beginning to be active in the market and may stimulate demand for new products, including housing, from MFIs.
- The absorptive capacity of MFIs is a concern for those which are unable to reach BSP's capital adequacy requirements, indicating a need for equity investments, which are not readily available locally.

Uganda

- Tier I MFIs, like Centenary Bank and Equity Bank, seek long-term debt to diversify credit lines. These MFIs are beginning to achieve scale with secured and unsecured housing loans representing a significant proportion of their loan portfolios. Equity Bank in particular is seeking either institutional TA or long-term debt or both and is used to working with international investors.
- While smaller MFIs, such as UGAFODE, need equity to expand portfolio growth, it has established a good track record of paying back two soft loans from Habitat for Humanity Uganda, but it is stymied in its transformation into a regulated institution.
- Institutional TA is required to assist the development of core banking systems of smaller MFIs.
- Absorptive capacity for smaller MFIs is limited due to lack of equity, but investment into a regional wholesale lender, such as Stromme East Africa Microfinance Ltd., could bolster performance of these institutions in Uganda and four other countries in Eastern Africa.

Peru

- Significant foreign investment into microfinance sector is ongoing, but a dearth of local debt for all but the largest MFIs is a constraint.
- Local debt characterized by lack of knowledge of sector risk and relatively onerous security requirements could signal an opportunity to develop credit enhancements for local banks.
- Numerous government funding programs for housing show promise, but margins for MFIs are currently too restrictive, except for MiBanco and possibly Banco de Credito.
- Four MFIs are benefiting from institutional TA from HFHI under an IDB-funded program; only one of these institutions is in a position to take large-scale debt for housing at the moment, but the other three MFIs may be investment ready in 2010.
- Absorptive capacity of a few MFIs is potentially significant, but these MFIs will face considerable competition, increasingly from local banks such as Banco de Credito, which recently acquired Edyficar, and appear to want to move aggressively into the housing finance market.

Mexico

- Regulatory challenges, the global credit crisis and subsequent recession have created a period of consolidation and for the moment have slowed the growth of microfinance, including housing microfinance.

- Institutional TA is needed to upgrade reporting systems and other capacities for MFIs across the board, but the stronger MFIs that have withstood the assault of funding shocks are poised to grow again and are seeking a diversity of funding sources.
- New sources of funding for microfinance are limited, but government funding from the state housing development bank SHF will pick up in 2010 in the HMF sector as SHF confronts continuing problems in the mortgage market. This should create new opportunities for co-financing with MFIs that want to make home improvement and self-building loans.
- Absorptive capacity may be limited due to weak systems, but the infusion of institutional TA and new funding sources could significantly impact the sector.

The proliferation of capital from international microfinance investment vehicles (MIVs) has enabled the scaling up of microfinance worldwide. While investments are broadly for microcredit products, with no examples of funds specifically targeting housing microfinance, anecdotal evidence from MFIs around the world indicate that a significant percentage is already used for housing. The current aggregate external capital flowing into microfinance totals over $10 billion. Even a conservative estimate of ten percent of working capital diverted for housing bolsters the argument that more targeted, intentional and efficient funding into the HMF sector will scale-up social impact and increase profitability in the long-term.

A number of institutions sponsor investment funds in the microfinance sector, including international non-governmental organizations (INGOs). Many INGOs have widened their efforts to include investment savvy activities, which grew out of exit strategies to make programs more sustainable. INGOs have come a long way from just "charity" and many sponsor multi-million dollar funds with instruments ranging from guarantees to collateralized debt obligations. The example of CARE's establishment of its MicroVest funds provides lessons for other INGOs regarding brand management, targeting and structuring.

Country findings, along with extensive desk research on demand for housing microfinance signal three conclusions:

1) Demand for housing microfinance is significant, and evidence of the diversion of existing microenterprise loans for housing bolsters this assertion. Other evidence includes the growing interest in product diversification to spur new growth and client retention.
2) Specialized capitalization of housing microfinance enables the intentional scaling up of what is currently a niche product and attracts new expertise to high growth MFIs.
3) Technical assistance that builds capacity at the institutional level, while still important for most capital market interventions in the microfinance sector, is crucial for housing microfinance
   Donor subsidy to explore the linkages between financial services and non-financial HMF services including construction technical assistance, is an opportunity for those seeking to deliver developmental impact in the area of shelter provision and wealth creation for successful micro-entrepreneurs.

1 Introduction

1.1 Project Background

This project springs from the joint vision of Habitat for Humanity International (HFHI) and the Rockefeller Foundation to eliminate poverty housing and build communities and healthy living environments. HFHI seeks to increase the scale and impact of its work in delivering decent, safe and affordable housing to the poor who cannot afford long-term mortgage finance. This effort aligns with its 2006 strategic plan, developed in part with support of the Rockefeller Foundation, to achieve greater scale in alleviating poverty housing by:

1) Mobilizing new sources of investment capital into the affordable housing sector, and
2) Prioritizing investment towards sustainable programs that lead to the transformation of systems impacting affordable housing.[2]

Currently HFHI's global presence is represented by its four Area Offices (San Jose, Costa Rica; Pretoria, South Africa; Bratislava, Slovenia, and Bangkok, Thailand) as well as its support to 85 National Organizations, most of which are independent affiliates. Despite major achievements in project housing around the world, the need for housing solutions for the poor has outpaced collective efforts to build complete, turn-key houses. The hurdles are due in large part to such exacerbating factors as increasing urbanization[3], land policy failures, lack of construction technical assistance to households and the lack of affordable, longer-term housing finance available to especially microfinance institutions (MFIs), many of which work directly with poor households. One objective of this document is to shed light on some potential opportunities to address the classical problems facing low-income housing finance and illustrating potential demand and investment opportunities in five focus countries.

The focus countries under study in this report are India, the Philippines, Peru, Mexico and Uganda. This report includes some findings from interviews in Bratislava, Slovakia and may also offer broad insight into affordable housing finance issues in the Eastern Europe and Central Asia (ECA) region, but the findings pertain primarily to the South. These countries are indicative of overall potential demand for housing microfinance in developing countries as well as the generally vibrant microfinance markets in these countries. They also represent region-specific choices, which to a limited extent enable an overview of trends in South Asia, Southeast Asia, Latin America and Africa, respectively.

This report is the result of both desk-based research and in-country investigations facilitated by HFHI on the "situation gap," which presents country-level trends in housing microfinance and the factors that may enable further scale, impact and social investment. Field-based interviews in the primary study countries supplement the macro-level analysis and serve to verify and provide more nuanced information regarding in-country trends in demand.

[2] 2006-2011 Strategic Plan, Habitat for Humanity International.

[3] This is punctuated by the fact that half of the world's population now lives in cities, a figure that is set to rise to 60 percent of the world's population in the next two decades. UN-Habitat. *State of the World's Cities Report 2008/9.* 2008.

1.2 What is Progressive Housing?

In the focus countries as well as all around the world, progressive housing, or what is sometimes also called incremental housing, reflects the dominant way that poor people construct and improve their homes. Progressive housing is housing that evolves over time in tandem with a household's resources (mostly savings and labor), life cycles and needs. Examples of progressive housing include a gamut of activities from remodeling to installing roof sheets to adding a new room. This *household-driven* process, as differentiated from developer- or government-driven processes, offers households more control over their home-building rather than relying on government subsidies or private developers delivering a supply of "turn-key" houses. Development risk resides with the household.

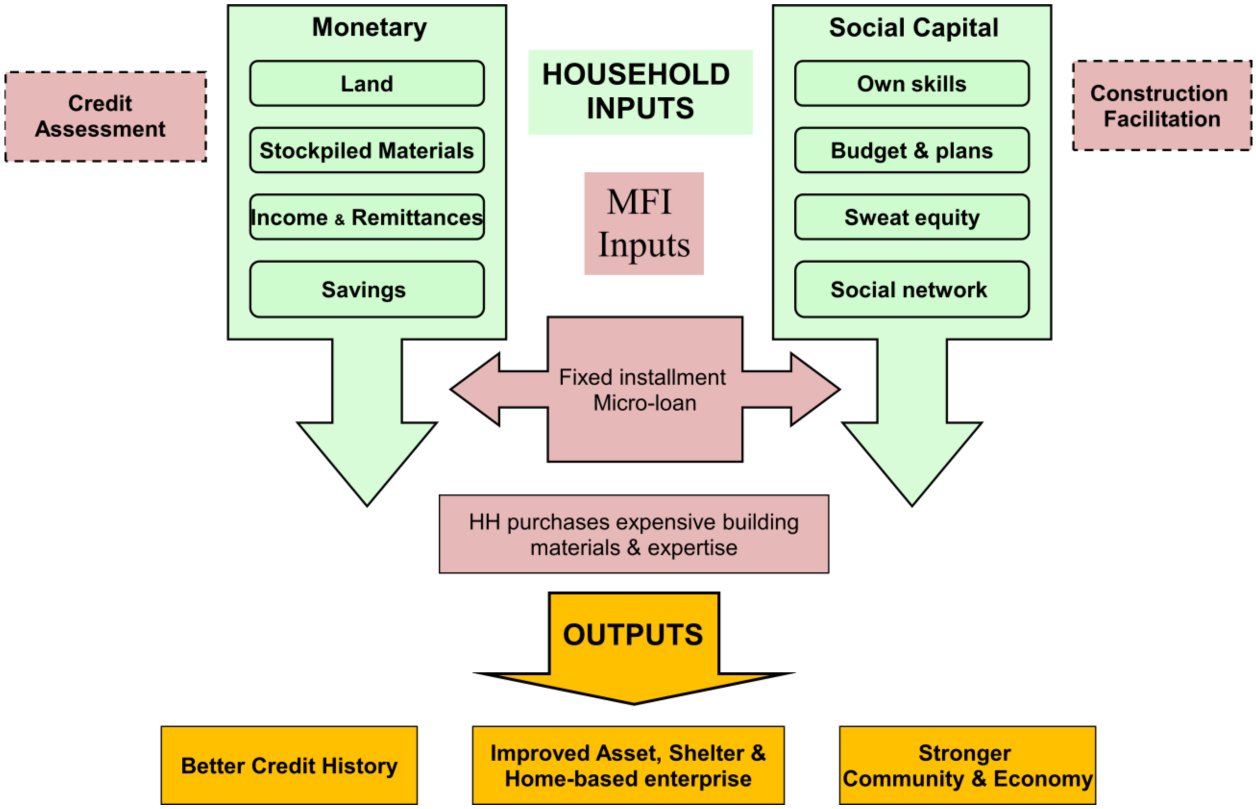
Progressive housing is an intentional strategy. It maximizes household choices for addressing household priorities and matches the way poor people build or improve their housing: often slowly, and coincident with the availability of cash savings and saved building materials.[4] When poor people build or improve their own homes, they tend to be more satisfied with their outcomes. Sometimes they and their cohorts make building mistakes. But they live with them without boycotting payments. More often than not they create much better and more shelter within their financial means and according to their needs..

Access to housing microfinance catalyzes the building process that is already underway. It enables access to more expensive materials or specialized labor during key junctures of the building process. Importantly, housing microfinance overcomes the land tenure problems faced by the poor. As long as a household feels secure on the land, whether it is formally registered or not, they will invest and improve their homes. These households are focused largely on the "use value" of their homes.

Figure 1 below depicts the progressive housing process. Households make both monetary and non-monetary (social capital) inputs into the building or improvement of their houses over time. On the monetary side, the client usually has some sort of permanent access to land that is often cemented by a formal or informal financial transaction with a local or traditional authority, private land owner, relative or sometimes a utility company or even a corrupt political party official. This transaction, whatever its form, is perceived by the client as a form of security, whether legally enforceable or not, offering a climate for personal investment into housing. Other household monetary inputs include income from jobs and microenterprise, savings and second-hand building materials (a good hedge against inflation), cash on-hand, international or domestic remittances and often rental income, especially in urban areas.

[4] Hokans, James. "Maximizing Choice: Diverse Approaches to the Challenge of Housing Microfinance." USAID Microreport #97, April 2008.

Figure 1. Household-Driven Progressive Housing Process



Access to fixed installment micro-loans, underwritten with external domestic or international investments, links monetary and non-monetary inputs (social capital), leverages household resources and speeds up the building process. The finance delivery channel is the microfinance institution (MFI), a bank or non-bank financial intermediary organization, which conducts a credit assessment on the available monetary household inputs and offers fixed installment micro-loans. The borrower household mobilizes its social capital: networks, labor and building knowledge (derived from the informal builder whose work is known, a local building materials supplier, a sympathetic city engineer or a technician from a local NGO). The poorer the borrower household the more robust the household members' social networks have to be to maximize the housing improvement process.

Supportive intervention on this non-monetary input or social capital side of the building process by a knowledgeable partner, like a local or international NGO or municipal office set up for facilitating slum upgrading, can be very powerful. These interventions may take the form of consumer education, housing impact monitoring, training of trainer programs for third party service providers, builders, suppliers and local government officials. The NGO or municipal unit may sometimes provide direct "hands-on" building support to specific borrowers, but which should not compete with local commercial entities, especially from the informal sector.

1.3 A Working Definition of Housing Microfinance

Housing microfinance is defined here as the provision of unsecured microcredit, and other related financial services, such as savings, remittances, and micro-insurance, to meet the demand of low-income households to repair or improve their existing homes or build their own homes over time one loan at a time. These loans are typically unsecured, and credit assessment is similar to the same cash flow and character analysis process applicable to individual entrepreneurs for small business loans but often includes some documentation to verify residence, a list of building materials and an estimate for labor. Sometimes a photo of the previous housing upgrade is required for a repeat housing loan.

In countries, such as Peru, where housing microfinance is considered a viable product line, banks and non-banks will also stimulate the delivery of micro-mortgages to the more successful individual micro-entrepreneurs who have access to formally titled land. Micro-mortgages are mortgages designed for lower-middle income households often comprising informal entrepreneurs, but the product includes the same strict character and cash flow analysis requirements of unsecured housing loans. This situation means the micro-mortgages are smaller and will have shorter terms than a typical mortgage in that market. Nevertheless, micro-mortgages require title to the property as security to be registered and typically require up-front lump sums from the borrower household. This set of requirements presents unique challenges for credit assessment, and makes micro-mortgages more appropriate for moderate income but still informal segments.

However, in India, the recent spate of developers announcing plans to develop affordable units catalyzed the development of a number of housing finance companies, such as the Micro Housing Finance Company, specifically focused on delivering micro-mortgage products in semi-urban locations. In this instance, the focus on micro-mortgages may eventually serve to pave the way for housing microfinance as a potential solution for those who cannot make it onto the waiting list of the developers, or do make the waiting list but do not access a formal unit and want to fix up their existing house. In the Philippines, the rural banks have made mortgage loans to the well-to-do in their communities for years. As they are beginning to grow their housing micro-loan portfolios recently, especially in urban locations where rural banks also operate, they are beginning to make micro-mortgages for the first time to informal sector entrepreneurs who hold title to their land and cannot get access to a traditional long-term mortgage.

For purposes of this document, the focus is on *housing microfinance*, recognizing that the low-income housing finance market is highly segmented and must be met with a variety of generally unsecured product solutions. While micro-mortgages are important product considerations in countries such as India, Peru, Mexico, Uganda and the Philippines, the primary product under study is an unsecured housing micro loan. Housing microfinance does not include construction finance or project finance, or multi-purpose consumer loans. Housing microfinance is a specific form of unsecured end-user finance that leverages the savings and the “sweat equity” of the self-help builder and borrower. In Mexico, the housing improvement loan might also be linked to an upfront capital subsidy.

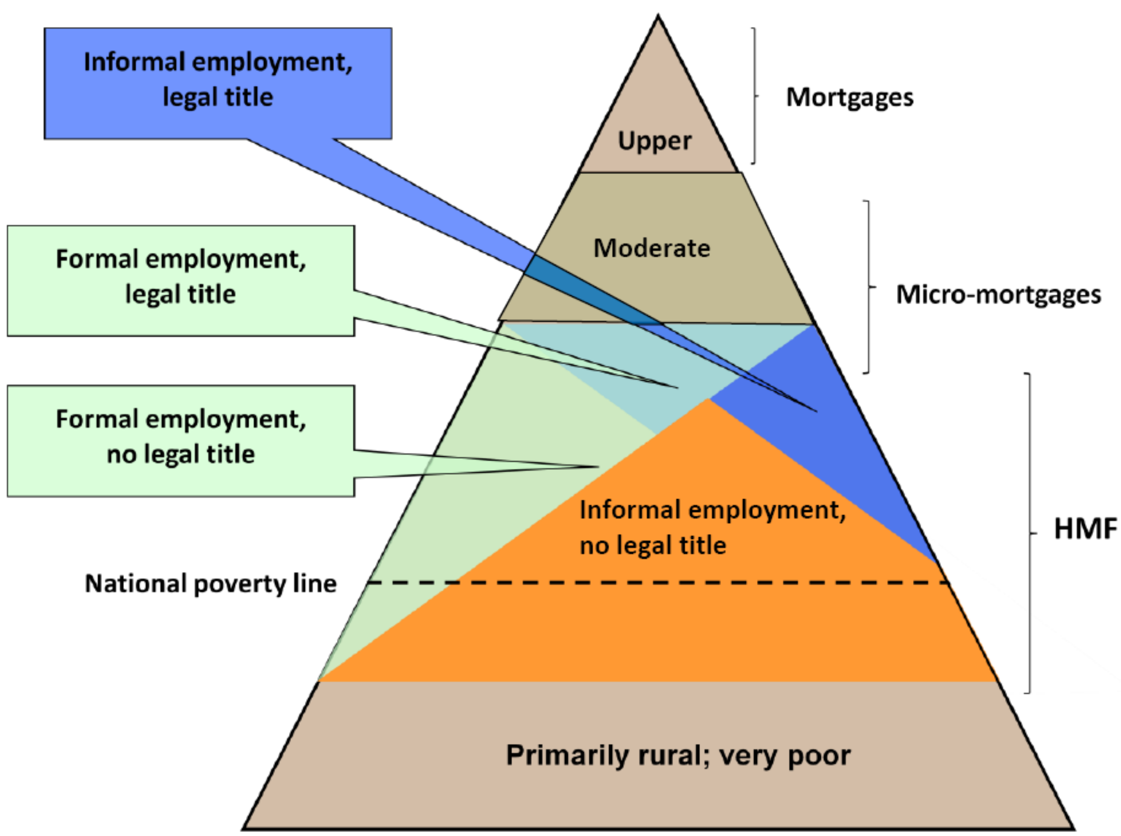
1.4 Target Market Segments

Figure 2 below shows a stylized national income pyramid. The top income segment of households is able to qualify for a mortgage. The bottom layer represents primarily rural, very poor households who cannot afford credit (but could still benefit from subsidized construction technical assistance if it were available).

The typical market segments targeted for housing microfinance lies within the broad middle to low income range. Four market segments are color highlighted. The market segment of near poor urban households, who derive their incomes primarily from formal employment and who also reside on formally titled land often have access to consumer credit companies and some banks in many countries, such as in Mexico, Peru or India or the Philippines. This segment poses potential credit risk as these households are more prone to over-indebtedness and MFIs have to be especially adept at cash flow analysis for this segment and not simply rely on payroll deduction. There also those who are formally employed but have no formal title to land. This segment may be a target group for housing microfinance but they may also be over-indebted if they have signed up for payroll deductible loans. Often as not, this segment may be a good target rental market in urban areas, though in Mexico MFIs report that more than 70 percent of their clients are now registered with one of two credit bureaus, a development that bodes well for more targeted lending to the low-wage formal worker in this country.

An important and under-served market segment with which many MFIs are very familiar is those households which derive their income from predominantly informal sources, e.g. micro-entrepreneurs. Some of these households may have formal title, but probably more possess informally recognized documented rights to their land, especially in urbanizing rural towns. They may have no documentation but have informal rights to the land on which they reside and feel sufficiently secure to invest their time, "sweat equity" and savings to build and improve their housing.

Figure 2. Housing Microfinance Target Market Segments



They may also operate businesses out of their homes. The question remains: how far down into this market can MFIs reach to make housing micro-loans?

2 Classical Problems Facing Housing Microfinance

As microfinance proliferates around the world, housing microcredit as a formal diversified product is taking hold, as we found in the five focus countries. MFIs, including commercial banks, rural or community banks, NGOs and cooperatives, are the key delivery vehicles for microcredit products, but only some offer dedicated housing microfinance products. One reason for this is microfinance clients are already diverting micro-enterprise loans into housing. In a recent survey completed in the Philippines, for example, nearly 40 percent of microfinance borrowers from rural banks used some of their microenterprise loan for home improvement or repairs.[5] Anecdotal evidence from MFIs in the five focus countries suggests that borrowers are diverting microcredit for housing, and this phenomenon is well-known and often ignored by micro-enterprise practitioners. The Philippines example represents the upper range of that figure and reflects the demand for housing improvements in a country that is over 60 percent urban. "Leakage" is one classical problem faced by MFIs and consumers. While MFIs continue to face other classical problems which impede the growth and scale of housing microfinance, a number of trends are emerging which serve to strengthen and grow the market for greater product development in microfinance.

2.1 Lack of Appropriately Structured Bulk Finance

A number of limitations exist in currently available lines for microfinance which make it difficult to finance progressive housing, according to interviews with MFI leaders. Since housing microfinance loans are typically slightly larger and longer term than microenterprise credit—from 18 months up to a few years compared to six to 12 months—this creates the potential for asset/liability mismatch since wholesale funding terms are often shorter than the term of a housing loan. Additionally, these longer-term, larger loans may put a strain on an MFI's liquidity, which worries growing MFIs, especially when capital adequacy ratios are strained already as a result of growth in the overall portfolio (India in particular) and access to debt is limited by the recent credit crunch and recession (Peru, Mexico and the Philippines).

For purposes of categorization during the course of the study, MFIs are divided into tiers that represent both size of portfolio and number of borrowers and signals potential risk and appetite. While the countries vary in terms of the prevalence of MFIs and their portfolio sizes, the tiers are broadly defined as follows:

Tier I

- Have loan portfolios of at least $15-20 million
- Have at least 20,000 active clients
- Generally enjoy better access to both debt and equity finance
- Most are deposit taking or regulated institutions, or large NGOs

Tier II and III

- Consist mostly of community banks, NBFIs, NGOs and cooperatives

[5] "MABS Survey on Capacity Building Needs and Plan for MABS Participating Banks", May 2008 and Hokans, James et al "The Dimensions of Demand for Housing Microfinance in the Philippines" Manila: July 2008.

- Usually have under 20,000 and greater than 10,000 active clients
- Have limited access to commercial finance and equity
- Are typically dependent on government wholesalers, donor finance or members savings

Smaller MFIs, particularly Tier II and Tier III institutions that have high debt to equity ratios or modest reserves cannot easily leverage new longer-term bulk finance. This lack of equity hurdle plagues smaller MFIs especially in India, Uganda and Peru. Longer term financing is not readily available for MFIs in part because current wholesale funding was designed around microenterprise retail loans, and also because secondary market vehicles – both government and commercial – providing wholesale funding are not used to measuring, monitoring and managing credit risk over longer periods. Yet a clear opportunity arises for funders willing to look deeper at demand around housing microfinance and how to structure a product that addresses these risks. The growth potential is enormous, thus understanding the current barriers in capital mobilization around housing microfinance will better equip funders to realize new business lines while meeting an immense market demand.

2.2 Capacity Hurdles

MFIs looking to provide housing microfinance are constrained by capacity from a number of perspectives in addition to funding. Human resources and core banking systems (CBS) are two examples. Many institutions have yet to deliver individual loans to borrowers, relying instead on group lending methodologies, as we found in Mexico and India, for example. Thus loan officers are often not trained in making loans to individuals, which requires performing character and cash flow analysis on individual businesses and households.

While some markets have considerable experience in individual lending, such as in Uganda, the Philippines and Peru, countries like India and to a lesser extent Mexico, tend towards sticking with what they know best and has made them sustainable: group solidarity loans. Despite the maturity of India's microfinance market, individual lending has not taken off due to competition for clients and funding. Individual lending just does not allow for the rapid growth that group lending offers. Moreover, while the number of HMF borrowers may be substantially smaller than the borrowers for productive loans, the value of HMF loans as a percentage of the portfolio is higher. Acción Technical Advisors in India commented that individual lending is a long-term focus for MFIs, suggesting that it is likely a "10-year proposition."[6] This comment suggests that technical assistance facilities such as the Housing Microfinance Technical Assistance Center (HMFTAC), jointly funded by USAID and HFH India, is a timely intervention that should benefit the MFIs that want to lend to individuals for housing purposes.

MFIs must be able to align incentives for staff undertaking individual cash flow analysis, and ensure that they are able to incorporate simultaneous loans for individuals who often need to continue to borrow short-term working capital for business. The prevalence of individual lending is critical for the delivery of housing microfinance. In countries such as the Philippines, individual lending is increasingly a common lending methodology. Uganda and Peru also have a large share of individual loans in MFIs' portfolios, and nearly 60 percent of MFIs in ECA issue individual loans.[7] As the state development bank

[6] Meeting with Acción India Technical Advisors in Bangalore.

[7] Pythkowska, Justyna and Marcin Rataj. "The State of Microfinance Industry in Eastern Europe and Central Asia 2006." September 2007.

Sociedad Hipotecaria Federal (SHF) shifts and places greater emphasis on housing improvement loans and auto-construction in partnership with MFIs, then individual lending in Mexico will also grow.

MFIs that have a strong history of group lending often lack core banking systems to age and monitor an individual lending portfolio and integrate other financial services that MFI clients are increasingly seeking, such as savings products, automatic teller machines (ATMs), and m-banking. Debtor management systems that reconcile with the general ledger in real time are imperative to financial sustainability, including transactional services. Even in countries with individual lending, CBS may not be capable of performing adequate reporting in areas such as loan aging analysis. For example, in the Philippines, many coops and smaller NGOs and rural banks are still performing manual reconciliation of transactions with the general ledger. Manual reconciliation may be appropriate for some smaller MFIs, but does open up the possibility of fraud or human error. This has inhibited efforts not only in the areas of branchless banking initiatives such as ATMs or mobile phone banking, but also with respect to new product lines in general such as HMF. Lack of strong CBS has plagued many Tier II and III MFIs in Uganda and India as well.

2.3 Institutional Transformation[8]

Despite persistent, classical problems impeding housing microfinance, several important new trends have emerged which promise a more facilitating environment for individual loans and housing microfinance. With strong roots in the social sector, a number of MFIs began operations as NGOs and many still remain under this institutional structure. A growing trend among these NGOs, however, is the transformation into commercial entities so they can take deposits, which often means that they fall under supervision of their country's financial regulator. In Mexico, for example, the recent rapid growth of microfinance is largely attributed to the creation of the SOFOMs, an unregulated multi-purpose financial entity. Many of these SOFOMs are either now going out of business or evolving again into regulated SOFIPOs in order to take deposits. Transformation also heralds a more vibrant sector as regulated entities are subject to greater transparency and better reporting. In addition, by taking deposits MFIs are able to expand their suite of products, giving them greater control over their costs, including cost of funds which enable them to compete on the price of their loans as they gain scale and sustainability.

In some countries, transformation into a regulated entity does not necessarily mean that the institution can immediately begin taking deposits. In India, for example, non-bank financial companies (NBFCs) are not automatically deposit-taking. In fact, a deposit-taking NBFC license is difficult to obtain from the Reserve Bank of India. However, in Peru, mobilizing deposits is one of the primary impetuses for transformation. The MFI Prisma, for example, is transforming from an NGO to a Caja Rural de Ahorro y Credito (a rural savings and credit institution) in order to expand its funding sources and improve its capital adequacy.[9] Transformation is viewed as a way to better attract commercial funding and is the first step to begin to think seriously about scale in operations and portfolio growth. Along with these benefits, transformation requires fundamental shifts in an institution's operations and even mindset.

[8] A number of publications have covered this topic in detail. Ledgerwood and White (2006) provide a particularly thorough account of the issues facing institutions as well as regulators as a result of transformation.
[9] Interview with Prisma in Lima, July 14, 2009.

Although this change requires significant time and institutional resources, housing microfinance serves to benefit from increased competition that often accompanies growth and regulation.

2.4 Role of Independent Credit Ratings

Independent specialized credit rating agencies in the microfinance sector are playing prominent roles in providing rich information to wholesale lenders and investors about MFI performance and management, putting a finger on how classical problems impeding housing microfinance can affect the performance of capital into the sector. In India, annual ratings are required for all MFIs seeking institutional capital. MFIs must obtain a new rating every time they need new funding, making for a volume of business to accommodate a number of rating agencies and increasing transparency for both funding but also identifying key functions that need TA. Large rating agencies see microfinance as a significant market in India, thus CRISIL—a partially-owned subsidiary of Standard and Poor's—vies for business from MFIs alongside specialized microfinance rating agencies such as M-CRIL. The SME Rating Agency of India Limited, a joint initiative by SIDBI and Dun and Bradstreet has begun to offer a ratings product for microfinance institutions.[10] Findings from the ECA region also demonstrate how pervasive ratings have become. MFIs in ECA are rated regularly, typically on a yearly basis by established microfinance ratings agencies such as MicroFinanza, Planet Rating Fund and M-CRIL.[11]

While rating agencies are gaining a significant place in assessing MFIs, they are still emerging in importance in other countries. In Peru, ratings are required, particularly by international investors, but are seen merely as a starting point for additional due diligence. The market is covered by microfinance-only rating agencies such as PlanetRating, MicroFinanza Rating, and MicroRate. In Indonesia, where the microfinance sector development has remained nascent due to lack of bulk finance and sound regulation for MFIs, the international NGO Mercy Corps in partnership with the IFC has spawned the development of a rating tool that has been widely implemented among large and small MFIs. These independent ratings are the basis of bulk financing decisions by Bank Andara, a commercial wholesale bank founded by Mercy Corps with fellow owners IFC, Triodos Bank and CORDAID. Bank Andara will also provide direct bulk loans to MFIs that are making housing microfinance loans, especially in earthquake affected areas, but also in Jakarta and other large cities around the country experiencing informal settlements. Without the rating tool, Bank Andara would not have gotten off the ground. In Mexico, we found that many of the most durable MFIs are obtaining credit ratings in an effort to increase their attractiveness to both domestic and international investors.

Similarly, Stromme Microfinance East Africa Ltd., a regional commercial wholesale lender working in Kenya, Tanzania, Uganda, Rwanda and Southern Sudan, depends on independent ratings as well as their own internal due diligence processes, to make bulk loans to some 30 MFIs in East Africa. Stromme Microfinance, a commercial wholesale operation owned 90 percent by Norwegian based Stromme Foundation and 10 percent by French agency SIDI (Solidarite Internationale Pour le Developpment et L'investissement), is actively seeking a partnership with a like-minded investor to develop bulk housing loans to MFIs that are already making loans to individual households and want dedicated funding and technical assistance for housing microfinance.[12]

Independent credit ratings have had a transformative effect on microfinance markets and provide strong signals to investors. The additional scrutiny they create provides MFIs with an incentive for

[10] MicroCapital Monitor. Vol. 4, Issue 7: July 2009.
[11] Current data from the Rating Fund. www.ratingfund.org
[12] Stromme Microfiance Ltd meeting, August 10, 2009.

improving their performance. PlanetRating in Lima indicated that MFIs' ratings improved from year to year, suggesting that they added transparency, and had a positive feedback effect on MFI performance.[13] Rating agencies also play a role in information dissemination concerning market trends. While individual MFIs own their ratings, rating agencies often publish data in aggregate, adding to knowledge about the sector. Their deep and detailed view of MFI performance and deficiencies enables an independent view of market readiness for new products, funding sources and possible risks. Moreover, they provide opportunities for technical assistance programs and consultants to tailor training programs around the institutional weaknesses identified in the independent rating.

2.4.1 Social Ratings

The social rating has emerged as a critical sub-category of MFI ratings. While the market for these is nascent and they are not required as much by investors as institutional ratings are, they have their own cachet in measuring impact, an essential element for many social investors, including HFHI, CARE, Opportunity International and many others. NGOs attempting to appeal to external social investors find social ratings valuable as a way to capture impact data through standardized measures of social performance. In the end, ratings provide the first detailed insight on the social performance of MFIs to investors and provide standardization of assessment in a sector that is constantly changing.

2.5 Technology

Branchless banking technology is playing an increasingly important role in expanding financial services to the unbanked, especially in the Philippines and increasingly in India and Mexico. Microfinance institutions are utilizing branchless banking technology such as mobile phones, ATMs, personal digital assistants, notebook computers, and point-of-sale devices to reach deeper into markets that are distances away from bank branches. These technologies, such as m-banking on cellular phones, promote customer service, cost efficiency and provide new opportunities to accept remittances, make deposits and pay their bills and loans, including housing loans on a device that many of the poor already own. The y may also be used to "blast" market HMF loans to MFI clients with good track records. Furthermore, rural banks and co-ops in the Philippines, for example, now view ATMs as enhancing their sustainability. With all types of branchless banking, the strategic partnerships that MFIs have forged with commercial entities such as mobile network operators and ATM network providers have put more emphasis on core banking systems to handle real-time transactions. The better the core banking systems the more likely the MFIs can also market and manage individual housing loan terms and conditions.

As microfinance continues to evolve and the market adapts to emerging demand and external capital support, housing microfinance will play a more prominent role in diversifying larger MFIs' portfolios. Nevertheless, the product itself will likely remain an important niche product. This report, then, focuses on potential demand to overcome constraints in capital and technical assistance at the MFI level for those MFIs that want to make unsecured individual housing loans.

3 Factors Affecting Demand

The focus countries under study are largely emerging markets with a history of strong economic growth, regulatory support, and a high degree of MFI maturation and consolidation. These factors align to stimulate product development and individual lending. These countries possess housing backlogs, large

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[13] PlanetRating meeting, July 15, 2009.

percentages of households who declare their ownership over their properties, and increasing urbanization, but also track records of initiating market-led solutions to poverty. Nevertheless, these countries still face the "Triple F" problems of increased costs of inflation of food, fuel and insufficient financing, exacerbated by the recent financial crisis. These problems have had tangible effects on increased cost and decreased access to finance, which are felt most acutely by low-income borrowers.

Housing microfinance markets are governed by local economic and policy contexts. Within each of the five primary countries under study, overarching trends influence the opportunities microcredit can create for the poor. Though it is difficult to make comparisons across countries and continents, field visits and related case studies reveal several patterns in the demand for housing microfinance. At the same time, demographic patterns and the peculiarities of various business environments color the housing delivery opportunities in each country, acknowledging that all housing markets are local.

3.1 Microfinance Business Environment

The countries under study varied in their business environment indicators. According to the Doing Business index developed by the World Bank and the International Finance Corporation (IFC), Figure 3 summarizes the 2010 rankings of the study countries. Rankings are out of 183 countries examined, with the lower numbers indicating a better ranking. These rankings reflect how effective the regulatory environment is in facilitating business investment and growth.

Figure 3. World Bank Doing Business Rankings

	Philippines	Peru	Uganda	India	Mexico
Overall Rank	144	56	112	133	51
Construction Permits	111	116	84	175	90
Registering Property	102	28	149	93	99
Getting Credit	127	15	113	30	61
Protecting Investors	132	20	132	41	41
Enforcing Contracts	118	114	116	182	81

Source: World Bank, Doing Business rankings, 2010

Figure 3 presents a snapshot of overall ease of "doing business" in the study countries, and offers a comparative look at the performance of countries with respect to measures related to the housing supply chains, finance and investment. From this table a few figures stand out, such as India's second from the bottom position in terms of contract enforcement, ahead of only Timor-Leste. This is mostly due to the time it takes to move the procedures through court. Meanwhile, Peru ranks among the top 20 countries for Getting Credit and Protecting Investors, which bodes well for possible social investing into housing microfinance since potential customers and investors are aided by these rankings.

While the Doing Business project reflects the formal, regulatory environment for business transactions, and acknowledges the effect that the informal sector bears on this, albeit indirectly, a deeper view on "doing business" in microfinance offers a more nuanced view into participation into this sector. The Economist Intelligence Unit's "2009 Global Microscope on Microfinance Business Environment" offers a new indexed ranking of 55 countries for microfinance based on indicators related to 1) regulatory framework, 2) investment climate and 3) institutional development. As shown in Figure 4, Peru topped these rankings, with the Philippines (3), India (4) and Uganda (tied for 9) close behind. Mexico ranked 21st; this lower ranking is attributed to its poor performance on institutional development, pointing to its fragmented microfinance sector.

Figure 4. Microfinance Environment Index Rankings

	India	Mexico	Peru	Philippines	Uganda
Overall rank	4	21	1	3	9
Regulatory	13*	19*	3*	1*	7*
Investment	14	7	8	17	11
Institutional	3	20*	1*	6*	14*

*Tie *Source: Economist Intelligence Unit 2009*

Across the five countries surveyed, a relationship emerged between the development of the microfinance sector and the business environment in general: where conditions are amenable to doing business, microfinance has flourished. Peru, earning the highest rankings from the World Bank Doing Business rankings to those measuring corruption by Transparency International, boasts the largest aggregate microfinance portfolio at 1.4 percent of GDP and a return on assets (ROA) for its MFIs of 13 percent, the lone positive figure of the group. By contrast, Ugandan MFIs have not achieved operational self-sufficiency and have the lowest ROA in the group at -13 percent. Uganda's difficult business environment has received low marks on registering property and on government transparency and may have restricted the growth of its microfinance sector. In the Philippines, the relatively small microfinance sector (0.1 percent of GDP) is linked to the country's weak overall business climate. Ranked 144th out of 183 countries surveyed by the World Bank, coupled with difficult business conditions may have likewise impeded the growth of microfinance in India, whose sector still lags behind that of neighboring Bangladesh. The one exception to this is Mexico, whose relatively strong formal business climate is not reflected in the relatively immature microfinance sector, but we expect this situation to change over the next few years as consolidation among MFIs increases.

Figure 5. Select Microfinance Market Performance Indicators

Country Name	Philippines	Peru	Uganda	India	Mexico
Aggregate MFI Portfolio as Percent of GDP	0.1%	1.4%	0.7%	0.5%	0.1%
MFI Accounts (millions)	2.0	2.5	0.3	10.7	3.3
Return on Assets	-1%	4%	-13%	0%	-1%

Source: See Annex 1

Rankings give a good sense of the business environment for countries, but can be best confirmed by anecdotal evidence on the ground, particularly with reference to the peculiarities of the microfinance business world. Field visits proved that business impediments were widely known and thus findings from on-the-ground interviews elucidate what is suggested through general rankings. The positive business environment for microfinance suggests a familiarity with doing business with the target segment, which augurs well for housing microfinance. As MFIs develop portfolios with greater product mix, investors can find comfort in business environments where institutions have proven successful in channeling capital to microfinance client bases, want to compete and develop new products and approaches, such as housing microfinance.

3.2 Commercial Banking and Microfinance

Microfinance activity also bears an inverse relation to a crucial sub-component of the business environment, the commercial banking sector. Conventional wisdom on microfinance has been that it thrives where commercial banking is limited, picking up where commercial banking leaves off. The experiences of three of the four countries corroborate this idea. India's banking sector has gone the furthest in terms of providing commercial housing finance, as its total mortgage debt now equals six percent of GDP and it ranks the highest of the four countries of the World Bank banking size index. Furthermore, mortgage lending has grown rapidly in recent years as the middle class has expanded. India's microfinance activity has been correspondingly low, at roughly 0.5 percent of GDP, although its MFIs manage over 10 million microfinance accounts. This inverse relationship also holds in Peru and the Philippines, where commercial banking sectors are smaller than in India but microfinance activity is greater. In Mexico, commercial banks are agnostic when it comes to microfinance, with some notable exceptions such as Compartamos Banco which transformed into a bank.

Technology plays the role of catalyzing growth in both commercial banking and microfinance. The growth of m-banking in the Philippines, for example, could expand the reach of financial services across the access pyramid. The Filipino government has already established e-money regulations for the products issued by the country's two largest mobile network operators, and mobile phone usage could well expand in the Philippines, already dubbed the texting capital of the world. Uganda serves as the main counter-example to this trend, as both its banks and MFIs have exhibited slow growth with the notable exceptions of the Standard Bank and the new Equity Bank of Uganda.[14]

3.3 Urbanization

Urbanization is also shaping the extent of the housing microfinance sector in each country and, likewise, housing finance products that reach lower-income segments ensures access to resources to better meet the varied housing needs of the urban poor. Peru, like most countries in Latin America, is majority urban and has been for decades. The country's one percent urban population growth rate remains the lowest of the four countries, while its microfinance gross loan portfolio is the largest. Peru's high per capita income and high ranking on the human development index also mark it as a stable macroeconomic environment, one that has nurtured the growth of its microfinance sector. Uganda lies at the opposite end of the spectrum with a rapid urban growth rate (5%), low per capita income, and poor human development ranking—conditions that presage the growth of slum settlements, which is certainly the case in Kampala. With the exception of a few large institutions like Centenary Bank, Equity Bank and DFCU Bank, most microfinance providers in Uganda are small savings and cooperative associations supported largely by government funding. Thus, the size of Uganda's aggregate microfinance remains small even relative to its GDP. MFIs in India continue to write mostly group loans, an appropriate approach for the country's majority rural population.

[14] Centenary Bank in Uganda also has a large, commercial-scale microfinance portfolio.

Figure 6. Select Urbanization Indicators

Country Name	Philippines	Peru	Uganda	India	Mexico
Population (millions)	87.9	27.9	30.9	1,123.3	105.3
Gross National Income per Capita (USD)	3,730	7,240	920	2,740	12,580
Human Development Index Rank	90	87	154	128	52
Population Density (per sq. km)	294.7	21.8	156.9	377.8	54.2
Urban Population Share	64%	71%	13%	29%	77%
Urbanization Rate	3%	1%	5%	2%	1%
Declared Homeownership Rate	80%	72%	85%	87%	72%
Informal Economy as a Percent of GDP	43%	60%	43%	23%	30%

Source: See Annex 1

Urbanization patterns have influenced not only microfinance lending but also banking access in general. As expected, banking access has proven greatest in the two majority urban countries of the group, Peru and the Philippines. The Philippines and Peru feature roughly 8 and 4 bank branches per 100,000 people, respectively, while Peru has a slightly higher ratio of ATMs per 100,000 (6) than does the Philippines (5). India's figure of 6 bank branches per 100,000 people suggests that the financial services remain concentrated in urban areas despite the fact that more than 70 percent of the population is rural, and therefore most likely under-served. With only 13 percent of its population living in cities and a low population density, Uganda features the lowest ATM and branch ratios of the group. In a rapidly urbanizing nation like Uganda, which lacks a strong commercial banking sector, microfinance for housing could provide one of the few bulwarks against the proliferation of slum settlements. In general, the scope for housing microfinance is great considering the very high rates of homeownership, suggesting strong potential for home improvement activity.

3.4 Regulatory Environment

Microfinance regulations vary by country, from the utter lack of a clear microfinance policy to the central bank's involvement in designing a housing microfinance product in another. The prevailing regulations have an effect on both the business environment for investors into housing microfinance as well as MFI operations. Annex 2 shows the current regulations around microfinance, from the types of institutions that are recognized as participating in microfinance, to the prevailing policy environment.

Regulation is still a developing concept in microfinance, and often new regulations can become "game-changers." as some speculate India's may be once the new bill passes. India's pending Microfinance Bill, largely precipitated by the debacle in Andhra Pradesh in 2006 which brought attention to competition and interest rate practices amongst MFIs, is highly anticipated. Oversight in the sector is generally welcome, but the identity of the regulatory body is often a question. With the National Bank for Agriculture and Rural Development (NABARD) in India as the regulator and a wholesaler, potential conflict of interest may arise. Interestingly, the precedent-setting housing microfinance product developed by Bankable Frontier Associates (BFA) in partnership with the Rural Banks Association of the Philippines (RBAP) was recently approved by BSP. An earlier specially approved subsidized housing loan developed by the HUDCC in the Philippines has been slow to take off. In Mexico, HMF loans are regulated as consumer loans, even though consumer loans have default rates much higher than housing improvement loans.

While there have been examples of ill-conceived policy, the effort to ensure policy makers are more proactive than reactive bodes well for the long-term sustainability of the sector.

4 Housing Demand and the Potential Role of Technical Assistance

4.1 Demand-Supply Gap

Estimating the demand-supply gap for housing finance is challenging and indicators are universally contested. In an effort to identify the broad middle housing microfinance market segments as depicted in Figure 2, the following represents a country-specific version of the stylized figure.

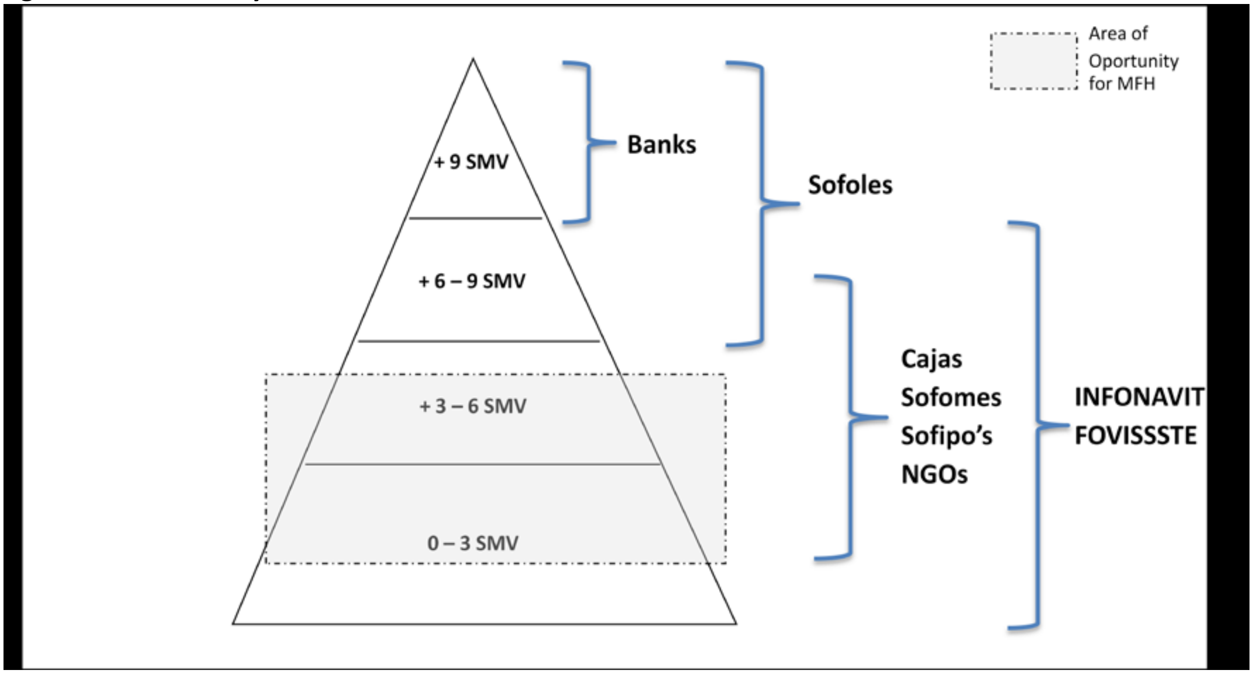
Figure 7 below illustrates the income pyramid of Mexico, and displays providers of housing finance. The shaded area denotes the area of opportunity for housing microfinance. Similar pyramids can be found for India, Uganda, Peru and the Philippines in Annex 3.

Pyramids are constructed based on income breakdowns by country. While each country uses a different methodology, generally only the top one or two strata represent the top 50 percent of the population. Figure 7 below illustrates the income pyramid for Mexico. Each stratum in the pyramid is based on a multiple of the minimum income level, so three weekly minimum wages (SMV) is three times the minimum weekly salary. Incidentally, 3 SMV also represents the minimum salary needed to purchase a new home with mortgage and capital subsidy through INFONAVIT, Mexico's government-supported pension fund subsidized and unregulated mortgage finance programs.

While this pyramid relies on income, it is worth noting that uncaptured information may influence access to financial services. In the example above, 3 SMV is the minimum to qualify for government programs, but qualification is also predicated on the fact that the beneficiary must be part of the formal sector which immediately excludes a large portion of the low-income population.[15] These pyramids, therefore, are to give a sense of where the market opportunity for HMF stands relative to existing housing finance providers.

[15] ShoreBank International. "Overview of the Mexican Housing Microfinance Market." September 2, 2009.

Figure 7. Economic Pyramid of Financial Services



Source: ShoreBank International. "Overview of the Mexican Housing Microfinance Market." September 2, 2009.

Regression analysis

Another method to understand the factors that help explain microfinance demand comes from a recent paper on predictors of housing microfinance demand across regions uses econometric analysis over a sample of 138 countries. In identifying variables that help to explain potential growth of housing microfinance portfolios, regional regressions were performed and the following outcome represents variables which were statistically significant at the 95 percent level:

- Latin America: Foreign Direct Investment; Microfinance Donor Money
- Sub-Saharan Africa: Foreign Direct Investment; Microfinance Donor Money; Return on Equity (negative relationship)
- Asia: no statistically significant explanatory variable, likely because the regression encompasses central, east, south and southeast Asia and there is considerable variation across these countries.[16]

While these variables do not yield exact loan portfolio figures, this analytical approach uses available data to predict explanatory variables which can supplement stylized demand estimates at the country level. Two countries identified with the most significant household demand for housing microfinance are India and the Philippines. Catalyzing capital markets to stimulate vibrant housing microfinance should consider the lessons provided from this analysis. Although there are regional differences, as indicated above, some overarching conclusions can be made. Financers seeking to fulfill both capital returns and shelter impact should understand that microfinance donor investments provide a key indicator for the potential success for housing microfinance.

[16] Ahern, Brendan. "Housing Microfinance Feasibility Analysis." *Housing Finance International*. June 2009: Brussels.

4.2 Government Subsidy Programs

The prevalence of capital and sometimes interest rate subsidies for housing can affect or distort the low-income housing finance market on a number of fronts. In most instances, housing subsidies are supposed to cover the part of the market that is ineligible for housing finance, typically addressing the "poorest of the poor." Performance of intended subsidies aside, subsidies may either boost or crowd out other opportunities in the market.

In Peru, we found a number of government programs provide concessional funding for microfinance and housing related activities. See Annex 4 for a full list of Corporación Financiera de Desarrollo (COFIDE) programs. However, MFIs find these prohibitively difficult to use because COFIDE), Peru's state-owned development bank, places an interest rate cap that lenders can charge to borrowers. This currently amounts to a mere 3 percent margin for MFIs, which is well below the amount needed to cover operational costs. Only large operations with multiple sources of funding, like MiBanco, have been able to successfully take up COFIDE financing with such limitations.

Countries where housing subsidies are delivered as direct transfers face greater issues including targeting and leakage, but these subsidies also have deleterious effects on the market for lending to the poor. In Mexico MFIs that are interested in delivering home improvement or auto-construction loans linked with a capital subsidy face business risks when CONAVI, the federal subsidy institution, turns off the tap for new subsidies without notice towards the end of the fiscal year.

India's myriad housing subsidy schemes, all of which supposedly target the poorest of the poor, such as lower castes, slums and tribal populations, are generally structured as a subsidy-cum-loan with the loan portion serviced by state housing boards rather than commercial financial intermediaries. However, housing boards are known to turn the other cheek in the face of nonpayment to avoid the conflation of collections and political bullying.[17] Thus, the lower-end market is overcome with both expectations that certain groups are entitled to subsidies and poor culture of repayment. Moreover, subsidized multi-family units suffer from lack of organized property management services.

This situation does not prevent innovative MFIs from marketing their home improvement loans to households that have been able to access housing subsidies. In Mexico, for example, the SOFOM ASP Financiera intentionally markets its home improvement loans in older subsidized housing projects after homeowners have settled into their government-funded and developer-delivered homes. Compartamos Banco, which has a portfolio of 104,000 home improvement loans out of 1.4 million active borrowers, is accessing CONAVI subsidies through SHF, to make larger home improvement loans for their best customers and new clients as well.[18]

4.3 Technical Assistance

The role of international donors into housing microfinance, however, could provide the needed funding into that space but targeted assistance into facilitating the market rather than direct subsidies to the

[17] Young, Cheryl. "India Housing Brief." Network Enterprises Fund (2008).
[18] Interview with Allan Seidman and Enrique Majós by James Hokans, November 2009.

beneficiaries. These "smart subsidies" do not distort markets, yet enable impact into the housing microfinance. Based on the findings from the field and desk research, the following lay out possible strategic interventions:

- Policy development
  Donor support for government housing policy pertaining to wholesale, de-centralization efforts that include property rate evaluation and collection, infrastructure investment, land management and participatory planning create an environment conducive to housing microfinance. Additionally, support in developing regulatory frameworks, the creation of public or private credit bureaus, streamlined property registration processes and functioning commercial courts can lead to a more enabling environment for the growth of housing microfinance markets. In Mexico, for example, the presence of two credit bureaus which are strongly supported and used by the larger MFIs have been instrumental in assisting these institutions to weather the ongoing financial crisis and recession in that country.

- Research
  A number of research projects provide precedence for developing better shared information to increase participation. For example, the Inter-American Development Bank's "Mapping the Majority" compiles relevant indicators on economic participation and living conditions of countries in Latin America and the Caribbean to provide a replicable tool to increase understanding of market segments served by MFIs.

  The Financial Diaries[19] studies provide another replicable example of how more insightful market information highlights how people spend their household budgets, where rental housing and re-sale markets fit into livelihood strategies. . Overall, progressive housing demonstrates an efficient way to build, but more research is required around the areas of consumer education and self-building best practices to ensure that borrowers' mistakes do not burden MFIs with costs.

- Technical assistance for institutions and for household-driven construction

The role of technical assistance (TA) is pivotal in readying participants in the housing value chain for delivering HMF. There are two types of TA relevant to supporting HMF: 1) institutional TA which enables MFIs to develop housing products through market research and better internal processes and controls, and 2) construction technical assistance for clients focused on self-building. Investors are interested to see that technical assistance is available to MFIs for HMF, and that operational risks identified during due diligence are addressed. In the past TA often came from donors whose in-kind services to MFIs would be in the form of institutional development. As the use of independent credit ratings become more prevalent and competition among microfinance providers increases, technical assistance is increasingly seen as a requirement often costing as much 10-20 percent of the financial investment.

[19] http://www.financialdiaries.com/

As institutions begin to consider offering HMF, institutional technical assistance prepares an MFI for understanding how to manage and market this new product in their portfolio. This range of activities covers managing business risks. On the retail level, this includes training the sales force in performing individual cash flow analysis, if MFIs have not done so before. In Peru, a number of MFIs are already engaged in individual lending, whereas in India, individual lending is rare. Local peculiarities allow for country-specific solutions to be developed. Not only is cash flow analysis important for assessing an individual's risk, but also ensures that loan officers are operating under the right incentives to properly assess credit risk.

In addition to human resource development, core banking systems often need to be tailored for this new product. Management information systems (MIS) are essential to managing portfolio risk by tracking payments and client information, as well as internally managing resources to control costs and operations. The introduction of a new product, particularly individual loans, may not adapt well to the prevailing systems. Thus core banking systems often need to be specifically tailored to ensure that these loans are reconciled and monitored expeditiously in the system. The technical assistance required here is both for the system itself as well as training for data entry staff. Dedicated fundraising for a longer term product may also be required. This funding is not always prevalent among lenders and requires specific knowledge regarding treasury functions, repayment and other risk factors.

Construction technical assistance represents the other TA gap when it comes to housing microfinance, which utilizes a very different knowledge base and skill set than institutional TA, but can supplement this well. Construction advice may not necessarily focus on how to build a house, rather how to avoid common building mistakes as well as make the most of a home improvement loan that leverages a borrower's social network and skills.

HFHI, for example, has recently begun efforts to offer construction and housing product development TA for MFIs in Latin America and India. Two new efforts are managed by the HFHI regional office in Latin America and the National Organization in India, respectively. Both of these projects were established with the intention of accelerating the scale of Habitat interventions into progressive housing. While these are new activities for HFHI and its affiliates, it marks the first programmatic effort to support housing microfinance.

Strengthening Housing Microfinance Systems, Peru and Honduras[20]
HFHI's Center for Housing Microfinance Innovation, in partnership with the IDB/MIF, is working with strategic institutions in Peru and Honduras to develop their institutional capacity to integrate and scale housing within their financial service portfolio.

Housing Microfinance Technical Assistance Center (HMFTAC), India[21]
Habitat for Humanity International and Development Innovations Group (DIG) in conjunction with local organizations HFH India and Growing Opportunity Finance, are funded by USAID to design and deliver technical assistance around HMF products. This process begins with providing institutional technical assistance for product development to two MFIs, after which HMF-TAC will explore setting up a service

[20] Terracor Financial Services. CRAT Business Plan, October 2008.
[21] Habitat for Humanity International and Development Innovations Group. "Transforming Access to Housing Finance in India." Technical Application Presented to United States Agency for International Development (USAID), March 2008.

company to provide fee-for-service construction TA to MFIs. The end result will be a service company model delivering both institutional and construction TA.

While these TA business models promise to infuse the Latin American and Indian markets with much needed institutional and product development assistance, those offering technical assistance solutions must put considerable thought into the fee structure. If MFIs feel overburdened by fees, which means they need to incorporate the cost into their lending rates. MFIs must be able to rationalize the added cost of TA, particularly when they first sign onto the service. In addition, technical assistance providers must be aware of the local building material suppliers and masons so as not to compete with the local economy. Clients may be resistant to new building methodologies which they must adapt to, and such top-down solutions may not make the best use of available materials and technology. Building materials suppliers often understand the informal housing market well, may dispense building advice and are crucial to the informal housing supply chain. Construction technical assistance should be used to maximize choices of individuals and to help them avoid common mistakes, rather than replacing existing skills and services.

International NGOs with deep reach in urban poor communities present an alternative construction technical assistance partner, building on the spacial patterns of the poor rather than imposing outside construction techniques. The efforts of Slum Dwellers International (SDI) and its networked federations, for example, directly address the issue of the urban poor in slums. The bottom-up approach recognizes that the urban poor are uniquely positioned to best understand their housing needs and the solutions required. At the core of these federations are savings and credit schemes that slum dwellers use as both a way to manage finances as well as a form of community interaction. As settlers in urban, informal settlements, housing is also a key component of organizing slum dwellers and determining the way to best develop appropriate shelter solutions. SDI emphasizes programs around community construction which uses community-led design of slum redevelopment and promotes construction practices that incorporate community laborers and technical support. Many MFIs will in all likelihood require technical assistance to develop partnership models and loan products to address this market.

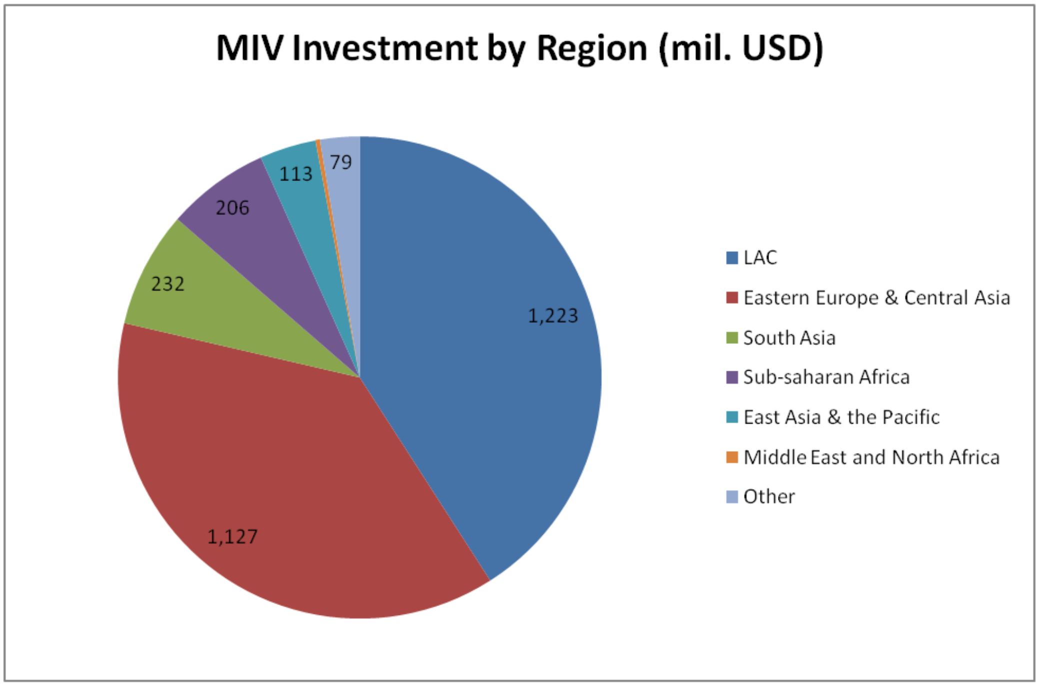
Other examples of technical advisory services linked to ensuring successful investment into microfinance includes Shore Bank's ShoreCap Exchange Corporation, which provides training to improve the operations of financial institutions serving small businesses and delivering microfinance. So far, ShoreCap Exchange provides strategy and runs practitioner workshops for investees of Shorecap funds, although efforts are not limited to these institutions and may also include training on housing finance.

In addition, with growing attention and interest in housing microfinance, Bankable Frontier Associates and other private consultants have worked with a number of institutions in the Philippines, India and Mexico to design and market products with intentionality. BFA's work has focused on understanding demand and product design as well as the selling and promotion of housing microfinance as a distinct product. In the Philippines, for example, BFA supported the collaboration between the Gates Foundation-funded MAXIS project of Mercy Corps and the USAID-funded Microenterprise Access to Banking Services (MABS) to undertake market research for four rural banks and develop generic policy and procedures manuals and HMF products for piloting, roll-out and subsequent regulatory approval. A number of rural banks are now seeking longer-term subordinated debt to address longer-term loans for plot acquisition and self-build house construction.

5 Capitalizing Housing Microfinance - Findings and Trends

Social investors provide MFIs with an important source of capital. Foundations, development banks, governments, and INGOs have invested over $10 billion in foreign capital into the global microfinance sector according to CGAP's 2009 benchmarking report.[22] Microfinance investment vehicles (MIVs) currently manage two-thirds of that total, or $6.6 billion, suggesting the large role they play in financing MFI operations worldwide. Despite this large figure, investments in microfinance have tended to benefit certain global regions and types of institutions over others.

Figure 8. MIV Investment by Region



MIVs have allocated nearly 80 percent of their investments within two regions, LAC and Eastern Europe and Central Asia (ECA) (see Figure 8), and provide far more assistance in the form of debt finance (82%) than either equity investments (13%) or other instruments.[23] These figures point to potential over saturation of certain markets and products, while offering a glimpse at potential for future investment opportunities.

MicroVest, the first commercial MIV based in the US, for example, adheres to this profile. Debt exposures to Tier I institutions can drive up the cost of debt, despite the appeal of driving scale through debt. With greater access to a range of funding sources, large MFIs may not draw down as often as smaller, debt-hungry MFIs will, posing a potential risk to investors working with Tier I institutions.

Smaller but vibrant Tier II and some Tier III MFIs, especially in the regions of Sub-Saharan Africa , India, Mexico and the Philippines are unlikely to compete with Tier I MFIs to receive the type of development

[22] CGAP 2009 MIV benchmarking survey.

[23] Microrate, "The State of Microfinance Investment: the 2009 MIV survey." Available at: http://www.microfinancegateway.org/gm/document-1.9.37590/11.pdf.

finance they need—equity investments. The scarcity of equity capital available to smaller MFIs is but one of several market bottlenecks that have plagued the world's microfinance sectors to varying degrees. Other issues in need of attention by social investors include inadequate core banking systems, lack of individual lending expertise, poor liquidity management, inadequate TA for HMF, the inaccessibility of domestic debt, and foreign exchange risk.

MIVs are still growing and innovating despite the economic downturn across global capital markets. CGAP's 2009 benchmarking survey noted an emergence of specific funds for niche products such as microinsurance and agriculture. These specialized funds indicate that some MIVs are beginning to see viable opportunities in new products. Such activity should pave the way for housing microfinance as well. Another growing trend in the MIV space is the growth of microfinance holding companies, which offer equity and technical assistance to early growth MFIs. This strategy presents an opportunity for housing microfinance to get in on the ground. MIVs may be poised to better weather the financial crisis as institutional investors recoil from the long-term capital that fueled the mortgage markets and seek safer havens in housing microfinance. This is certainly the case in Mexico, for example.

5.2 Absorptive Capacity

The extent of absorptive capacity of each country's MFIs affects transaction costs and may limit both social and commercial investment even in markets where end-user demand for HMF seems limitless. MFI capacity to absorb and utilize funding depends upon institutional development and capital structure and liquidity management practices. In countries where many MFIs have already encountered or exceeded their prudential lending limitations, MFIs may have a greater need for equity over debt. Moreover, if an investment vehicle lends in increments of no less than $2 million, then social investors may run into a double-edged sword: Tier II and III MFIs may not have equity bases to leverage such an investment and Tier I MFIs may qualify and take an investment but also have access to many other facilities at the same time.

The opportunity in housing microfinance investment is contingent on the ability of MFIs operating in local markets to leverage and absorb funding and deliver housing finance loans. Criteria should be established to take into account to see how receptive MFIs may be to new capital for housing, and where the opportunity may lie. Large Tier 1 MFIs offer the greatest potential for absorbing larger amounts of debt and co-financing, but they may be able to source funds from a number of other international and domestic institutions, depending on the regulatory framework. Vibrant Tier 2 institutions are less likely to be taking deposits and require a diversity of investment, though these MFIs may be more susceptible to funding shocks. Even a Tier 1 MFI bank like Compartamos in Mexico, which currently has 104,000 active home improvement borrowers, is trying to develop savings products in order to diversify funding.

5.3 MFI Demand for HMF: Findings from the Field

BFA's field research in five countries corroborates the rankings of the Microfinance Environment Index. The five focus countries would provide housing microfinance investors with a substantial pipeline of clients. Social investors interested in scaling up the delivery of HMF should not limit their focus on these five countries. Social investors must understand the challenges particular to each microfinance environment to make an informed decision as to the type of instrumentation necessary to bring HMF lending to scale in that country, a major reason for seeking independent credit rating before commencing their own due diligence processes. Figure 9 provides a detailed over view of each country's findings.

Figure 9. Summary of Country Findings

	Microfinance Sector Characteristics	Capital Flows into Microfinance	Investment Regulations	Housing Microfinance Trends
India	• Large and expansive MF sector • Trend towards transformation to regulated entities • Group lending methodology most prevalent • Microfinance largely rural with notable exceptions • Informal sector as % of GDP: 23%[4]	• Local debt readily available, commercial banks motivated by Priority Sector lending norms • MIVs providing equity to Tier 1 MFIs and Tier 2 MFIs • Strong ratings market (CRISIL, M-CRIL) • Capital and equity markets strong for top Tier 1 MFIs: Spandana issuing bonds; SKS considering IPO • Financial crisis fallout: movement back to Tier I, away from Tier II and III	• External commercial borrowing (ECB) policy allows NGOs to bring in up to $5 mil. for microfinance, but ECB window is closed for debt flows to non-NGOs[1] • FDI regulations for NBFCs requires a minimum capitalization of $500,000; for FDI above 51% to 75%, $5 mil. Minimum capitalization; above 75%, $50 mil. is required	• Declared homeownership rate: 87%[3] • Limited number of MFIs providing HMF • Market-led housing development on the rise, great interest in micro-mortgages • Emergence of dedicated housing funds, e.g. Sorenson Housing Fund • NHB, the housing finance regulator is promoting housing microfinance which bodes well for growth of the product • Down market penetration: 19%[5]
Peru	• Large and growing MF sector • Trend towards transformation to regulated entities • Some individual lending, mostly group-based village banking • Microfinance largely rural with notable exceptions • Informal sector as % of GDP: 60%[4]	• Local debt limited, with onerous security requirements • Government as wholesaler (through COFIDE), 3% cap on spread, only large scale MFI banks can take advantage • Majority of debt from MIVs & IFIs • Exchange rate risk an issue but swap market operative • Weak demand for equity • Financial crisis fallout: less favorable lending terms; growing over-indebtedness among clients	• Few restrictions on international borrowings, but competitive market for international investors • Peru ranks high on numerous measures of business environment soundness & MF sector • Ratings are growing in importance	• Declared homeownership rate: 72%[3] • MiBanco and public funds from Fondo MiVivienda are the major suppliers of housing products • Low-cost housing developers rely heavily on MiVivienda funds • HMF is a niche product • Down market penetration: 34%[5]

	Microfinance Sector Characteristics	Capital Flows into Microfinance	Investment Regulations	Housing Microfinance Trends
Philippines	• Large, consolidating MF sector • Rural banks and NGOs highly liquid • M- banking, branchless banking increasing financial access & remittances • CARD dominant NGO transformed to rural bank • Informal sector as a percentage of GDP: 43%[4]	• Local debt readily available from government & commercial banks and specialist wholesalers, e.g. SEED Finance • Regulations on investment into agrarian sector which most microfinance qualifies as • Consolidation and buy-out of rural banks by commercial banks interested in capturing microfinance market	• Few restriction on external borrowings, but 60/40 ownership rule deters external investors • Along with Uganda ranks low on protecting investors • Central bank very supportive of MF sector • HMF meets priority lending regulations	• Declared homeownership rate: 80%[3] • CARD growth in delivering HMF • BSP approves special HUDCC HMF criteria • Central bank approves HMF product for rural banks which are now launching pilots • Specialist training for HMF is weak • Down market penetration: 9%[5]
Uganda	• Nascent but growing MF sector • Delivery of MF increasing from NGOs, such as Ugafode and MFI banks such as Equity Bank and Centenary Bank • Informal sector as a percentage of GDP: 43%[4]	• Only a handful of MFIs are eligible for commercial lending • Stromme MF Ltd. and Oiko Credit significant players in market • Microfinance delivery channels are micro deposit taking institutions supported by government • Need for a stronger role from Bank of Uganda	• 2006 CGAP Funder Survey named Uganda as one of the top 10 most donor funded countries in sub-Saharan Africa[2] • Equity investing growing in Uganda since 2007	• Declared homeownership rate: 85%[3] • Centenary Bank providing micro-mortgages and interested in HMF • Equity Bank making unsecured housing loans • Ugafode ready to roll out more HMF • Down market penetration: 148%[5]

[1] RBI Circular No. 40
[2] Association of Microfinance Institutions of Uganda (2008)
[3] Wally, Simon
[4] Schneider, Friedrich (2002)
[5] MIX Market

India
In India, the global financial crisis has caused a flight to size, as Tier I and a few larger Tier II MFIs have enjoyed continued access to both debt and equity while smaller organizations, which are less likely to undertake individual lending, have not. Spandana, a prominent Tier I institution, for example, recently issued its own bonds and continues to attract equity investments from MIVs. Despite the disparities in funding – found in many countries—between Tier I and other MFIs, several impediments have limited the number of MFIs capable of underwriting HMF loans. First, group lending remains the dominant product, especially in rural areas. Second, the systems of many MFIs are unlikely to track individual loans or loan performance by product lines. For these reasons, smaller MFIs in India require institutional TA for systems development, product development and for individual lending techniques in general. As long as group lending remains profitable, many large Indian MFIs in particular may be reluctant to adopt the cash flow analysis techniques necessary for successful HMF lending. Nevertheless, we found considerable interest from those MFIs which do make individual loans, many primarily in urban areas. See Annex 5 for a sample list of these institutions.

Domestic debt for microfinance is readily available in India but equity is the only cross-border investment that can be made by international investors there, with the exception of a maximum of $5 million grants to NGOs providing microfinance services. An opportunity arises to provide guarantees to local commercial banks in support of commercial bank lending to MFIs. Despite the number of local debt providers, smaller MFIs with lower absorptive capacity still struggle to raise the debt needed. Thus, a MIV focusing on Tier 2 MFIs, with a growing but still small housing product portfolio, coupled with the provision of TA could fill a gap in debt financing but with higher transaction costs and a longer-term exit strategy.

We found that some commercial banks in India make individual microfinance loans because many MFIs continue to focus on group loans. YES SAMPANN, Yes Bank's retail microfinance practice which is supported with technical assistance from Acción, is the bank's first attempt at retail lending for low-income, urban clients. However, to scale-up across a number of sectors, including housing, Yes Bank in India has established its own off-balance sheet NBFC to pursue a range of housing microfinance and other microfinance opportunities. Similarly, Development Credit Bank (DCB) owned in part by the Aga Khan Foundation has one branch in Dadiapada, Gujarat dedicated to individual lending, where the lion's share of business is in savings.[24] These two mid-sized commercial banks see value in retail microfinance, where they begin to reach a previously untapped market. Both the above banks also view these pilots as learning experiences where they are able to understand the market and tailor products accordingly and would welcome the participation of a social investment vehicle specifically interested in housing microfinance.

Philippines
In the Philippines, some MFIs, especially rural banks, are beginning to receive TA for new HMF products. The BSP is expected to approve an HMF product, and 55 rural banks are currently rolling-out an HMF product after receiving TA from a number of third party TA providers, including BFA. Many of these rural banks possess ample liquidity for short-term lending to clients but only for the slightly longer terms associated with home improvement loans (up to 24 months). The presence of commercial wholesale

[24] A meeting with the Product Head for their microfinance group explained that the savings portfolio for their clients in Dadiapada is five times larger than their lending portfolio. Meeting with DCB, June 30, 2009.

lenders has further boosted the institutional demand for financing for HMF. SEED Finance, for example, may accept debt or equity investments from a social investment vehicle for the purpose of creating an HMF line of funding for its 65 MFI clients. With regard to the absorptive capacity of Philippine MFIs, a recent concern has been the inability of some rural banks to adhere to the BSP's capital adequacy standards: a recent report noted that fully 25 percent of rural banks do not meet the BSP's minimum standard of 10 percent risk-weighted capital. Although this situation impairs the ability of these banks to accept more loans, it speaks to their need for more equity placements. Nevertheless, we also found at least four major rural banks and several NGOs that have significant absorptive capacity to take-on international debt for HMF, including the Green Bank, recently rated by Microfinanza, and TSPI, a large NGO.

Uganda

In Uganda we found that at least two MFIs have already achieved significant scale with housing loans, though some are admittedly the result of unintentional leakage from productive loans. Centenary, a commercial bank, has made 12,000 micro-mortgages, and would be open to TA to develop HMF products. Equity Bank of Uganda has issued an undisclosed number of home improvement loans, but seeks long term, low cost debt and TA from a partner with construction experience to scale-up its intention to roll-out more housing micro-loans in Uganda. During field research, BFA learned that what Tier I MFIs in Uganda may consider is long-term debt as "emergency facilities" for liquidity management. These MFIs would also benefit from TA for their core banking systems as well as for the design and marketing for new HMF products.

By contrast, Tier II and III MFIs in Uganda (and the region) have small equity bases limiting their portfolio growth. These smaller MFIs may have limited absorptive capacity for HMF funding—perhaps as small as $500,000 at those MFIs that are operationally self-sufficient. Faulu Uganda and Ugafode are possible candidates for quasi-equity to support their growing HMF portfolios. Housing microfinance may have limited options to grow here through commercial, cross-border investments. Microenterprise loans alone have attracted some, but not sufficient, capital. That makes the challenge even greater for housing microfinance, a new product line with initially small wholesale transaction sizes. Impact capital that seeks a double-bottom line will continues to play large role in Uganda. For this reason, we found that in addition to the Tier 1 banks such as Centenary and Equity as potential investees, we also recommend that an equity investment in Stromme Microfinance Ltd., a commercially-oriented wholesale company, would enable a housing microfinance investment vehicle to reach numerous smaller but profitable MFIs in Uganda and regionally. Stromme also makes profitable investments in Kenya, Tanzania, South Sudan and Rwanda.

Peru

Alternatively, in Peru, even small MFIs that are operationally sustainable may have access to foreign investment. Prisma, a caja rural in Lima, enjoys an interest-free line of credit from Kiva Microfunds, and its director indicated that obtaining loans from other international lenders was not difficult. Peruvian MFIs other than the largest of Tier I institutions (MiBanco), lack access to local debt. Many commercial banks view the portfolios of MFIs, comprising loans to lower-income borrowers, as a credit risk, and have imposed unrealistic security requirements on potential MFI borrowers. Among the MFIs interviewed by BFA and HFHI, some told of domestic commercial banks requesting over-collateralization of up to 150 percent of the line of credit, a requirement which has created liquidity constraints for some MFIs. Similarly, instruments like Stand-by Letters of Credit from international third parties have proven either too expensive or too intricate for some MFIs to use effectively. In this market, social investors might intervene to provide alternative methods of credit enhancement for MFIs. Callable guarantees from high net worth individuals represent one way for social investors to increase MFI access to local debt without expending great amounts of capital initially; furthermore, granting several MFIs access to a common reserve fund, or negotiating better SBLC terms with third parties such as Citibank would also achieve this end. HFHI's Center for Housing Microfinance Innovation is offering TA to potential investees, and we expect at least two and possibly three of these MFIs to access debt funding in the mid-term.

Mexico

In Mexico, regulatory challenges combined with lower levels of institutional development have limited MFI demand for funding for HMF. Most MFIs lack expertise in HMF product design and customer segmentation, and so would require institutional TA as part of rolling-out HMF pilots. Nevertheless, we found a number of potential MFIs that would be ready for capital to expand housing product offerings. These included En Confianza, Compartamos, Te Creemos, ASP Financiera and FinComun, MFIs that currently manage housing microfinance portfolios and have individual micro-loans as one of their primary products. Overall, the microfinance sector is limited by a number of factors. One factor is the difficulty in identifying new sources of funding. Aside from the Cajas, which are allowed to take deposits, other MFI structures rely heavily on debt. Although a number of government funding exists such as CONAVI and Sociedad Hipotecaria Federal (SHF) this funding can take time to process and often has onerous reporting and collateral demands, particularly for small MFIs. CONAVI, the primary government subsidy program, causes the typical crowd-out effect of low or no cost funds, without making the market any more efficient. Finally MIS capacity is limited among the MFIs we visited, particularly in the ability to upgrade systems to meet the needs of wholesale funders. Institutional TA can play a crucial role in bringing Mexican MFIs up to a level of market efficiency, heralding significant opportunity in the future.

5.3 Current Housing Microfinance Products

Efforts to introduce housing microfinance products have been scattered across the countries under study. However, all the focus countries have MFIs that provide housing microfinance to varying degrees. Given the constraints around delivering housing microfinance, there is an understanding that HMF is a niche product. Nevertheless, significant interest exists from MFIs to either begin providing housing loans or grow their existing housing microfinance portfolios. Housing itself is a topic that MFIs are not always comfortable addressing because it falls outside of their core expertise. MFIs interested in moving in this direction often come to HFHI seeking collaboration, indicating that partnerships with organizations with housing/community development capacities have significant potential. The key barriers that MFIs see in providing housing loans are around lack of longer term capital and a gap in specific technical assistance.

In an attempt to understand where the countries under study are in the process of developing a housing microfinance product, a number of case studies are presented of MFIs in various stages of housing product development. In addition, Figure 10 provides a list of MFIs already offering a housing product and that have investment potential.

Figure 10. Indicative Institutions Considered as Pipeline Possibilities

Country	Institution	Type of Institution	Product
Uganda	Centenary Bank	Bank	Micro-mortgage, housing improvement loans
	Equity Uganda (UML) UGAFODE Faulu Uganda	Bank NGO NBFI	Housing improvement loans Housing improvement loans Housing improvement loans
Philippines	Rural Banks (Green, Cantilan, GM, Banko Kabayan) TSPI SEED Finance CARD	Rural Banks NGO Finance Company MFI	Micro-mortgages; housing improvement loans Housing improvement loans Bulk loans for housing microfinance to coops, NGOs and rural banks Home improvement loans Home improvement loans
Peru	Edyficar[25]	Financiera	Housing microfinance pilot
	Prisma	Caja Rural	Housing microfinance pilot
	Finca	NGO	Housing microfinance pilot
	Credivision	Caja Rural	Housing microfinance pilot
India	Madura MicroFinance	NBFC	Housing microfinance pilot
	Indian Association of Savings and Credit	NGO	Housing microfinance
	Ujjivan	NBFC	Rent and lease deposit loan Housing microfinance
	BWDA Finance Limited	NBFC	Housing microfinance
Mexico	En Confianza	SOFOM	Housing microfinance
	Fincomun	SOFIPO	Housing microfinance
	Compartmos	Bank	Housing microfinance
	Alianza Financiera Social	SOFIPO	Housing Microfinance

The table below illustrates sample HMF product terms for each of the five study countries. Most loan sizes range from $500-$2,000, with terms of 1-2 years at rates varying from India's 1.5 percent flat monthly rate at BASIX to 2.0-2.5 percent flat monthly rates elsewhere around the world. The most common form of collateral is the guarantor, and none of these institutions require the formal deed. The absorptive capacity of these institutions is indicated.

Figure 11. Examples of Existing Housing Microfinance Products and Institutional Absorptive Capacity

Country	Institution (Tier)	Rate (monthly flat)	Avg. Length (months)	Average Size	Collateral	Absorptive Capacity
India	Ujjivan (II)	1.9%	24	$645	Guarantor	$500,000
	BASIX (I)	1.5%	24	$750	Guarantor	$2 million

[25] Interestingly, Banco de Crédito, Peru's largest bank, acquired Edyficar in September 2009.

Country	Institution (Tier)	Rate (monthly flat)	Avg. Length (months)	Average Size	Collateral	Absorptive Capacity
Peru	Mibanco (I)	2.5-3.5%	24	$345-$2000	Guarantor	$10 million
	Prisma (II)	3-3.45%	18	$1,000-$2,000	Unsecured	$1 million
Philippines	TSPI (II)	2.5%	24	$525-$6500	Guarantor	$500,000
	Green Bank (I)	2.5%	12	$400-$6,500	VOS; Guarantor	$5 million
Uganda	UGAFODE (III)	2.5%	24	$950 – 14,300	Guarantor	$500,000
	Equity Bank (I)	2.0%	24	$1,000	Savings	$5 million
Mexico	Compartamos (I)	65% effective (annual)	12	$380-	Guarantor	$10 million
	FinComun (I)	2-5%	4-24	$380-$2700	Unsecured	$2 million

Following are two brief case studies from MFIs interviewed on the development of their housing microfinance pilot product.

Prisma—Peru

Prisma is an NGO microfinance lender operating in the metropolitan Lima area with over 21,000 active borrowers and a gross loan portfolio of $10.4 million (2008). Prisma has applied to the Superintendencia de Banca of Peru to become a Caja Rural, which would make it a regulated entity capable of accepting deposits. In recent years, Prisma has begun making individual loans to micro-enterpreneurs, which now comprise 30 percent of its portfolio by volume. Prisma has received an independent rating, and relies primarily upon international social investors for funding.

Prisma represents the challenges of bringing an HMF product to market in Peru, where the strong overall climate for microfinance has not led to widespread unsecured lending for housing microfinance. Prisma, like other small- and medium-sized Peruvian MFIs, has virtually no access to domestic capital. Local banks will not provide wholesale financing at reasonable interest rates, and instruments such as stand-by letters of credit have proven too expensive with regard to collateral requirements to facilitate such transactions. The government line of credit, COFIDE, carries with it a 3 percent cap on the margin Prisma may charge to end-users, a spread too narrow to be useful to the NGO. In the absence of medium- and long-term sources of funding (3-5 years), Prisma has not attempted to debut an HMF product prior to its participation in the housing microfinance pilot with HFHI.

Prisma has turned to social investors in light of the difficulties associated with local and government sources of funding. Typical interest rates are 9 percent on its dollar-denominated loans and 8-13 percent on those in Soles, with terms of 2-3 years and twice-annual payments with one month grace periods. Of special note, Prisma has access to a zero percent line of credit from Kiva Microfunds, which has helped the organization to avoid liquidity problems. Fully one-half of Prisma's loans are in hard currency, leaving it exposed to foreign exchange risk. Prisma is currently seeking longer-term loans in the range of 3-5 years.

<u>Madura Micro Finance Ltd.—India</u>

As MFIs slowing begin to consider offering housing microfinance, they undertake a process of understanding how best to deliver the product given their current operations. The team met with Madura MicroFinance, an MFI based in Chennai, which is in the nascent stages of developing a housing microfinance product.

Madura lends in rural areas and select semi-urban areas under a group lending methodology. They recently developed an individual loan for microenterprise fixed assets. These loans are currently available to clients who have successfully completed a number of loan cycles with the MFI and can borrow up to Rs. 50,000. While Madura is currently in the market research phase, it has already identified the following issues and possible product parameters:

- Product capped at Rs. 1,00,000, although some borrowers have asked for up to Rs. 3,00,000, and Madura considering a way to top-up repaid capital on the principal amount
- Issues perceived by Madura:
    - Legal problems if loan is secured: lack of *pata* (or title), although willing to accept bond paper certified by the municipality or local government
    - Engineer certificate required for all construction (Madura would like to be as clean as possible in housing microfinance process), this is usually procured with a bribe of ~Rs. 5,000 and would take at least a month to obtain
- Planning to offer an 18% interest rate for housing, compared to their 20.5% for microcredit loans, with disbursements spread over key construction phases of the house
- Typical clientele can afford ~Rs1,500 in loan repayments per month
- Relegated to repeat borrowers who have completed at least one loan cycle and have been a customer for 2.5 to 3 years
- Aware that they do not have a strong debtor management system, looking for a core banking system but also to have an IT team on staff

The above reflects very typical concerns of an MFI transitioning to individual and housing loans, and presents an interesting opportunity for a housing MIV in terms of a potential investee. In addition, Madura's experience in developing a housing microfinance loan presents a live case study of potential technical assistance requirements for MFIs who are in this phase of housing product development.

5.4 The Housing Microfinance Opportunity

Lending for housing microfinance remains a nascent activity in many markets. Moreover, MFIs have approached HMF lending tentatively due to operational risks as well as shortages of medium-term sources of funding that may caused asset/liability mismatch problems or simply take up too much liquidity. To date, HMF lending has been primarily a product for retaining existing customers. Due to these and other obstacles, a significant portion of funding aimed supposedly for small and medium enterprises (SMEs) and micro-enterprises is diverted by customers into the housing sector.

The MIX Market database on worldwide microfinance sector investments makes it possible to estimate the amount of microfinance funding leaking unintentionally into very short term housing loans. Of the MIVs reporting to the MIX, the largest single investor is KfW, the German investment bank, which has allocated over $1 billion into direct loans and loan guarantees for microfinance. Other large MIVs include DEG and EFSE, both German entities, as well as the EBRD. In total, some 100 MIVs, NGOs, and development banks have invested $5.8 billion into microfinance activities worldwide. Because this total derives from only those organizations reporting to the MIX, it remains a conservative estimate of global microfinance investment.

For socially-minded investors considering financing housing microfinance, this significant figure portends that considerable amounts of microfinance capital is unintentionally diverted into housing. Although no study has definitively established the level of funding diversion from SME and micro-enterprise lending into housing activity, practitioners estimate at a minimum 10 – 20 percent of total microfinance loan disbursements are used by end-clients for housing.[26] For borrowers with some degree of land security, the home is frequently a family's most valuable asset. It becomes a focus of investment of the informally employed, who themselves will perform home improvements and additions incrementally over the course of many years. In short, homeowners have long been finding ways to invest savings and loans into their homes. MFI loan officers have difficulty monitoring how loan disbursements are used (and little reason to stop those with perfect repayment histories from putting their loan proceeds to this purpose) and so the majority of this activity remains undocumented and inefficient. **Still, using the conservative assumption that 10 percent of the activity reported to MIX Market is housing-related, the amount of inadvertent housing microfinance funding was at least $580 million as of 2008**.

The large end-user demand for HMF combined with the limited supply of microfinance earmarked for this purpose has resulted in vast inefficiencies in the delivery of housing finance in developing countries and may have contributed to over-indebtedness of those households who cannot carry both a housing and a micro-enterprise loan at the same time. Moreover, a significant share of housing microfinance lending continues to occur informally. Borrowers have also taken housing loans with high interest rates from pay-day lenders, pawn shops and building materials suppliers, decreasing affordability and increasing unknown indebtedness. To date, commercial microfinance has played only a limited role in redressing the significant housing shortages of developing countries. Social investors could enhance the affordability of housing microfinance and eliminate the dependence of end-users on costly, informal delivery channels by making strategic investments in MIVs focused on HMF. Financially sustainable MFIs already understand their local markets. With access to wholesale loans and TA for housing, they could intentionally and sustainably begin to meet the large demand for progressive housing construction in their areas.

Whether or not social "impact" investors choose to act on emerging opportunities, HMF lending is already happening. With disciplined, intentional investment into the sector, microfinance for housing could become more formalized and efficient—capable of reaching its true scale and creating value for the working poor.

[26] As mentioned earlier, a study from the Philippines indicated that this was as much as 40 percent.

5.5 Domestic Capital

Apart from capital flows coming from international social investors, the development of domestic capital markets is enabling growth of the microfinance industry in these countries. Domestic capital is more likely to be available over the long term, is better able to adapt to local conditions, is capable of bringing poor people into the overall finance system of their country and is not subject to the exchange rate risk implicit in borrowing from foreign lenders. As a result, international lenders are creating credit enhancements to unleash local commercial capital. Typically, the role of domestic capital is shaped by regulatory policy that either restricts or facilitates foreign debt and equity capital into microfinance. For example, External Commercial Borrowing (ECB) policy in India only allows foreign funding of up to $5 million to NGOs engaged in microfinance, otherwise no other outside debt is permitted. Peruvian MFIs, on the other hand, rely almost exclusively on foreign sources of debt but the competition is fierce.

Another source of domestic capital is the trend of commercial providers going down market at the retail level, either by setting up their own operations, partnering with MFIs and others, or initiating consolidation in the sector, such as the recent acquisition of Edifycar by Banco de Credito in Peru. These efforts indicate that microfinance is now seen as a significant market warranting the commitment of capital and resources. Yet large commercial banks must be cautious in providing retail microfinance since they rarely understand the risks. Some rely on their corporate finance units to pursue wholesale lending. Banks must be attuned to the microfinance market and not assume that typical commercial banking norms are readily applicable. However a number of commercial banks are successfully entering the microfinance space. In the Philippines, for example, the BPI Globe Banko Savings Bank is analyzing its comparative advantages to undertaking either retail or wholesale lending, and is very interested in the housing microfinance market.

5.6 Local MFI Wholesale Finance Institutions

Local or regional institutions engaged in wholesale microfinance are well-positioned to provide access to smaller amounts of debt for smaller MFIs that are out of reach of a global fund. These few wholesalers may offer a reasonable return to social investors, especially if equity into these wholesale operations can be used immediately as working capital by sustainable MFI borrowers of theses “fund of funds”. These institutions are often familiar with the technical assistance required for this particular market, understand the nuances of working with such institutions and have an established brand and network in-country or the region. Such institutions may be ideal partners for a global entity, particularly those who may be interested in developing a business line around housing products. Stromme Microfinance East Africa, mentioned earlier, is one example of an institution offering a range of products, including medium term wholesale loans, equity, support for business development services for MFIs, and support for capacity building and loan guarantees. The following box showcases another example of a wholesale institution, SEED Finance in the Philippines.

SEEDFINANCE Corporation

SEEDFINANCE Corporation is a formal, regulated commercial financial institution with deep roots in the Filipino microfinance sector. SEEDFINANCE was originally conceived by the international NGO, CARE International when it first entered the Filipino microfinance sector. It launched its Microfinance Assistance Program in the Philippines in 1994, subsequently expanding the program to SEAD Incorporated, a Filipino NGO involved in wholesale lending and capacity building for MFIs.

SEAD transformed into SEEDFINANCE Corporation in 2007, which is allowed to make wholesale loans and liquidity management arrangements with MFIs SEEDFINANCE offers term loans, liquidity facilities and TA to some 65 rural cooperatives, rural banks, microfinance NGOs. According to SEEDFINANCE's 2008-2012 business plan, its four main strategic directions are:

1) Wholesale and co-financing a new generation of SMEs
2) Significant market positioning through financial and technical services for small MFIs; provision of advanced financial and technical intermediation for larger MFIs; product and service redevelopment, refining of current ones; adoption of innovative mechanisms or distribution channels
3) Brand development
4) Collaborative funding through mobilization of equity investments and strategic partnerships with government and private sector.

SEEDFINANCE is a stockholding corporation with an authorized capital stock of Seventy Million Pesos. CARE currently owns a 60 percent share of the corporation and SEAD owns 15 percent. The Board of Directors is chaired by a CARE-USA representative. Financial growth projections indicate a near doubling of assets over the next five years. MicroVest is considering a purchase of CARE preferred shares, and the MFI borrowers themselves also own Class B shares in SEED as a form of security required by SEED. The leadership states that SEED receives funding requests for wholesale funding for housing purposes, and is seeking equity and TA from a MIV to support the development and roll-out of housing improvement loans throughout the country.

5.7 International Non-Government Organizations (INGOs)

The experience of international NGOs to incorporate capital mobilization efforts into their core activities demonstrates how sophisticated capital mobilization has become.

Figure 12 below compares a number of organizations offering a sense of their microfinance funding efforts. Many of these organizations have made considerable strides in their microfinance investment activities since they began such efforts. Likewise, many of these organizations have a number of years of experience in microfinance investment under their belts. These examples demonstrate how INGOs deliver impact capital.

Figure 12. Profiles of Sample INGOs

Parent Organization	Operating Entity	Year Founded	Ownership	Instruments	Portfolio	Source of Funds
Grameen Foundation	Growth Guarantee Fund	2005	Grameen Program	Guarantee	$80m	Donor guarantors (institutions and individuals)
Homeless International	Guarantee Fund	1994	HI Program	Guarantee	£.7m	Donations (mostly from social housing sector)
	Bond	2007	HI Program	Loans	£150,000	Donations (mostly from social housing sector)
World Relief	WR MFI Investment Fund	2009	Wholly owned	Loans	$12.5	High level donors
Accion	Latin America/Global Bridge Fund	1984/ 2005	Program (but housed at Citibank)	Guarantees		Donor guarantors place promissory notes
	Frontier Investments; Gateway LLC; Acción	2006; 2007; 2000	Wholly owned	Loans and equity	$50m (Frontier)	Social investors; capital markets
Care	Microvest	2004	Shareholder	Loans (including syndicated) and equity; CLOs	$35.3m	Social investors
	SEED Finance	2007	Shareholder	Loans	$6m	Government & commercial banks
World Vision	VisionFund	2003	Wholly owned	Loans	$397m	Debt and donor funding

Parent Organization	Operating Entity	Year Founded	Ownership	Instruments	Portfolio	Source of Funds
Opportunity International	Opportunity Transformation Investments	2000	Wholly owned	Loans and equity	$11.6m	Social investors
	Opportunity Loan Guarantee Fund	2005	Subsidiary	Guarantees	$11.3m	Private placement of debt securities
CHF	Development Finance	2003	Program	Loans	$80.5m	Social investors

This table is organized into three categories: 1) support institutions; 2) hybrids, and 3) corporate institutions. The distinction serves to illustrate capital mobilization typologies among INGOs. Support institutions are characterized by those which own no equity in MFIs they support, primarily provide capital as a means to enhance performance of MFIs (rather than the growth of the market or as a market response) and most of them provide credit enhancements as their primary instrument. Corporate institutions investments, on the other hand, are more opportunistic in the market, have more sophisticated financial instruments and have the ability to mobilize very large sums of capital (e.g. OI leverages more $850 million). Hybrid institutions blend both support and more corporate initiatives, typically through more than one type of entity.

Evolution into capital mobilization activities is a large shift for some of these organizations, which must be willing to engage in trade-offs to begin operating in unknown terrain, where their brands and missions may be seen initially at risk by some stakeholders. For example, becoming serious about capital mobilization often means bringing a sea change to the organization. From a capacity standpoint, ex-bankers rank among the staff of many of these INGOs, and these new funds symbolize a shift away from the past and herald different kinds of structures, in some instances, to provide a "ring-fencing" approach to isolate risk and prevent balance sheet problems. As noted earlier, CARE chose to sponsor and co-fund MicroVest I as an independent microfinance investment vehicle to leverage more funding from social investors and to help the microfinance sector reach a greater scale.

6 Conclusion

Housing microfinance is a potentially significant niche product of MFIs in the five countries studied, and the achievements of the microfinance sector in these countries are substantial. The increasing absorptive capacity of MFIs for fresh, longer term capital as well as equity augurs well for successful global investments into housing microfinance. Housing microfinance continues to grow as microfinance markets mature and market segmentation for housing finance becomes more refined. The constraint of working capital is a clear impediment to the growth of the market, but not the only one.

As evidenced in this report, MFIs expressed demand for finance from both international sources and local debt markets. The funding gap is best bridged by both long-term debt financing and equity investment, with a clear opportunity to attract social investments into MFIs seeking to deliver HMF and possibly micro-mortgages. Increasingly MFIs require "patient capital" which invests in high potential initiatives or institutions that may not pay off in the short-term. With significant amounts of international investment already diverted into housing from micro-enterprise loans, social investors should become more intentional about housing microfinance as a distinct and sustainable line of business and recognize that an exit strategy of at least five years would be normal.

To ensure the best use of that capital, MFIs require technical assistance around product development, marketing, risk management and consumer education for end-borrowers. Modest initiatives such as HFHI's institutional and construction TA programs are good starts, and the efforts of ShoreCap Exchange, MABS and others are significant. Many non-financial barriers in the scale up of housing microfinance can be addressed through well designed TA, but they must be multiplied and may have to accompany investment in some instances. Additionally, trainer-of-trainer programs for HMF, education programs for households and some direct TA for households benefitting from HMF can supplement direct institutional TA for MFIs.

The maturation of the MFI sector and efforts to attract and leverage social investments lay the groundwork for growth. The maturation opens pathways for a new era of innovation and diversification where new products like HMF serve to address increasingly finer market segments and creates more competition among MFIs. The overlap of shelter and intentional, strategic microfinance has the potential to redress poverty housing while unleashing the imaginationion, energy, social networks and savings of low-income households, while also providing a reasonable yield to investors.

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*See Annex 6 for a full list of Key Interviewees

Annexes

Annex 1: Select Macroeconomic Data

Country Name	Philippines	Peru	Uganda	India	Mexico
Business Climate					
Transparency International Rank[a]	141	72	126	85	72
Declared Homeownership Rate[b]	80%	72%	85%	87%	78%
Microscope Business Environment Rank[c]	3	1	9 (tie)	4	21
Urbanization					
Population (millions) [d]	87.9	27.9	30.9	1,123.3	105.3
Gross National Income per Capita (USD)[d]	3,730	7,240	920	2,740	12,580
Human Development Index Rank[d]	90	87	154	128	52
Population Density (per sq. km)[d]	294.7	21.8	156.9	377.8	54.2
Urban Population Share[d]	64%	71%	13%	29%	77%
Urbanization Rate[d]	3%	1%	5%	2%	1%
Informal Economy as a Percent of GDP[e]	43%	60%	43%	23%	30%
MFI Sector[f]					
Aggregate MFI Portfolio as Percent of GDP	0.1%	1.4%	0.7%	0.5%	0.1%
MFI Accounts (millions)	2.0	2.5	0.3	10.7	3.3
Size of Loan Amount Relative to Average Income	9%	34%	148%	19%	8%
Operational Self-Sufficiency	105%	126%	94%	115%	109%
Return on Assets	-1%	4%	-13%	0%	-1%
Banking Sector					
W.B. Banking Size Index[g]	5.0	5.1	2.8	5.3	3.6
Total Mortgage Debt as a Percent of GDP[b]	-	2%	1%	6%	13%
Real Interest Rate[d]	6%	20%	10%	8%	4%
Interest Rate Spread[d]	4%	11%	12%	0%	4%
Return on Assets[g]	-43%	-30%	172%	-27%	-8%
Liquid Assets as a Percent of Total Assets[g]	25%	24%	53%	43%	29%
Banking Access[e]					
Bank Branches per 100,000 people	7.8	4.2	0.5	6.3	7.6
ATM's per 100,000 people	5.3	5.8	0.7	-	16.6
Mobile Cellular Subscriptions per 100,000 people	59	55	14	21	63
Mobile Cellular Subscriptions (millions)	51.8	15.4	4.2	233.6	66.5

[a] Transparency International
[b] Wally, Simon. World Bank [for internal use only]
[c] Economist Intelligence Unit. “Global microscope on microfinance business environment.” 2009.
[d] World Development Indicators, 2008
[e] Schneider, Friedrich. “Size and Measurement of the Informal Economy in 110 Countries Around the World.” World Bank, 2002.
[f] MIX Market. Note: MIX data relies solely on MFIs reporting to MIX, thus figures may underestimate actual totals.
[g] World Bank and International Finance Corporation. “Financial Sector Development Indicators.” 2006.

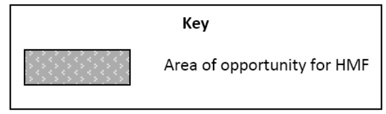
Annex 2: Microfinance Policy and Regulatory Regimes

Country	Financial Regulator	Definition of microfinance	Types of MFIs	Wholesale lenders	Current microfinance policy
Uganda	Bank of Uganda		MFI Banks, NGOs, cooperatives	Microfinance Support Centre Ltd., Oiko Credit, Stromme MF Ltd., Standard Bank.	Microfinance Deposit taking Institutions (MDI) Bill in place since 2005, but no new licenses have been issued since 2007
Philippines	Bangko Sentral Ng Pilipinas	Loans to micro-entrepreneurs less than PhP150,000, unless for housing maximum up to PhP 300,000	Universal and commercial banks, thrift banks, rural banks, cooperative banks, credit unions; pawn shops, NGOs	People's Credit Finance Company, Land Bank, Development Bank Of the Philippines, SEED Finance Company, NATCOO, Bank of the Philippines Islands (BPI), Allied Bank,	National Strategy for Microfinance (1997), special BSP approved housing loan product for Housing and Urban Development Coordinating Council (HUDDC); housing microfinance product recently approved by BSP for rural banks
Peru	Superintendencia de Banca y Seguros	Loans granted for productive purposes that are less than US$30,000	Commercial Banks, Cajas Municipales de Ahorro y Credito (CMACs),Cajas Rurales de Ahorro y Credito (CRACs), Entidades de Desarollo de la Pequena y Micro Empresa (EDPYMEs); NGOs	COFIDE, Fondo Mivivienda	Existing regulations on microfinance, recent changes to the modular scheme allowing greater ease of new products and services to be rolled out by MFIs
India	Reserve Bank of India		Commercial banks, regional rural banks,	Commercial banks, SIDBI, FWWB, NABARD, NHB	Pending microfinance bill; NABARD as regulator; National Housing Bank

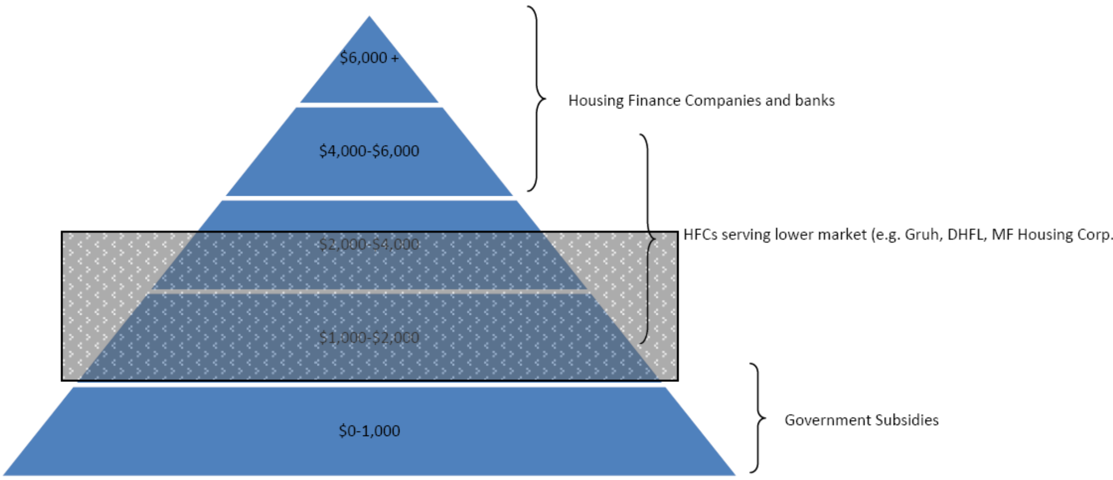
			cooperative banks, NBFCs; cooperative societies, NGOs, Section 25 companies	making some HMF bulk loans	regulates HFCs
Mexico	Comision Nacional Bancaria y de Valores	Small loans to poor families to support economically productive activities (business, self-employment)	Savings and loan cooperatives, Popular Financial Partnerships (specifilized financial institutions), Bansefi (Bank for National Savings and Financial Services), Cajas; SOFIPEs, and NGOs	Universal banks, development banks, financial companies with limited corporate purpose (Sociedades Financieras de Objeto Limitado: SOFOLES), regulated and non-regulated financial companies (SOFOMES), and savings and loan cooperatives (SOCAPs)	Trend in transformation based on the 2001 reorganization of the microfinance sector, which allowed unrelated institutions such as NGOs to transform into regulated institutions. Independent Federations are acting as the apex supervisory body. Regulatory measures, however, impose high operational costs on MFIs and the overall market is highly fragmented

Source: CGAP Database of Microfinance Regulation; in-country interviews

Annex 3: Financial Pyramids Denoting Opportunity for Housing Microfinance

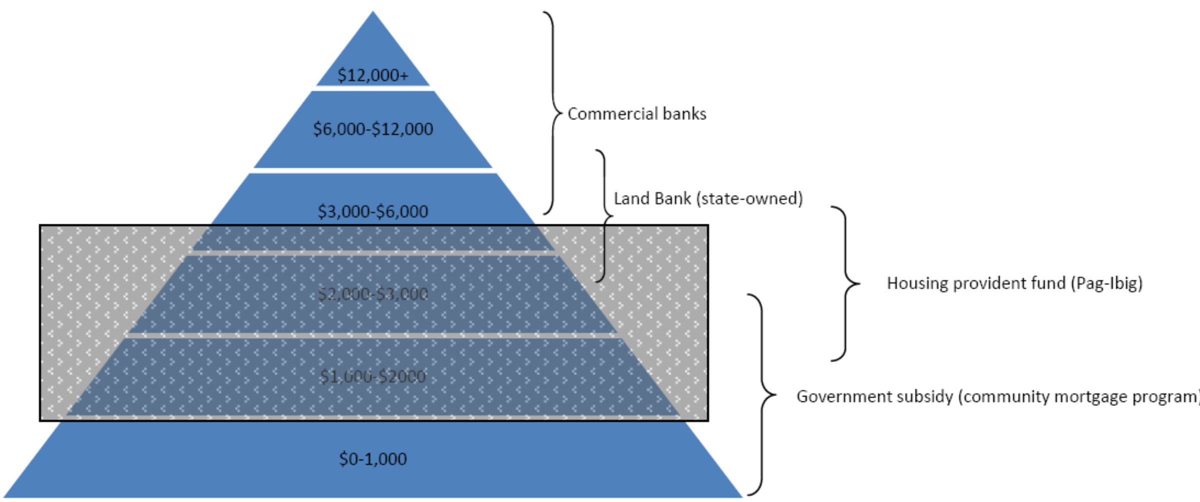


India



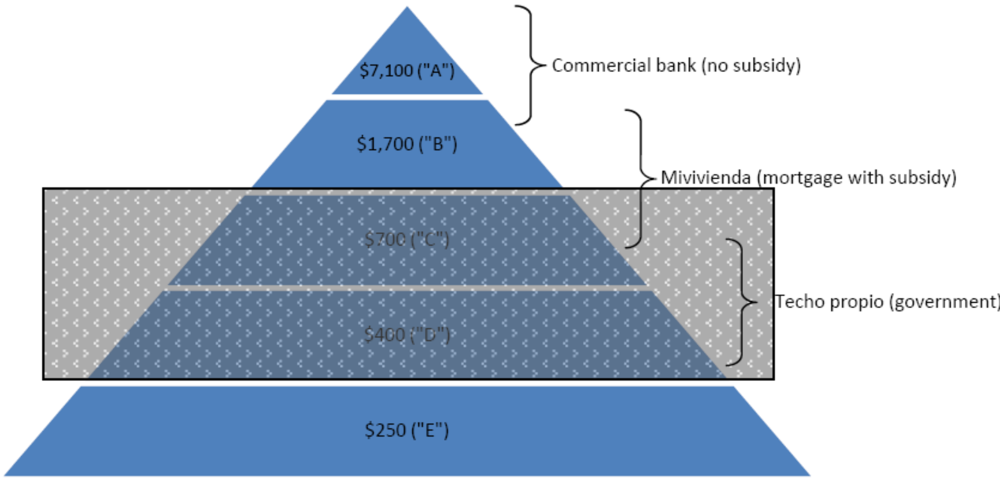
Source: CGAP. "India—the Structure of Poverty." http://www.microfinancegateway.org/gm/document-1.9.24418/26812_file_hammond_india_proxls.pdf

Philippines



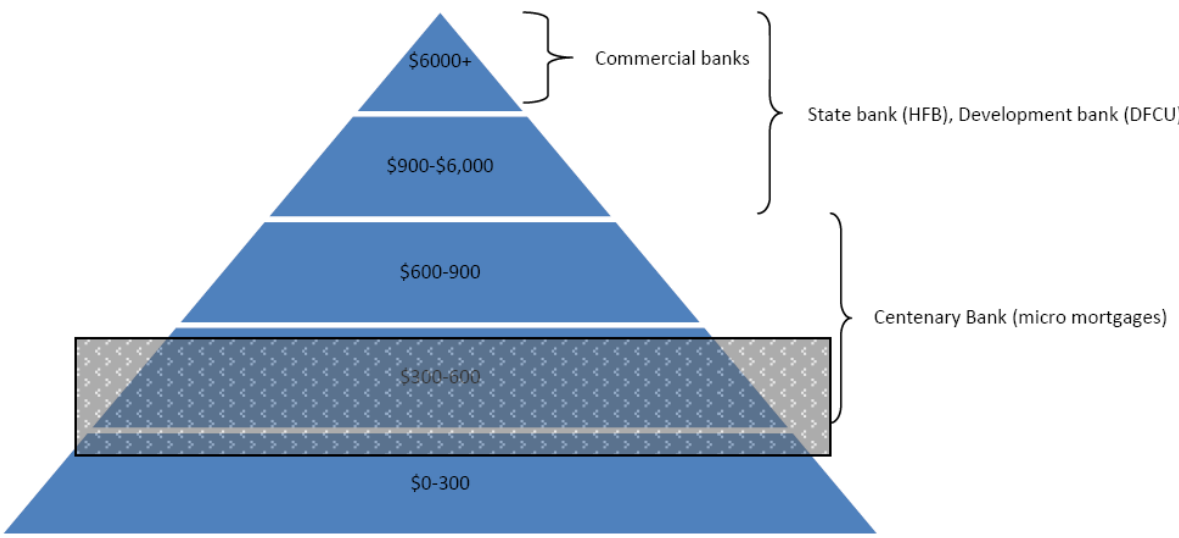
Source: National Census http://www.census.gov.ph/data/sectordata/2006/ie06fr02b.htm

Peru



Source: Hoek-Smit, Marja. "Perfiles Socioeconomicos"

Uganda



Source: Hanouch, M., & Ketley, R. (2009). Expanding Housing Finance in Uganda. Genesis Consultants

Annex 4: COFIDE Lines of Credit for Microfinance and/or Housing Microfinance

Program	Purpose	Term	Amount
FONDEMI	Microenterprise lending, investment working capital	2 years	Up to $10,000 to sub-borrower
MICROGLOBAL: Micro Empresa	Investment working capital	4 years	Max. $10,000 to sub-borrowers, avg. not to exceed $5,000
Hábitat Productivo	Acquisition, construction, expansion and improvement for business premises and homes	7 years	Max. $10,000 to sub-borrowers, avg. not to exceed $6,000
Microcredito Habitacional	Construction, expansion, improvement, adaption and renovation of housing services and land acquisition for housing	5 years	Max. $5,000 to sub-borrower
MIVIVIENDA	Home purchase, mortgage	20 years	Up to 90% value of house

Source: COFIDE website and BFA Interviews in Peru

Annex 5. Indian MFIs engaged in individual lending or housing microfinance

Organization	HMF or Individual Loans	Loan Portfolio (USD)	Borrowers	Type of Entity
TIER I				
SKS Microfinance	Suspended individual lending	261,718,932	1,629,474	NBFC
SHARE	Housing	151,683,829	989,641	NBFC
TIER II				
Bandhan	Individual	82,441,441	896,698	NBFC
BASIX	Individual	56,057,212	305,438	NBFC
Mahasemam-SMILE	Housing	24,713,714	192,738	NBFC
BWDA Finance Limited (BFL)	Housing, individual	21,208,509	210,721	NBFC
Grameen Koota	Individual	20,586,917	117,647	NGO
ESAF	Housing, individual	19,758,840	145,712	NBFC
Sanghamithra Rural Financial	Group housing	12,129,101	120,080	NGO
Satin Creditcare Network Ltd.	Individual	9,878,206	20,671	NBFC
Ujjivan Financial Services	Housing, individual	9,110,145	58,646	NBFC
SEWA Bank	Housing, individual	8,084,418	21,826	NBFC
Indian Association for Savings and	Housing, individual	4,326,898	14,813	NGO
Star Microfinance Service Society	Housing, individual	3,408,536	22,065	NGO
TIER III				
Swadhaar	Individual	273,616	2,410	NBFC
Kudumbashree	Housing, individual			Government program

Annex 6: List of Key Interviewees

India

Date	Name	Designation	Company
June 26, 2009	R.M. Nair	General Manager, Microfinance	SIDBI
	Ranjitha Srikumar	Deputy General	SIDBI
	T. Raj Sekhar	Manager, SME Ratings	CRISIL
June 27, 2009	Tara Thiagarajan	Chairperson	Madura Micro Finance
June 29, 2009	Eric Savage	Managing Director	Unitus Capital
	Bhakti Mirchandani	Associate Vice President	Unitus Capital
	Sandeep Farias	Founder and Managing Director	Elevar Equity
	H. Siddhartha Chowdri	Country Manager	Acción Technical Advisors India
	Sambit Lenka	Senior Marketing Advisor	Acción Technical Advisors India
	Harish Khare	Senior Manager—Development Finance	HDFC
June 30, 2009	Ashish Karamchandani		Monitor Group
	Madhavi Soman		Monitor Group
	Rajnish Dhall (and Team)		Microhousing Finance Company
	Suraj Sharma	Product Head—Agriculture, Microfinance and Rural Banking	Development Credit Bank
July 1, 2009	Somak Ghosh	Group President, Corporate Finance and Development Banking	Yes Bank
	Rita Soni	Country Head,	Yes Bank
	Ruta Samant	Manager, Sustainable Investment Bank	Yes Bank
July 2, 2009	R.V. Verma	Executive Director	National Housing Bank
	Dr. Alok Misra	Director—Ratings and Research	M-CRIL

Peru

Date	Name	Designation	Company

Date	Name	Designation	Company
July 13, 2009	Ana Jiménez de Sotomayor	Gerente, Iniciative Microfinanzas	COPEME
	Carlos Ríos Henckell		COPEME
	Andreas Brinkmann		COPEME
	Marvin Ly Mendoza	Gerente General	Credivision
	José Eduardo Beltrán Moreno	Jefe de Administración y Finanzas	Credivision
July 14, 2009	Diego Fernández Concha Murrazzi	Director	Prisma
	Ana María Zegarra Leyva	Gerente General	Financiera Edyficar
	Luis Guerra C.	Gerente de Administracíon y Finanzas	Financiera Edyficar
	Ing. Leonardo Lung H.	Gerente de Proyectos	Vivencia, Grupo ACP
July 15, 2009	Kara Valikai	Analista	Planet Rating
	César Carcelén	Analista	Planet Rating
	P. Miguel Ranera Sánchez-Pardo	Presidente	COPRODELI
	Estuardo A. Castañeda Trevejo	Gerente-Incubadora de Empresas Programa	COPRODELI
July 16, 2009	Iris Lanao Flores	Directora Ejecutiva	FINCA Peru
	Viviana Salinas Lanao	Gerente de Solucions de Desarrollo Humano	FINCA Peru
	Fernando Gamarra		Cyrano

Philippines

Date	Name	Designation	Company
July 19, 2009	John Owens	Chief of Party	MABS
	Meliza Agabin	Deputy Chief of Party	MABS
July 20, 2009	Julia P. Valdez	VP- CSG Treasury Group	People's Credit and Finance Corporation

Date	Name	Designation	Company
	Felicitas D. Nocomedes	Manager, CORPLAN	People's Credit and Finance Corporation
	Hermeo G. Bautista	Dept. Manager, Programs Management	Landbank
	Josaisas T. Dela Cruz	VP for Microfinance and Sustainable Energy	BPI
July 21, 2009	Alberto L. Jugo	President and CEO	HFH Philippines
	Antonio O. Valencia	Director, Stakeholder Mangagement Group	HFH Philippines
	Rodolfo R. Santos Jf.	CFO	HFH Philippines
July 22, 2009	Jun Perez	Managing Director/ COO	SEED Finance
	Naida P. Ilao	Accounting and Internal Control Manager	Center for Community Transformation
	Christopher A . Tan	Country Representative	Grameen Foundation
	Ing. Leonardo Lung H.	Gerente de Proyectos	Vivencia, Grupo ACP

Europe and Central Asia

Date	**Name**	**Designation**	**Company**
August 7, 2009	Alejandro G. Almendral	Group Head	Habitat for Humanity International Europe and Central Asia
	Elena Milanovska	Housing Finance Officer	Habitat for Humanity International Europe and Central Asia
	Jonathan Gibson	Director, Finance and Administration	Habitat for Humanity International Europe and Central Asia
	Lucija Popovska	Program Director	Habitat for Humanity International Europe and Central Asia

	Loucine Sahakian Hayes	Housing Finance Manager	Habitat for Humanity International Europe and Central Asia

Uganda

Date	Name	Designation	Company
August 10, 2009	Grace Sebageni	Finance Coordinator	Habitat for Humanity International, Pretoria
	Kadaali Stephen	National Director	Habitat for Humanity Uganda
	Andrew Sooka	Program Manager, Housing Micro Finance	Habitat for Humanity Uganda
	Joseph S. Kitamirike	Chief Executive Officer	National Housing and Construction Corporation
August 11, 2009	Paul Mayanja Nviiri	CEO	Stromme Microfinance East Africa Ltd.
	Peter K. Wegulo	UN-HABITAT Programme Manager, Uganda	UN-HABITAT
	Robert O. Canwat	Executive Director	UGAFODE
	Elizabeth Kabugo	SME Manager	Development Finance Corporation of Uganda
August 12, 2009	Njoroge Nganga	Head of Investment	Housing Finance Bank
	Edith Tusuubira	Country Manager	Oikocredit
		Chief Operating Officer	Faulu Uganda
August 13, 2009	Wilson Twamuhabwa	General Manager, Business Growth &	Equity Bank

Date	Name	Designation	Company
		Development	
	Charles W. Nalyaali	Managing Director	Equity Bank
	Roldand Sebuwufu	Head SME Banking	Equity Bank
	Kenneth Corsar	Director	Select Africa
August 14, 2009	David. T. Baguma	Executive Director	Association of Microfinance Institutions of Uganda
	Elizabeth N. Kabugo	Business Development Manager-Mortgage	DFCU Bank

Peer Organizations

Date	Name	Designation	Company
August 26, 2009	Bryan Wagner	Head, Microfinance Division: Environment, Social Finance and Community Reinvestment Group	Morgan Stanley
September 3, 2009	Late Lawson-Lartego	Director, Economic Development Unit	CARE
September 5, 2009	Leesa Sharader	MAXIS Program Director	Mercy Corps
September 25, 2009	Monica Brand	Principal Director	Acción, Frontier Investments
	John Wilson	Analyst	
September 29, 2009	Barry Howard	Development Finance Manager	World Relief
October 2, 2009	Camilla Nestor	VP, Microfinance—Capital Markets Group	Grameen Foundation