Inclusive Finance for Housing: **Exploring Viable Business Models**

A publication of the Housing IGP Learning Network

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Acronyms

AKAM	Aga Khan Agency for Microfinance
AKDN	Aga Khan Development Network
AKF	Aga Khan Foundation
AKPBS	Aga Khan Planning and Building Services
AKPBS-P	Aga Khan Planning and Building Services Pakistan
AKRSP	Aga Khan Rural Support Program
CAS	Construction Advisory Services
CEMEX	Cementos Mexicanos
CISF	Center for Innovation in Shelter and Finance
CTA	Construction Technical Assistance
DIG	Development Innovations Group
ECLOF	Ecumenical Church Loan Fund
ESAF	Evangelical Social Action Forum
FMFB-A	First MicroFinance Bank, Afghanistan
FS	Financial Services
GHS	Ghanaian Cedi
GO	Growing Opportunity
Go Finance	Growing Opprtunity Finance
HFH	Habitat for Humanity
HFH-G	Habitat for Humanity Ghana
HFHI	Habitat for Humanity International
HMF	Housing Microfinance
HMF TAC	Housing Microfinance Technical Assistance Center
HSS	Housing Support Services
IFC	International Finance Corporation
IFMR	Institute for Financial Management and Research
IGP	Implementation Grant Program
ILS	International Land Systems
ITA	Institutional Technical Assistance
LAP	Land Administration Projects
MFI	Microfinance Institution
MIDA	Millenium Development Authority of Ghana
OI	Opportunity International
RBI	Reserve Bank of India
SASL	Sinapi Aba Savings and Loans
SAT	Sinapi Aba Trust
SBI	Shorebank International
SEEP Network	Small Enterprise Education and Promotion Network
SENSICO	Servicio Nacional de Capacitacion para la Industria de la Construccion
TOT	Trainer of Trainers
USAID	United States Agency for International Development
VAS	Value Added Services
WASH	Water and Sanitation/Hygiene

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Executive Summary

As much as 70 percent of the world's population accesses shelter through "incremental building," a process of slowly improving shelter by adding components of a house. This process of incremental building leads many clients of microfinance institutions to divert business loans for this purpose. In response to global trends of inadequate shelter and demand for improved housing from microfinance clients, USAID established the Implementation Grant Program (IGP) Learning Network to better understand the challenges and solutions involved in introducing housing microfinance (HMF) and complementary services at scale. USAID elected to issue grants to three global networks—Opportunity International (OI), Habitat for Humanity (HFH), and the Aga Khan Foundation (AKF)—to develop and deliver housing microfinance products in three countries. Each institution participating in the IGP Learning Network partnered with a local MFI to implement the product and conducted learning sessions on the process. The local partners were Sinapi Aba Trust in Ghana, The First MicroFinance Bank (FMFB), and Growing Opportunity Finance (GO Finance) and Capstone India.

Each partner tested innovations to add to the body of existing knowledge of housing-related microfinance—with OI testing how to link housing loans to property land folios, HFH attempting to connect housing loans to a third-party housing support service provider, and AKF seeking to scale housing microfinance in a conflict-prone environment. The partners were able to share lessons learned and discuss challenges throughout the implementation of the grant. These lessons are discussed further in this paper in order to inform the housing and microfinance industry moving forward. This paper will review the supply and demand constraints of HMF, consider each of the three cases, and the overarching lessons learned in order to provide guidance to MFIs, donors, and policymakers that may seek to implement housing microfinance.

The partners found the capacity of average households to undertake necessary upgrades was severely constrained by lack of access to finance and to skilled construction advisory services. The local partners needed to collaborate with external actors to better design client-centric products and have an impact. This finding from the IGP Learning Network concluded with a recommendation to donors and policymakers to consider the housing market ecosystem when designing housing microfinance programming. Without addressing systemic issues such as land rights, disaster readiness, and access to support services, the benefits of an HMF product will be limited to a household.

Readers interested in learning more about land rights should review Opportunity International's project that focused on designing a property folio in Ghana. Those interested in disaster readiness and achieving scale with an HMF product should review the Aga Khan Foundation's case of introducing a housing loan product in Afghanistan. For implementers of housing microfinance and support services, the lessons learned by Habitat for Humanity International in India demonstrate the value of marketing and partnerships. The IGP Learning Network welcomes comments and thoughts from readers as we continue to learn from this process and encourages feedback to be sent to the SEEP Network.

Incremental building: a process of slowly improving shelter by adding components of a house.

Introduction

Housing is one of the top three priorities of poor families worldwide. Yet, nearly 1.6 billion people globally suffer from inadequate shelter. This figure will continue to escalate as trends in global urbanization increase pressure on urban locations to house migrants seeking economic opportunities and education. In response to this shortage of affordable housing, as much as 70 percent of the world's population access shelter through "incremental building,"[1] a process of slowly improving housing by adding such components as a floor, roof, bathroom, etc. This process of incremental building is the most cost-effective means for many poor households to afford improved shelter. Many clients of microfinance institutions divert business loans for the purpose of incremental building (up to 40 percent of loans in some cases).[2] Yet, according to a study by Habitat for Humanity, only 2 percent of global microfinance portfolios currently offer housing microfinance (HMF). This lack of response by MFIs to this widespread client need led USAID to fund a grant program to foster HMF loans in three countries. This paper will review the range of constraints and potential solutions to providing HMF through the lens of three cases of housing microfinance implementation projects funded by USAID in India, Ghana, and Afghanistan.

Nearly 1.6 billion people globally suffer from inadequate shelter.

The USAID IGP Learning Network conducted action research on challenges and solutions involved in introducing HMF and complementary services at scale. The upfront investment required by MFIs, driven by margins of cost efficiency, is often the primary obstacle to the design of housing-focused products among microfinance institutions. In an effort to reduce this initial investment, USAID provided grants to three global networks—Opportunity International (OI), Habitat for Humanity (HFH), and the Aga Khan Foundation (AKF)—to develop and deliver housing microfinance products in three countries. Each institution participating in the IGP Learning Network selected a local partner to implement the product and conducted learning sessions on the process. An overview of the partners follows:

- Opportunity International and Sinapi Aba Trust[3]: Developed two products utilizing property folios to support housing microfinance loans in Ghana.
- Habitat for Humanity and Capstone India[4]: Launched a center—the Housing Microfinance Technical Assistance Center (HMF TAC)—for delivering housing-support services by a third-party provider.
- The Aga Khan Foundation and The First MicroFinance Bank (FMFB): Developed a client-centric and research-driven approach to product development to promote a housing microfinance product coupled with construction technical assistance in a conflict-prone environment.

The unique country contexts provide useful lenses for observing the preferences and behaviors of HMF clients, and the resulting impact on both clients and institutions. The partners were able to share lessons learned and discuss challenges throughout the implementation of the grant through physical meetings and phone calls. They identified six overarching lessons that could inform the housing and microfinance industry moving forward and are discussed in this paper.

The Demand Side of HMF (What Do Clients Need)?

Poor households in urban and rural areas that need to improve their homes are the primary target segment for HMF. Insecure land tenure and insufficient construction know-how can make investing in their homes risky, thereby reducing incentives to invest in home improvements. Even when they do wish

1 Lessons from 11 Partnerships of Habitat for Humanity, 2013.

2 A customer satisfaction survey conducted by The First MicroFinance Bank (FMFB) revealed that almost 40 percent of enterprise loans were being diverted to house improvement or construction, which reflects what is happening with most microfinance institutions globally.

3 Now Sinapi Aba Savings and Loans.

4 Capstone subsequently failed to weather the storm of the India microfinance crisis and closed.

to invest, microenterprise loans offered by MFIs are usually not designed for non-productive investment and can make home improvement costs unmanageable for poor households. In such circumstances, without housing finance, poor households seeking incremental housing have no recourse but to look to family, friends, and moneylenders for this purpose. Housing finance seeks to address these issues.

Supply Constraints of HMF

MFIs that prioritize client needs will offer HMF loans in order to be responsive to client demand. They recognize the client benefits and institutional benefits of offering HMF loans, such as the diversification of loan portfolios and improved social performance. However, the process of developing and delivering HMF products involves a range of challenges unique to housing. The three IGP Learning Network partners described in this paper sought to develop and deliver innovative HMF products that could then be tested for scalability/sustainability. Issues such as the business case and viability of the product, land rights, achieving scale, and the product development process encountered by the partners led to broader lessons learned that provide insight for other MFIs seeking to develop and pilot housing microfinance. A key finding by the three partners also demonstrated the importance of the larger housing market system and the need for partnerships in order to achieve scale and impact. Donors and policymakers seeking to increase access to housing finance will find that developing and creating linkages among a range of actors on the housing value chain are critical to the overall process.

First Microfinance Bank: Case Study for Afghanistan IGP

Background/Rationale

In 2007, Afghanistan was undergoing dramatic population growth and rapid urbanization against the backdrop of a housing stock that was insufficient in both quantity and quality. Much of the existing housing suffered from years of neglect, damage from the war, poor construction standards, and/or cheap construction materials, all of which led to unstable structures and poor living conditions. To reduce overcrowding or create a premise for business/income-generating activities, many families made additions to existing housing structures that often were self-built with subpar construction materials and techniques, which further weakened the structures. Some urban and most rural households had poor insulation and ventilation. There was limited access to infrastructure, and the region as a whole is vulnerable to frequent earthquakes. Access to finance was extremely limited in Afghanistan, and lack of access to housing finance was cited as a significant barrier to improving housing infrastructure. The capacity of average Afghan households to undertake necessary upgrades was severely constrained not only by lack of access to finance, but also to skilled construction advisory services.

In 2007, The First MicroFinance Bank (FMFB) Afghanistan decided to develop a housing improvement product with technical assistance from International Finance Corporation (IFC). FMFB Afghanistan commissioned ShoreBank International to undertake market and client repayment capacity research. Based on the findings of these studies, the bank designed and piloted a product in its Kabul and Herat branches in early 2009. The product specifications for urban areas included monthly repayments from six to twenty-four months, with a credit limit up to USD 4,000, and the provision of technical advisory services.

The Khana Loan Initiative

In August 2009, the Aga Khan Foundation USA (AKF USA), the Aga Khan Agency for Microfinance (AKAM)—two agencies of the Aga Khan Development Network (AKDN)—and FMFB Afghanistan (FMFB-A) launched a USD 2.2 million program to scale up housing microfinance in Afghanistan, funded with USD 991,100 from USAID and a USD 1.2 million contribution from AKDN. The Khana Loan Initiative aimed to significantly improve the quality of housing by providing advice to clients on the selection of building materials, construction techniques, and innovative methods and interventions for improving the safety and quality of their living environments.

Through this grant, FMFB-A, in partnership with Aga Khan Planning and Building Services (AKPBS), developed the internal capacity of its operational team, including branch and head office staff, to provide construction appraisal and advisory services and to promote innovative housing upgrades that address earthquake resistance, sanitation, ventilation, energy efficiency, and limited infrastructure. The project had the following objectives:

1. Improve the housing stock and quality of construction through advisory services and housing improvement innovations bundled with loans
2. Develop a replicable, scalable model to expand housing microfinance.
3. Build a housing finance portfolio of 10,000 loans worth over USD 4.5 million by the end of 2011.

The underlying operating principles for the project included the following:

- Long-term sustainability: To fully cover inflation-adjusted costs with revenues, and to generate a surplus to finance expansion.

- Broad outreach: To reach those who do not have access to adequate financial services in both rural and urban areas, particularly women.
- Optimal impact: To target the underserved, and to put in place instruments to monitor the impact of services provided.

As of July 31, 2013, FMFB-A had disbursed a cumulative total of 22,904 housing improvement loans valued at USD 40.3 million, surpassing its disbursement targets for the initiative by 116 percent. Today, housing finance comprises 14 percent of FMFB-A's total loan portfolio, representing nearly USD 12 million and over 11,000 active clients.

Urban and Rural Expansion

In the first quarter of the program, FMFB-A extended its existing urban housing finance product in three new branches disbursing 1,000 loans valued at USD 1.58 million from its twelve locations, including the three new pilot branches. In order to increase efficiency and outreach, FMFB-A changed its strategy to train all loan officers in participating branches on the housing product rather than using specialized housing loan officers. Both field and back office staff in the twelve branches were trained to facilitate the marketing and processing of the loan product. This training was supported through technical assistance under the IFC/ShoreBank project and AKAM cost share. Between August and December 2009, ninety-nine staff members were trained.

In April 2011, FMFB-A contracted with ShoreBank International (SBI) to conduct a demand and repayment capacity survey for rural housing finance and to assess the need for construction advisory services. The survey results

1. Confirmed the need to modify the existing housing product to cater to the needs of rural households' lower and seasonal income flows.
2. Indicated a high demand for home improvement across all regions.
3. Confirmed that the common source of income in rural areas in the regions surveyed is from agriculture.
4. Confirmed that respondents recognized the need for construction advisory services to improve the quality of their houses.

Later in 2011, based on these findings, FMFB-A developed and launched a rural housing finance product, where seasonal repayments were tested. The pilot, which concluded in December 2012, achieved 99 percent of the desired target of 200 loan disbursements.

Four major concerns for housing construction: disaster risk mitigation, earthquake resistant construction, thermal and energy efficiency, and the basics of water and sanitation.

Construction Advisory

To provide construction advisory services (CAS), FMFB-A contracted with Aga Khan Planning and Building Services Pakistan (AKPBS-P) to develop a CAS manual, construct demonstration houses, and build the capacity of FMFB-A staff.

The AKPBS-P team carried out its initial assessment visit to Kabul in October 2009. The team, together with FMFB-A staff, visited several clients in Kabul and in peri-urban areas around the city to assess housing standards and construction practices. Through these field visits, the AKPBS team identified several areas to target for improvement, including the following:

- Technical drawings and designs.
- Sizing and location of doors and windows for seismic resistance, ventilation, and energy efficiency.
- Double glazing for windows and thermal insulation.
- Masonry techniques.
- Securing walls to foundations and new additions to existing structures.
- Roofing materials and weight.
- Design and placement of latrines and wells.

Based on the observations and findings of the visit, AKPBS developed a capacity building and training strategy for FMFB-A's technical officers, which covered four major concerns for housing construction: disaster risk mitigation, earthquake resistant construction, thermal and energy efficiency, and the basics of water and sanitation.

Challenges and Lessons Learned

Institutional Ownership and a Product Champion

Developing and managing products in a volatile socioeconomic climate like that of Afghanistan require perseverance and necessitate building local staff capacity.

FMFB-A's initial strategy was to manage the housing finance initiative using an outside technical expert as a long-term consultant to bring in specialized housing finance experience. The bank faced a major setback at the start of the

project when the project manager, a consultant through ShoreBank decided to leave Afghanistan due to the increasingly volatile political situation toward the end of 2009. Attracting international specialists to Afghanistan has been difficult, and while FMFB-A did take measures for business continuity, the next project manager was not available until third quarter of 2010, resulting in valuable time lost. The project manager was responsible for the overall implementation of the project.

In late 2011, FMFB-A changed its strategy to use full-time employees of FMFB-A and an internal product champion to manage the initiative. FMFB-A's existing management team continues to oversee the provision of housing finance as a regular business line, beyond the life of the project. With an in-house product champion, FMFB-A has been able to address issues related to the product more efficiently and effectively, and the position has been a regular contributor in FMFB business strategy development.

Housing Support Services via Technical Officers

FMFB-A planned to provide technical advisory services using technical officers, though attracting and retaining qualified technical officers to work for the bank was difficult, particularly in rural areas. The main roles of the technical officers were to provide advisory services, promote improved construction techniques and innovative housing upgrades, and monitor quality.

During the course of the project, FMFB was only able to recruit and retain eleven technical officers for the majority of the project period. In order to make the most efficient use of the technical officers and control costs, their role was redesigned to focus primarily on assessing and providing advisory services for projects that involved structural changes or improvements rather than cosmetic or minor construction. Loans for minor (non-structural) projects, such as painting and plastering, were assessed and monitored by loan officers and/or deputy branch managers instead of technical officers and were disbursed in a single tranche (rather than two) to reduce time and the administrative burden.

FMFB-A also has a full-time senior technical officer based at its head office who is responsible for training and coordinating with technical officers at the branch level. In areas where technical officers are not available, basic training has been provided to deputy branch managers to conduct technical evaluations.

Promotion and Application of CAS

Since 2009, the cost of construction has steadily increased with the rising costs of raw materials and labor. With very little manufacturing capacity in Afghanistan, the majority of materials such as steel and sanitary fixtures are imported from Pakistan, Iran, Russia, and China and are thus costly. Clients often select substandard material because of cost and limited awareness or appreciation of the safety benefits of higher quality materials, which makes

Seventy percent of Afghanistan's population resides in rural areas. Seasonal repayment schedules are more appropriate for rural clients because of the seasonality of their income.

community mobilization to promote safer construction practices even more critical. Rising construction costs coupled with the lack of qualified technical officers makes the challenges of community mobilization and raising awareness even more difficult for the bank.

FMFB-A's housing loan provides funding for the incremental improvement of existing structures, in line with the incremental build approach used by most households in the region, given limited income and resources. While this is well suited to the cash and income flows of low-income households, it creates challenges in retrofitting a building for more significant improvements (such as seismic resistance, etc.), which can often be more costly than using better techniques and materials in the first place. The limited number of technical officers and difficult terrains, especially in rural areas, also hinder close monitoring of housing improvement. In spite of this, the demand for the product continues to increase.

Demo Houses—Testing Alternatives for CAS Promotion

Demonstration houses were one way in which FMFB-A sought to deal with the limited availability of qualified technical officers. Demonstration houses offer an alternative means of conveying basic information to the clients easily. Borrowers and masons can be shown the techniques and the construction guidelines through examples in the houses. However, the cost of site and construction for demonstration houses in Afghanistan is considerable, and FMFB-A had to construct the houses on rented premises. Though FMFB-A was only able to build a limited number of demonstration houses under the project, initial feedback was that they were an effective means of promoting and raising awareness of improved construction practices. However, it is unlikely that additional demonstration houses will be built, as the cost of additional construction will likely outweigh the benefit of additional clients.

Seasonality for Rural Clients

Seventy percent of Afghanistan's population resides in rural areas. Seasonal repayment schedules are more appropriate for rural clients because of the seasonality of their income, which is dependent primarily on agriculture and livestock. Therefore, FMFB-A introduced seasonal repayments for the rural housing finance product, a feature that was highly appreciated by rural clients. At present, FMFB-A applies the same repayment evaluation criteria as that for regular repayments. For better product management, however, separate criteria may be needed for seasonal cash flow analysis (for example, customization of tools for rural clients, with development of crop calendars on regional basis).

Conclusion

The Khana Loan Initiative has helped FMFB-A to expand its housing finance offering, while also maintaining portfolio quality. With USAID's support, FMFB-A was able to develop a replicable, scalable housing microfinance model and is committed to maintaining its housing product to serve the needs of the people of Afghanistan.

The success of this project is largely credited to the institutional willingness of FMFB-A and AKAM to promote a product that has built-in social and financial objectives, which also helps in diversifying portfolio risk. A client-centric and research-driven approach to product development and management has helped FMFB-A in identifying areas for improvement at both head office and field levels. However, promoting and monitoring technical advisory services remain a challenge for a microfinance institution at the field level due to resource constraints (human, financial, and infrastructure) and need to be addressed more strategically.

A weak economy and limited availability of credit lines in local currency also increase FMFB-A's cost of lending and are significant barriers in bringing down the cost of product. However, in the long run, FMFB-A will have to look to innovative solutions to provide value-added services (VAS) to its clients, in order to ensure uptake and retention while contributing to the social and economic development of Afghanistan through housing improvement finance.

Habitat for Humanity: Case Study for India IGP

Background/Rationale

In 2009, housing microfinance was just beginning to emerge on the Indian microfinance scene. The microfinance industry was exploding at an average annual growth rate of approximately 50 percent (between 2005 and 2010), with microfinance lending primarily directed to rural, self-help groups and very limited engagement in individual lending. Although an estimated 20 percent of microfinance clients were diverting their microenterprise loans to housing investments, few MFIs were actually offering housing-specific products.

In terms of housing demand, India's population growth and urban migration rates are among the highest in Asia, placing an extreme burden on cities' housing stock and urban infrastructure. Meanwhile, the majority of India's population resides in rural areas, where approximately one in every five households dwells in a poorly constructed home. The national rate of homeownership is an impressive 87 percent[1], substantiating a high demand for incremental construction and home improvements.

A 2007 study conducted by HFH and the Institute for Financial Management and Research (IFMR) revealed that the primary constraints to expanding HMF in Southern India were (1) the lack of access to commercial capital to finance housing portfolios, and (2) limited institutional knowledge and capacity to design and manage housing microfinance products. Furthermore, the MFIs surveyed felt that clients' home improvement strategies could be enhanced by HMF products that include technical services and education.

Launch of the Housing Microfinance Technical Assistance Center (HMF TAC)

In response to the optimistic indicators for HMF in India, Habitat for Humanity launched the HMF TAC in 2009. The focus of the center was to provide both institutional technical assistance (ITA) to MFIs interested in designing and launching new HMF products and direct construction technical assistance (CTA) to families accessing HMF loans. While the center was initially funded by the USAID IGP, HFH intended for it to reach full financial sustainability by 2012. The selected site for the HMF TAC was Chennai (within the state of Tamil Nadu), enabling access to the four southern states (Tamil Nadu, Kerala, Karnataka, and Andhra Pradesh) where microfinance was flourishing, yet without any known examples of scalable HMF.

The center was initially conceived as a program within HFH India, envisioned as part of Habitat's two-pronged approach to addressing the key constraints to reaching scale with HMF. The second part was a wholesale lending facility created to finance housing microfinance portfolios in India. The intended wholesale fund, MicroBuild India, was finally launched in mid-2013.

The HMF TAC launched with two initial MFI partners: (1) Capstone India, a financial services company owned by DIG (Development Innovations Group), and (2) Growing Opportunity (GO)

The majority of India's population resides in rural areas, where approximately one in every five households dwells in a poorly constructed home.

1 Homeownership rates are declared and not necessarily backed by legal titles. Training and technical assistance from the HMF TAC also enabled Grameen FS to accelerate the growth of its sanitation loan product, disbursing to a total of 45,500 clients between January 2012 and May 2014.

Finance, a member of the Opportunity International Network. The center adjusted its business model in working with each of these partners, based on the MFI's needs and priorities.

- **In-House CTA Provision:** Capstone was already offering an HMF product and chose to deliver construction-related services through its existing loan officers. The center trained Capstone's loan officers to provide very basic CTA. However, the MFI closed in 2011 due to a lack of funding, and the proposed housing services were never fully introduced.
- **Outsourced CTA Services:** GO Finance commenced its first HMF product with technical assistance support from the center, and the center's staff provided direct CTA to all of its HMF clients. The CTA consisted essentially of three steps: pre-application orientation, tech sheet preparation, and a loan utilization visit, as shown in the following exhibit (CTA Services Provided).

In the third year of the center's operations, Grameen Financial Services joined as a third MFI partner, pilot-testing a CTA model similar to that of Capstone, whereby loan officers were trained to provide basic CTA in-house and equipped with the needed tools and training to support this.

> ***"I cannot dream of availing such high quality and professional CTA, considering [my] economic condition and the small size of the loan. It was a timely help by HMF TAC engineers that saved the money on materials and labor!"***
>
> ***—Client of GO Finance***

Challenges and Outcomes

Unfortunately, the center's emergence collided with India's microfinance crisis, which hit Andhra Pradesh in October of 2010 and severely affected partner MFIs' portfolios and spooked investors. Restrictive government regulations enacted by the RBI (Reserve Bank of India) in response to the crisis further discouraged new MFIs from venturing into HMF.

Although the effects of the microfinance crisis negatively impacted the project's outreach goals, the quality of the HMF portfolios of the three MFIs were high—in keeping with trends seen among Habitat's MFI partners worldwide. Client satisfaction with outsourced CTA was high, based on a survey of 130 HMF clients of GO Finance. The following were among the notable outcomes revealed by the survey:

- Twenty-nine percent of clients reported that they had begun allocating/accumulating savings for future home improvements.
- Thirty-two percent reported having saved money on their home improvement because of the CTA received.
- Forty-three percent of clients, with the training provided, were able to accurately estimate the size of the housing loan that they could afford.

One of the most notable outcomes achieved by the center was positioning HMF within the microfinance and housing sectors of India, catalyzing new interest and paving the way for growth in HMF. In April 2012, the center was selected to help develop a housing microfinance product toolkit, funded by the IFC. Approximately forty MFIs were then trained in using the toolkit at workshops conducted in New Delhi, Calcutta, and Chennai

Construction Technical Assistance (CTA) Services Provided

1. Pre-Application Orientation

- Targets potential clients
- Home improvement planning and budgeting

2. Tech Sheet Preparation

- Part of loan application
- Simple project design and calculations
- Budget estimations

3. Loan Utilization Visit

- Within a week of loan disbursement
- Confirms loan utilization
- Technical assessment of construction progress

> *"My PAR on home improvement loans is 0%. Credit goes to [the TAC's] technical advice, as it enabled me to choose the right client and exact loan amount!"*
>
> *—Housing Finance Manager of GO Finance*

in 2013. An independent HMF sector report[2], which was released during the 2013 Microcredit Summit in New Delhi, acknowledged the substantial contribution of the HMF TAC as a technical service provider of HMF to MFIs throughout India. These and other outcomes have helped to generate new business for the center's technical assistance services, resulting in two paid contracts (with ESAF and ECLOF) and two more that are still in negotiation (see the table).

Lessons Learned

Selling CTA as an Outsourced Service

One of the objectives in creating the center was to attempt to deliver outsourced CTA sustainably and at scale. Since none of the partner MFIs reached scale with their HMF products, this objective was not attained. Nevertheless, the experience of GO Finance, where CTA was delivered through the outsource model to a total of 530 families, revealed a series of important lessons:

HFH India's HMF TAC: MFI Partnerships with Formal Agreements

Partner MFI	Year Formalized	Location	ITA	CTA	Number of Loans, June 2013 (IGP)	Number of Loans, May 2014	Projected Potential Outreach	PAR
Capstone India	2009	Chennai, Tamil Nadu	Direct TA through IGP	In-house services	478	Closed in Sept. 2011		4%
GO Finance	2009	Tamil Nadu	Direct TA through IGP	Outsourced to TAC	530	530 (no growth)	Reliant on access to new capital	0%
Grameen FS†	2012	Bangalore, Karnataka	Direct TA purchased for a subsidized fee	TOT to loan officers (for in-house)	1,000	4,300	20,000	0%
ESAF	2013	Kerala	Purchased, direct TA	TOT to loan officers (for in-house)		120	10,000	0%
ECLOF	2014	Chennai, Tamil Nadu	Purchased, direct TA	Will be outsourced to TAC		Launching pilot	1,000	
Ujivan	2014, in process	Bangalore, Karnataka	Advisory services, toolkit workshop and following TA in process	TOT to loan officers (for in-house / off-site CTA)		5,500	1 million	0%
Bhandhan	2014, in process	Calcutta, West Bengal	In process			Proposal stage	500,000	

2 "Housing Microfinance in India: Benchmarking the Status," Vibhu Arya, 2012

† Training and technical assistance from the HMF TAC also enabled Grameen FS to accelerate the growth of its sanitation loan product, disbursing to a total of 45,500 clients between January 2012 and May 2014.

- Clients were willing to pay for CTA when reasonably priced (approximately USD 4.50) and bundled with the HMF loan. A total of 371 clients paid this fee, in cash.
- By charging this fee, the center calculates that it could cover costs associated with providing seven to eight technical assistance visits per advisor per day. Clearly, only urban areas could offer the proximity required to meet this level of activity.
- Despite these estimations, the difficulties associated with ensuring sufficient levels of demand, achieving efficient coordination between MFIs and the TAC, and dealing with the risks associated with carrying cash payments, all make this model highly challenging to implement sustainably and at scale.

As a result of the experience in India, and other related experiences around the world, HFH is emphasizing strategies to facilitate better and more affordable housing services from existing market actors over strategies of direct provision to end-users. For example, HFH is providing support to Edyficar, a financial company of Banco de Credito (the largest commercial bank in Peru), in building linkages with cement companies and their networks of hardware stores to extend home improvement financing to their clients. These clients receive direct delivery of their building supplies, accompanied by a technical advisor. Edyficar is also seeking to strengthen the technical skills of local masons, who directly influence the construction quality of home improvement projects undertaken in their respective localities. They have begun by collaborating with SENSICO, the national training institute for construction workers, to conduct a training workshop for 120 of Edyficar's existing clients who are currently working in construction.

"HMF helped strategically shift our thinking [and] diversify towards home improvement loans when the entire country was facing a negative image [of] MFIs. Dialogues, discussions and training sessions with [the] HMF TAC and Habitat team enabled Grameen to diversify loan products, serving the real needs of the poor, while strengthening client loyalty."

—Mr. Suresh Krishna, CEO of Grameen Financial Services

Moreover, the India TAC is moving in the same direction as the global CISF (Center for Innovation in Shelter and Finance) by incorporating within its institutional technical assistance the design of streamlined construction-related services that are particularly relevant to the more common, structurally simple home improvements and can be carried out easily by loan officers. For example, the tech sheets that assist families in prioritizing and budgeting home improvements were simplified so that loan officers at Grameen and ESAF could use them. HFH conducts loan officer TOTs (Training of Trainers) to equip MFI staff to measure construction dimensions, calculate costs according to tables (by type of improvement), and distribute brochures with construction tips guiding common improvements.

Environmental Factors That Contribute to HMF Growth

The 2010 microfinance crisis that initiated in Andhra Pradesh and then spread throughout the rest of India had a direct impact on microfinance institutions' performance and potential for growth. Furthermore, the resulting regulations imposed in response to the crisis further restricted MFIs' ability to seriously consider new products, such as HMF. This specifically impacted the HMF TAC's activities in terms of the following:

- Widespread loan default and diminished demand from new clients caused the microfinance industry to contract. Based on a 2011 survey conducted by IFMR of thirty-two MFIs in seven states, the microfinance crisis led 40 percent of the MFIs to reduce their operations by closing branches, and staffing was cut by 27 percent across the thirty-two institutions. MFIs facing these challenges were clearly not interested in venturing into new products.
- With MFIs' deteriorating portfolios and plummeting rates of return, foreign and domestic investment in microfinance dropped dramatically, and MFIs struggled to fund their portfolios. Consequently, MFIs' interest in funding new products, such as housing, was severely dampened. This outcome directly impacted the HFH TAC's two initial partners—Capstone and GO Finance—as both were unable to grow their HMF portfolios due to capital constraints.
- The Reserve Bank of India responded to the crisis by imposing regulations such as loan size caps and a 25 percent portfolio limit on non-productive loans, which included housing[3], thereby also discouraging MFIs from putting significant effort into HMF.

The effects of the India microfinance

3 Classifying housing loans as "non-productive" is an unfortunate regulatory practice, since microenterprises are frequently home-based and because improvements increase the financial value of a family's primary asset, enabling greater leveraging, raising resale values, etc.

crisis signal, once again, the importance of appropriate environmental factors to support HMF growth. Although the national context in 2008 appeared, in many ways, to favor HMF, the underlying weaknesses of the microfinance industry at that time, including over-zealous lending and lack of transparent practices, were the less apparent red flags that might have signaled trouble ahead.

The India experience echoes lessons that HFH has gleaned globally regarding contextual factors that tend to favor the growth of HMF portfolios[4]. These factors include the following:

- Global urbanization tends to contribute to urban housing markets' growth and vibrancy, fueling demand for HMF.
- Struggling economies and high inflation environments pose several direct threats to HMF: increased construction costs, lower or less stable incomes among the poor, and the heightened cost of capital to MFIs. HMF products need to be carefully designed to address these contextual challenges.
- Where microfinance markets are mature and lending is conducted responsibly, HMF is prone to thrive. Similarly, where banking regulators support good HMF lending practices, even if not yet fully recognized as a distinct loan product, there is greater potential for HMF success.
- HMF benefits when government housing programs and policies stimulate healthy housing finance markets, rather than crowding out or over-regulating market-based solutions.

On the positive side, the Indian microfinance industry appears to be emerging from the former crisis with sounder practices and policies, having gained maturity from the hard lessons of the past decade, and displaying a growing sense of optimism. Presumably, this will pave the way for the future growth of value-added products and services, such as HMF.

Indeed, the center is seeing a promising future as demand for ITA is on the rise, confirming that experience gained with MFI partners and the broader sector is paying off. The recent genesis of MicroBuild India is also expected to generate at least 50 percent of the TAC's new business in the coming years.

4 For a more complete list, see article 1 of "Lessons from 11 Partnerships of Habitat for Humanity."

Opportunity International: Case Study for Ghana IGP

Background/Rationale

Opportunity International's Housing Finance case study focused on two challenges in the Ghanaian landscape: the relative lack of housing finance for the poor, and the challenges of insecurity of land tenure.

In Ghana, an estimated 60 percent of court cases are related to land disputes, and most conflicts stem from the fact that neither party possesses any form of land documentation.

Sparse Housing Finance Landscape

In 2008, Opportunity International in conjunction with Habitat for Humanity undertook preliminary housing market research in peri-urban and rural markets in Ghana. With few exceptions, the majority of housing finance organizations were not reaching the lower income levels for reasons of profitability and risk. It was deemed that there was substantial unmet demand for financing to support home improvements and new incremental construction projects. A more extensive study conducted in 2010 with Sinapi Aba Trust (now Sinapi Aba Savings and Loans—SASL) showed that Ghana's housing situation had actually grown worse since 2008, despite efforts made by the government and other agencies, due to the increase in rural/urban migration, population increase, the high cost of building materials, and the lack of access to housing finance for low-income earners, among other reasons. Very few actors ventured into the lower end of the housing finance market, leaving the urban and rural poor with little hope of receiving financial services. Both studies showed that there was significant demand among SASL clients: 54 percent of SASL/SAT clients wanted to build upon existing projects and 15 percent wanted to purchase land. It also found that clients often used part of their business loans to rent or renovate their dwellings, further indicating a clear need for a specific housing finance product.

Insecurity of Land Tenure

The relative lack of security of tenure to their land was also seen as a major obstacle to economic development for poor households. Having the confidence to invest is often seen as essential to economic productivity and development[1]. Greater security of tenure increases people's confidence to invest in their properties and build assets. Owning land without proof or documentation of ownership is common for many families in Ghana, as in many other parts of the world. Because land is frequently passed down through generations without formal evidence of possession, physical documentation of ownership has often been viewed as less important, especially for Ghanaians living in rural areas. Survey results presented by the Millennium Development Authority of Ghana (MiDA) demonstrated that 59 percent of rural citizens purchased property under only an oral agreement[2]. As more people buy and sell land, however, land rights are increasingly becoming an issue. In

1 According to Bank of Ghana's Policy Brief (June 2007), "Presently, the main underlying factor affecting the development of a mortgage industry in Ghana is lack of secure and transparent titled lands, with the consequent reduction in the granting of mortgage loans." High mortgage payment to income ratios and foreign currency mortgages further complicate accessing housing finance for most Ghanaians.

2 As documented in the final report of the Millennium Development Authority (MiDA), "Needs Assessment for On-Demand Land Transaction Services," implemented by International Land Systems (ILS; now Thomson Reuters), May 20, 2009; Housing Finance and Land Titling for Ghana's Poor project.

Ghana, an estimated 60 percent of court cases are related to land disputes, and most conflicts stem from the fact that neither party possesses any form of land documentation.

Particularly challenging is Ghana's complex land tenure system, which makes it difficult for the vast majority of the people to have security of land tenure. The land laws in Ghana require navigation of both customary and statutory laws—both of which have authority under the constitution. Customary land laws may differ from region to region. A "bundle" of overlapping rights constitute land rights in Ghana, beginning with "allodial" rights often vested in a variety of authorities and including subsidiary rights such as customary freehold rights, leaseholds, abunu/abusa (verbal agreements), and rent. Under these circumstances, obtaining land title requires navigating numerous authorities and is costly even for wealthy Ghanaians and virtually impossible for poor households[3]. The challenging context is presented in the following exhibit, with reference to the property folio project that will be detailed further in the next section.

3 **In Ghana, the de facto process can take over 300 days and would cost at least USD 400 and usually upwards of USD 1,000 (in addition to travel and lost-opportunity costs). Through market research, and previous projects in Ghana, Thomson Reuters (then operating as ILS) has long recognized that the land titling process is expensive, time consuming, and out of the reach of most citizens—particularly the rural poor. It was found that, in reality, acquiring a formal title in Ghana takes an average of ten years and exceeds USD 1,000. It also requires a process that is inconceivable for the rural poor to undergo, as it involves multiple agencies, which pass on high costs to those seeking documentation, and results in high opportunity costs due to the time needed to formally register, making it nearly impossible to register property without expeditors. The total cost of property registration means registration is de facto only for the wealthy and/or well connected. The complex legal and administrative framework presents an unaffordable cost for MF clients, particularly rural inhabitants. According to one study, 80 percent of MFI clients attending a group meeting had given up on the registration process due to costs and time, while 100 percent of those who had attempted to start the process had not seen any results. See also Millennium Development Authority (MiDA), "Needs Assessment for On-Demand Land Transaction Services."**

The Housing Finance and Property Folio Innovations

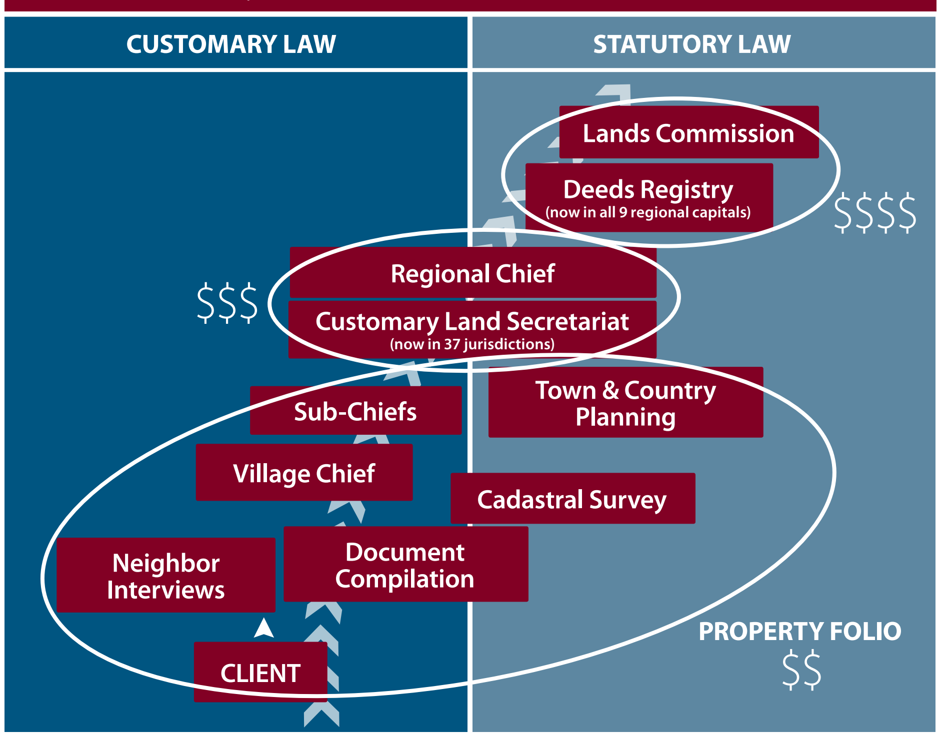
In this context, Opportunity International network partner Sinapi Aba Trust (now Sinapi Aba Savings and Loans [SASL]), in partnership with Habitat for Humanity Ghana (HFH-G) and International Land Systems (ILS; now part of Thomson Reuters), undertook a project that sought to develop an affordable housing finance service and, alongside it, a property folio service that would allow the poor to cost-effectively obtain a compilation of the initial documents to strengthen their hold on the land. In addition, efforts were made to establish both as viable businesses.

Housing Finance

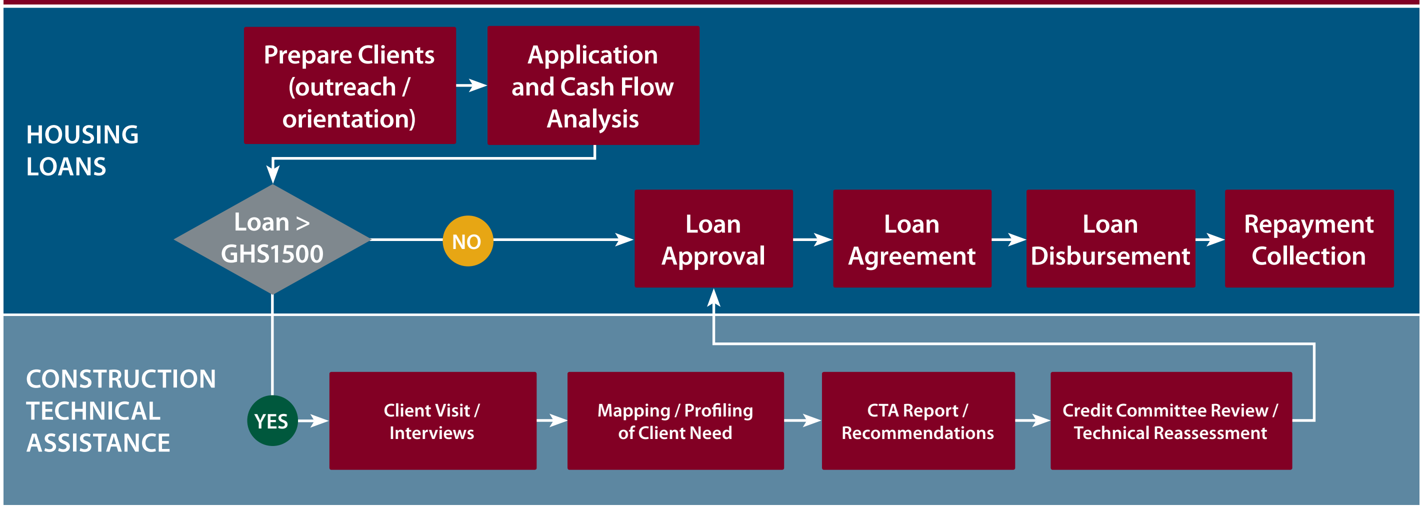
The key innovation in housing finance involved not only the creation of a housing loan product, but also the inclusion of what was, at the time, a relatively new idea: embedding construction technical assistance (CTA)—a capability traditionally beyond the core capabilities of microfinance institutions—in the housing microloan process. Here, collaboration with HFH-G allowed SASL to construct a process whereby loans above a certain value would require technical review to safeguard both client and MFI investments. Product features included loans ranging from GHS 200 to GHS 10,000, with a minimum loan term of two months and a maximum of twenty-four months, and eligibility to receive CTA when project costs exceeded GHS 1,500. The CTA process involved an HFH-G technical expert helping to conduct estimates for costly projects, advising on quality and required materials for projects, providing technical advice to clients and artisans, and monitoring the progress of work. An outline of the process can be seen in the exhibit below.

Property Folio: The property folio component of the project was altogether new. It provided clients with a

The Property Folio Idea and Processes



Housing Finance Process



compilation of documents that constituted the initial step necessary in the full land title acquisition process—something that very few Ghanaians actually complete. It offered a grass-roots approach to help strengthen an individual's claim to property. This initial step of compiling evidence required operational processes to be created from the ground up that may help deter the frivolous court cases that many Ghanaians are currently facing. In partnership with International Land Systems, SASL developed a process that included several key components, as shown in the exhibit above and described below[4].

1. *Property folio application/assessment and approval*. Following client education/marketing, review of client applications and approval by the bank.

2. *Client visit and interview.* In-depth interviews with clients and collection/scanning of any salient documents to confirm recognized residency on the land.

3. *Neighbor and opinion leader interviews.* In-depth interviews with, and gaining the signatures of, neighbors and town authorities who could confirm boundaries.

4. *Cadastral survey/site plan production.* Implementation of a cadastral survey of the land.

5. *Property folio production and issuance.* Compilation of these documents into a single file that would be returned to the client, with a digital file kept at SASL.

Lessons Learned and Outcomes

Housing Finance

1. *The MFI must be prepared to mobilize all divisions to operationalize and market the new product.* Coordination across multiple divisions within an MFI's operations was needed for scale up: Institutional momentum was necessary to allocate portfolio investments and to approve roll-out to new clients, different back-office processes needed to be quickly implemented to avoid process delays, concerted education and marketing investments and efforts were required for uptake, and financial service officers needed to be incentivized beyond their previous product categories. Since the pilot, SASL reviewed the product and re-launched its new housing finance service in June 2014[5]. The re-launch reflects how institutional operations have built on the pilot: management commitment to the product offering has been reconfirmed, processes have been

4 Originally documented in International Land Systems, "Property Folio Data Collection Methodology: USAID Housing Finance and Land Title for Ghana's Poor" (2010). These operations are in line with obtaining what have been noted as relevant documents for strengthening land security in many countries when formal title often cannot be produced: a written agreement between the buyer and the seller of land, a long-term rental agreement between the client and the government, de facto ownership (time, local laws), and accepted property tax payments (F. Daphnis and B. Ferguson, Housing Microfinance: An Overview, World Bank, October 2004).

5 The new product provides housing loans to clients and non-clients earning up to USD 10.00 a day (mainly small-scale artisans), who have property with or without title but with some type of secure tenure. The loan will provide individuals with an opportunity to build, repair, renovate, and extend housing incrementally with Housing Support Services (HSS). Examples of use include WASH, energy, and other land tenure-related uses. HSS will include technical information (e.g., construction fact sheets and brochures) that can be provided off-site and linkages to professional services (e.g., security experts, water and electricity connection experts) related to land tenure. Off-site HSS will be offered to loan clients, and on-site HSS will be offered only to a smaller portion of the clients when deemed desirable. Loans range from HGC 500–10,000, with tenures that range from twelve to twenty-four months, depending on the amount. Plans are in place for focused education and marketing of the product, with clear incentives and goals provided to financial service officers, with in-house HSS officers or specialists trained to handle on-site CTA, and with processes streamlined for quick application turn-around.

Property Folio Process

PROPERTY FOLIOS

Application Assessment & Approval → Client Visit / Interview → Survey / Neighbor, Opinion Leader Interviews → Site Map Production → Property Folio Production (via TR Software) → Property Folio Issuance

reviewed and strengthened, and branch managers have been trained to prepare for scale-up.

2. *A low-cost way of providing construction technical assistance must be found.* Technical assistance remains an important component: both SASL and its clients have seen value in such services. However, finding a cost-effective way to provide this in a sustainable manner was a challenge during the pilot. Since then, the construction technical assistance portion has been revised from the original pilot model to make it more cost effective. In the future, housing experts such as HFH-G staff will train SASL staff for any on-site HSS that is necessary, and SASL will provide references to other technical assistance services off-site.

3. *Client responses and impacts to the housing finance project have been largely positive.* Two quick studies have suggested largely positive outcomes: Living conditions are seen as changed for the better (for example, clients own their own houses; they have additional room for family members, including sleeping space, a private toilet, a room to rent, and a roof; and they have their own kitchens). Thus, there was a positive impact on family activities (sleeping, privacy, renting, cooking), education (children had space to study and could get to school on time because they didn't have to fetch water), health (fewer diseases because of newly built wells, better ventilation, better protection from mosquitos, and general family safety). These are seen as enhancing a household's status in a community (clients are viewed as richer and more responsible, and thus are treated with more respect).

The key innovation in housing finance involved not only the creation of a housing loan product, but also embedding construction technical assistance (CTA) in the housing microloan process.

Property Folio

1. *In countries where the land title regime makes secure land tenure difficult and property folio intervention attractive, a careful review of the current land title regime is essential, as any intervention will have to be efficacious within that regime. Where such regimes are not standardized, processes unique to each region must be established.* The lack of a rationalized and standardized land title regime posed challenges for the project. While government officials generally affirmed the validity of the project concept, it was difficult to gain tangible support. The Land Administration Projects (LAP1 and LAP2), however, have slowly begun to change the land title landscape—creating a more favorable ecosystem for operations[6]. In this context, the property folio project remains relevant, with significant room for MFIs and other actors working in line with government efforts to provide poor households with property folios to increase their security on their land.

2. *While less expensive than the full land title process, the property folio processes still involve significant costs as they require significant customization. Their complexity also makes a pilot period essential, and careful cost analysis is needed to construct a business plan.* A second challenge for the property folio project was how the operational complexities and the cost of key project components made arriving at a sustainable business model difficult. This project required the creation of a viable process for navigating Ghana's complex bureaucratic processes, as well as establishing protocols for visits to clients and their communities. All this needed to be constructed from the ground up, as there were no easy precedents to follow. In addition, the costs of cadastral surveys

6 Two developments are especially relevant: (1) the expansion of the Customary Land Secretariat system from three to thirty-seven, spread across the whole country, and the implications of these changes in the attitudes of customary authorities dealing with land title issues; and (2) efforts toward consensus and standardization of land title processes and templates, which can then become accepted forms for the property folio process. These changes allow processes to become more standardized across the country, making operations and costs more stable.

and the inconsistent policies of local chiefs made it difficult to construct a consistent business model. However, activity-based costing research conducted during the pilot indicated that this service can be made viable at the right price point[7].

7 **Report currently projected to be out in Q3, 2014.**

3. *The property folio project's impacts on clients have been positive.* Though lacking official legal status, a property folio demands recognition from the government and community of the client's existence and property ownership. In interviews, clients expressed excitement about their folios, which provided them with a greater sense of awareness of the importance of land rights and land documentation, and with a greater sense of value for this type of asset. It also instilled a sense of land security, bred confidence, and provided clients with a sense of identity. Security of land tenure allows clients to improve their houses and make investments in their property. The project has also raised greater awareness of housing needs and has provided clients with a document that can be used as collateral or security for a loan application. It was a popular add-on to the HMF loan product.

Key Lessons Learned

Key lessons learned during the course of the three projects include the value of good product development and institutional commitment, the challenges involved in achieving scale, how to build the business case for HMF, the significance of securing land rights, documenting and understanding the institutional and client benefits, and the importance of developing partnerships with other actors in the housing market system.

The Value of Good Product Development and Institutional Commitment

The success of each institution's pilot with HMF was dependent on a number of factors, including external actors, but no other factor was as significant as the process of developing the product internally. This is best illustrated in the FMFB-A case in Afghanistan, in which the institution was forced to develop internal expertise in HMF instead of relying on external consultants due to the security situation. As a result of management commitment and a strong team focused on client-centric product development, the institution reached over 25,000 clients and the housing products became one of the fastest growing products in its portfolio. The institutional willingness of FMFB-A and AKF to promote a product that has social and financial objectives by hiring a product manager and investing in staff training was critical to this success.

The partners in India, Afghanistan, and Ghana found that concerted education and marketing investments and efforts were required for product uptake. In Ghana, Sinapi Aba Trust found that coordination across multiple divisions within the MFI's operations was necessary to allocate portfolio investments and to approve roll-out to new clients, and that different back office processes needed to be quickly implemented to avoid process delays. All three partners also found that the training of staff and incentives for loan officers should be carefully designed in the initial product design. Without a strong risk management system, staff incentives, pricing, and customer monitoring, an MFI will struggle with introducing a HMF loan. Such elements of basic product design are often new to MFIs and require initial technical support for establishing the groundwork to introduce HMF loans.

The larger conclusion gathered from the IGP partners is that the business case for HMF is dependent upon the capacity of the MFI. MFIs with sufficient experience in piloting and testing new products, marketing them, and working across multiple departments of an institution will experience faster outreach than those unaccustomed to this process. Five years of observing product launches across the three institutions demonstrate that housing microfinance can be a viable product, but it requires a significant human resource and operational commitment from the MFI.

Achieving Scale Remains a Challenge

One of the toughest challenges experienced by two of the three partners was achieving scale with the new housing products. Both Sinapi Aba Trust in Ghana and the Housing Microfinance Technical Assistance Center (HMF TAC) in India faced difficulty growing the pilot beyond existing clientele partly due to lack of staff buy-in and marketing efforts. Unlike microfinance products that are well understood by many households, housing microfinance requires additional marketing to explain the product, benefits, and application process. In addition, the product development process must be comprehensive to consider market demand and segmentation. Without a clear understanding of whom the MFI is trying to reach or what their needs are, products are unlikely to reach scale. Yet the upfront cost of conducting a proper study of the market and designing an appropriate marketing strategy is prohibitive for most MFIs. HMF therefore seems best suited to the most capable institutions, which can handle these upfront costs and have long-term strategies to remain client-centric. Others will likely need subsidies and external assistance to move beyond housing as a boutique product.

In the IGP Learning Network, Habitat for Humanity in India sought to achieve scale by designing a service center for Housing Support Services (HSS)

Offering housing microfinance loans can differentiate an institution, improve branding, and lead to cross-selling of other products, which in turn can become profitable for the institution.

and creating partnerships with MFIs. However, the unfortunate timing of India's microfinance crisis of 2010 and lack of partner commitment led to lower than expected demand from Indian MFIs that were too preoccupied with their loan portfolios to consider adding new products. The center has found greater success since the microfinance sector in India resumed growth by focusing on product design assistance.

As a result of the experience in India and elsewhere, HFH is now emphasizing strategies to facilitate better and more affordable housing services with existing market actors, over strategies of direct provision to end-users. In Peru, HFH is providing support to Edyficar to create linkages with cement companies and their networks of hardware stores and to extend home-improvement financing to their clients. These clients receive direct delivery of their building supplies, accompanied by a technical advisor.

Is There a Business Case?

Building the long-term sustainability of housing microfinance, or for that matter any type of non-enterprise-related loan product, requires a business case. What makes the HMF product different from a standard MF loan and thus increases the cost of development? HMF loan amounts typically are two to four times larger than an individual MF loan and the terms can be longer in length—up to twenty-four months for home improvement and as much as two to five years for land purchase or construction. Interest rates are comparable to standard MF loans but are often slightly lower if the repayment period is longer. Collateral is usually the key differentiating term, often required in the form of savings, ownership of land or land documents, or co-signers. Furthermore, MFIs often need to review additional documentation to verify residences and assess the proposed construction.

In an increasingly competitive environment, the strongest business case for HMF is client retention and loan portfolio diversification. MFIs seeking to be more client-centric will appreciate this case and understand the value of a product that is considered aspirational for their clients. Offering housing microfinance loans can differentiate an institution, improve branding, and lead to cross-selling of other products, which in turn can become profitable for the institution.

The institutions participating in the IGP Learning Network experienced a range of success related to the business case of the individual HMF product. The additional costs incurred with HMF include investment in market research, product development, marketing, and monitoring. However, once construction technical assistance (CTA) and other complementary add-ons are included, the business case becomes much more challenging. Technical assistance remains an important component, as institutions and clients see the value in such services. However, finding a cost-effective way to provide this in a sustainable manner was a challenge during the pilot and after.

Securing Land Rights

The vast majority of HMF clients lack access to formal land title and sufficient collateral. The lack of security of land tenure can be a major obstacle to economic development for poor households, as titles are often used as security or collateral in order to borrow an individual loan. Greater security of tenure would increase people's confidence to invest in their properties and businesses, as well as build assets. Owning land without proof or documentation of ownership is common in many countries. Land is often passed down through generations without formal evidence of possession, and therefore the physical documentation of ownership has often been viewed by clients as less important, especially for those in rural areas. As more people buy and sell land, however, the lack of formal documentation of land rights increases the risk of designing housing microfinance products. In Ghana, an estimated 60 percent of court cases are related to land disputes, and most conflicts stem from the fact that neither party possesses any form of land documentation.

The dated, complex land tenure system makes it difficult for the vast majority of the people to have security of land tenure. In Ghana, obtaining land title requires navigation of both customary and statutory laws, making it costly for the wealthy and virtually impossible for poor households By the nature of the complex navigation of laws, attempting to attain land security involves a time-consuming process of red-tape which increases the costs of obtaining formal documentation beyond the scope of

The dated, complex land tenure system makes it difficult for the vast majority of the people to have security of land tenure.

most households. One solution to this problem was tested by Opportunity International and Sinapi Aba Trust in Ghana. This pilot and the resulting impact on clients illustrated the high value placed on land security by many clients of microfinance.

92 percent of FMFB-A clients have either paid back or are currently paying back housing microfinance loans without facing any difficulty, while 71 percent of them are planning to renew their housing microfinance loans.

Institutional and Client Benefits

While scale remains a challenge, the three partners concurred through observations, interviews, and client feedback that incremental housing microfinance improves the lives of clients and can benefit the institution. For example, in Ghana, Sinapi Aba Trust observed institutional benefits such as increased client loyalty, cross-selling of products, and marketing improvements. The impact of HMF on Ghanaian clients included improvements in quality of life, sanitation, and health. FMFB-A improved its understanding of client needs through its client-centric product development process. A recent evaluation revealed that 92 percent of FMFB-A clients have either paid back or are currently paying back housing microfinance loans without facing any difficulty, while 71 percent of them are planning to renew their housing microfinance loans. Today, almost 20 percent of the FMFB-A microfinance portfolio comprises housing microfinance loans—a key part of its risk management approach to diversify the loan portfolio.

Additional research shows that improvements in housing can translate into increased income through room rentals, space for micro-enterprise, and cost savings (energy efficiency), and they can ultimately be seen as building client assets. From the observations of the IGP partners, living conditions among clients borrowing for incremental housing upgrades have improved (for example, they own their own houses and have additional room for family members (including sleeping space, a private toilet, a room to rent, a roof, their own kitchens). This impacts family activities (sleeping, privacy, renting, cooking), education (space for children to study, the children are able to get to school on time because they don't have to fetch water), health (fewer diseases from having built wells, from better ventilation, from better protection from mosquitos, because of general family safety). All of this has been seen as enhancing a household's status in a community (seen as richer, more responsible, treated with more respect).

In Ghana, the property folio component of the project has provided clients with a greater sense of awareness on the importance of land documentation, and a greater sense of value for this type of asset. It has also instilled a sense of land security for clients through the simple documentation of the site plan and agreement by community members and land professionals. Property folios also help provide clients the security to improve their houses and make investments in their property, knowing that the folio offers increased protection from removal from the land. Recent restructuring of the land title regime that has standardized the regional customary authorities' role to sign property folios has confirmed the validity of the process.5 This complementary product was considered by some clients as their prized possession, according to a survey conducted at the end of the grant.

Habitat for Humanity's work in India showed high client satisfaction with the integration of housing-support services. But it found in its analysis of housing-support service models in five different countries that the greatest change in actual building is in households with the lowest incomes and often taking the smallest housing (or, usually, home improvement) loans. This presents a challenge to building fee-based business models for covering those costs.

In Afghanistan, an impact assessment conducted by a third party on FMFB-A's housing loans revealed that the quality of life of 63 percent of respondents improved because of better privacy. While the common expectation is that the households in Afghanistan would do most of the renovation and construction work by themselves, the survey showed that 72 percent entirely hired and 25 percent partially hired external labor. The majority of the surveyed clients indicated that they had utilized the loan funds for adding living space, such as an extra room, and for strengthening the structure of their houses. Finally, 93 percent of FMFB-A clients who received technical advice agreed that the service increased and improved their understanding of construction practices, while 73 percent fully applied the techniques for housing improvements.

Developing Partnerships in the Housing Market System

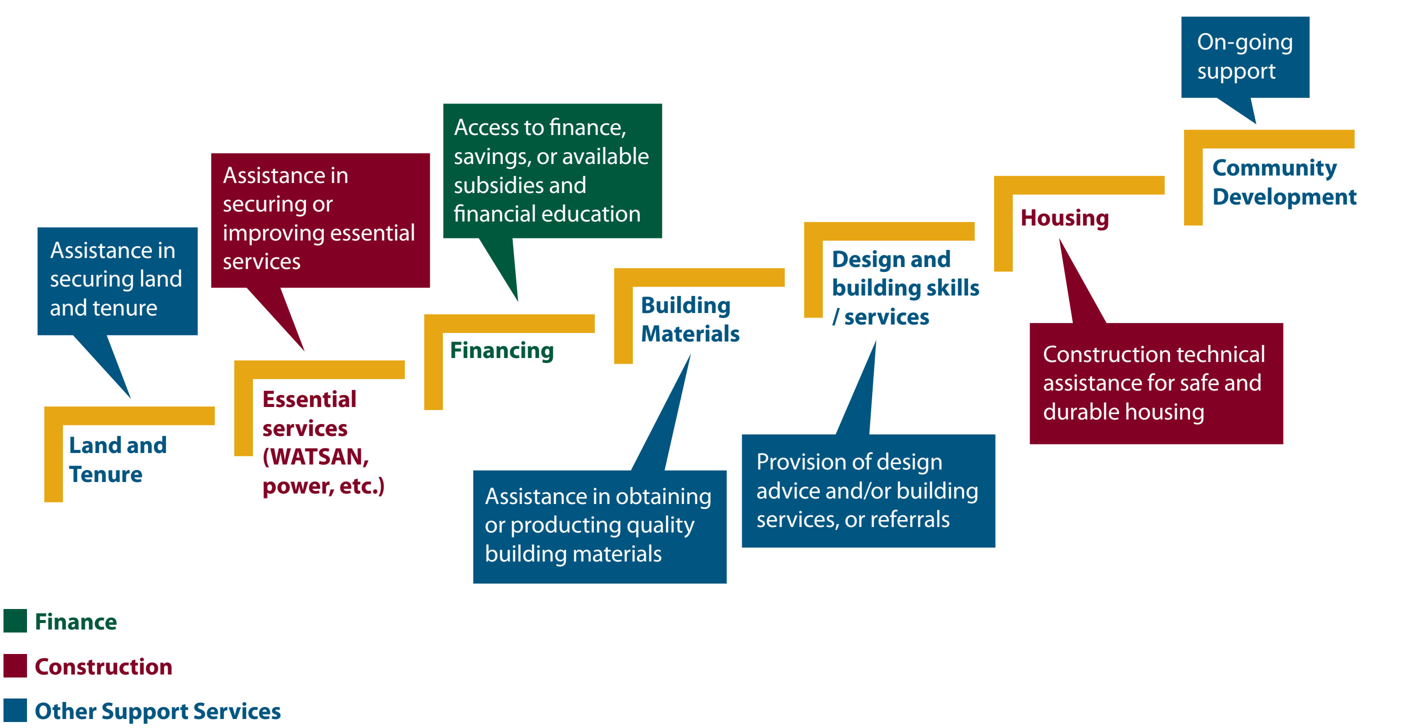
Although the business case is strongest when not including housing-support services, the client-level impact of HMF loans was highest when combined with additional services. The three IGP partners found value in partnering with other actors in the housing market system to leverage synergies, share technical knowledge, and lower costs of provision in order to achieve the greatest impact for clients. All three local institutions experienced the need for external assistance in the design of the product, in construction assistance, and in forming a paralegal land folio service. Without the assistance of the IGP grant, these innovative partnerships could not have been developed.

The expertise required for sourcing building materials, designing and constructing, and meeting regulatory codes is often beyond the scope of most poor households seeking to incrementally build on their home. Although housing construction does not fall within the purview of a financial institution, the risk of lending to clients without sufficient knowledge of construction or property title could endanger client livelihoods and the institution. In each country, the IGP partners found the need to consider the larger ecosystem critical for long-term sustainability of the HMF product. External partners or actors proved essential in building a more holistic HMF product, including disaster preparedness, land tenure, and construction assistance. In Peru, MiBanco has entered into alliances with the largest cement producer in the country, a roof manufacturer, an association of lumber suppliers and carpenters, and hardware stores. In essence, MiBanco finances the construction materials sold by these companies as part of home upgrading and the expansion projects of low-income families.

Housing microfinance can be designed and delivered to clients at scale.

Other countries have provided examples of private-sector construction or housing companies entering to fill the gap in the ecosystem for affordable housing finance. CEMEX in Mexico is one well-known model, as is Corona in Colombia. Reaching over 615,000 clients combined, these firms have shown the business potential for supplying credit, inputs, and advice to poor households that are incrementally improving their homes. This ecosystem approach involves linkages with material suppliers, hardware stores, and other providers of goods and services to local low-income housing markets. Suppliers of construction materials in Peru offer discounts to microfinance clients because of bulk purchases and the efficiencies gained by batching clients into groups of ten. In Afghanistan, FMFB-A partnered with the Aga Khan Rural Support Program (AKRSP) for technical assistance in developing the material for safe, risk-resilient construction techniques.

Housing Microfinance Ecosystem



The housing investment potential over the next ten years will be close to USD 214–786 billion

The IGP partners experienced the importance of developing an overall ecosystem (as shown in the following exhibit) to support housing microfinance. Each encountered various obstacles in the market system in their unique country context and responded with specific solutions that tackled these obstacles (note the circles in the exhibit). For HMF to achieve greater scale, wider inclusion of these other elements in the design of HMF projects is essential. Donors and policymakers must consider the wider spectrum of actors when seeking solutions to the urban housing shortage for poor households.

Furthermore, the regulatory and legal environment for microfinance can influence the scale and reach of housing microfinance. Where microfinance markets are mature and lending is conducted responsibly, HMF is prone to thrive. Similarly, where banking regulators support good HMF lending practices, even if not yet fully recognized as a distinct loan product, there is greater potential for HMF success. HMF benefits when government housing programs and policies stimulate healthy housing finance markets, rather than crowding out or over-regulating market-based solutions.

Conclusion

As the IGP Learning Network shows, housing microfinance can be designed and delivered to clients at scale. However, the role of other actors in the overall ecosystem can make a substantial difference in the success of the product. The partners agreed upon a few notable conclusions for the larger industry, which are summarized below.

- Donors should facilitate and support partnerships across MFIs and actors in the housing ecosystem. Based on the experience of the three IGP partners across various country contexts, MFIs engaging in HMF will be more successful if they build partnerships and create linkages with external actors in the larger housing value chain. In addition, if donors allow for flexibility and adaptability within this complex market system, more innovative solutions could be developed. The freedom to try and fail and the ability to adapt and change are critical to finding solutions in this sector.
- HMF benefits when government housing programs and policies stimulate healthy housing finance markets, rather than crowding out or over-regulating market-based solutions. External shocks in struggling economies and high-inflation environments pose several direct threats to HMF: increased construction and material costs, lower or less stable incomes among the poor, and the heightened cost of capital and availability of lower cost local currency to MFIs. MFIs should be careful to consider contextual challenges when designing housing microfinance products.
- Investing in a well-designed, client-centric product is critical to achieving scale and meeting client needs. Clients will to pay for the product, and even construction technical assistance, if it is well designed and simply provided.
- Introducing housing loans will diversify lending risk while simultaneously building client retention and loyalty for the MFI. It can also lead to a new market for MFIs—in particular, for SME actors within the housing market system.
- MFIs should weigh the costs and benefits of offering construction technical services and other complementary add-ons to the product. While the costs may be high, the long-term benefit to the client and the resulting relationship with the institution may justify these services.
- Affordable urban housing represents the largest financial opportunity for impact investors. A study by JPMorgan estimates that the housing investment potential over the next ten years will be close to USD 214–786 billion[1]. The lack of long-term local currency capital available in the investor marketplace makes it unaffordable and therefore not a viable product for MFIs to invest in HMF. In response to the shortage of long-term investment capital, one of the IGP partners—Habitat for Humanity International—launched an investment fund for housing microfinance, MicroBuild India, to allow MFIs in India to borrow for up to sixty months for HMF loans. In addition to the fund in India, HFHI also has a global MicroBuild fund that offers debt financing to MFIs from impact investors. Both initiatives aim to demonstrate the viability of housing microfinance products with the intention of incentivizing other investors to follow.

1 Lessons from 11 Partnerships of Habitat for Humanity, 2013.

About SEEP

Founded in 1985, The SEEP Network was a pioneer in the microcredit movement and helped build the foundation of the financial inclusion efforts of today. In the last three decades, SEEP members have continued to serve as a testing ground for innovative strategies that promote inclusion, develop competitive markets, and enhance the livelihood potential of the world's poor.

SEEP members work together and with other stakeholders to mobilize knowledge and foster innovation, creating opportunities for meaningful collaboration and—above all—for scaling impact.

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