



Center for Innovation
in Shelter and Finance

Citi Foundation



MICHEL FLAMM/HABITAT FOR HUMANITY

LESSONS from 11 PARTNERSHIPS of HABITAT for HUMANITY

Cover photo: This family in Bolivia was able to improve their house with housing microfinance assistance.

Introduction

As the microfinance industry continues to diversify its offerings and applies increased efforts to respond to clients' needs and priorities, microfinance for housing (commonly referred to as housing microfinance or HMF) is assuming a more strategic place within microfinance portfolios. The growing pool of housing microfinance practitioners is evidence of how housing microfinance is becoming an increasingly attractive proposition to microfinance institutions seeking to open new business opportunities to retain good clients or to achieve greater social returns. As housing microfinance experiences advance and expand to new contexts, the need for well-documented insights and lessons to inform future practice is accentuated.

Habitat for Humanity, drawing on its experience over the past decade in partnering with microfinance institutions in the development and provision of housing microfinance, seeks to attend to this need as a means of facilitating greater access to affordable shelter solutions among lower-income populations. Habitat recently created the Center for Innovation in Shelter and Finance, or CISF, mandated to facilitate collaboration among public-, private- and third-sector actors in the market to develop sustainable and innovative housing solutions. Among the center's key strategies are research and development of knowledge and the promotion of peer learning.

The center, with valuable support from the Citi Foundation, prepared the following four articles, focused on key issues surrounding housing microfinance:

1. Opportunities and Constraints for Housing Microfinance
2. Housing Support Services: Do They Add Value to Housing Microfinance?
3. Housing Microfinance Product Development: Key Factors for Success
4. Taking Housing Microfinance Products to Scale: Institutional Commitment and Capacity

These articles are based on cases studies of 11 microfinance institution partners of Habitat for Humanity and their experiences with housing microfinance. The cases were selected to represent diverse approaches and experiences with housing microfinance product development. They were chosen from a variety of contexts, featuring 11 different countries from four regions: Latin America, Africa, Asia and Europe. Furthermore, the cases portray microfinance institutions at distinct stages of housing microfinance product implementation and scale-up.

As microfinance practitioners and investors venture further into housing microfinance, it is the desire and expectation of Habitat's CISF that the issues and lessons highlighted in these articles will be further explored, enhanced and refined, ultimately, for the sake of those seeking access to improved shelter.

These articles were produced by Habitat for Humanity's Center for Innovation in Shelter and Finance.

- Conceptual inputs and support: Sandra Callison, associate director, advisory services, market development and housing finance, and Patrick Kelley, market development and housing finance director, Global Programs, Habitat for Humanity International.
- Writing: Christy Stickney, CISF consultant
- Editing: Sandra Callison and Patrick Kelley

The CISF would like to acknowledge the work of the global CISF team, especially Jennifer Oomen, Patrick McAllister, Ezekiel Esipisu, Patrick Dogbe, Guiselle Espinoza, Enrique Montero, Adriana Llorca, Belinda Florez, Maria Morales, Erik Heesbeen, and Narine Terzyan. The center also thanks the consultant partners Microfinance Centre, Jennifer Aguti of Habitat Uganda, Davidson Prince of Habitat India, and Happy Namwanza of Habitat Malawi. Their work collecting, writing and editing made possible the production of the case studies that served as the base to elaborate these articles.

The Habitat for Humanity Center for Innovation in Shelter and Finance is an initiative to facilitate collaboration among public-, private- and third-sector actors in the market to develop sustainable and innovative housing solutions for the 1.6 billion people worldwide who lack adequate housing.

This initiative is a result of strategic planning that pointed Habitat toward working more catalytically to have greater impact and scale through the inclusion of market development approaches to increase access to affordable shelter solutions among lower-income populations.

The center offers advisory services, engages in research and knowledge development, and promotes peer learning opportunities.

habitat.org/cisf

©Habitat for Humanity Center for Innovation in Shelter and Finance, 2013. All rights reserved.

These articles were developed with the funding support of Citi Foundation. The content of the articles does not represent the opinion of the Citi Foundation and is the sole responsibility of the authors.



ADRIANA LLORCA/HABITAT FOR HUMANITY INTERNATIONAL

This is a family in the process of incrementally building their home with a loan from one financial institution that partnered with CISF.

ARTICLE 1:

Opportunities and Constraints for Housing Microfinance

January 2013

Housing is proclaimed to be one of the “big three” priorities of low-income families around the world, along with food and children’s education¹. A 2005 U.N. report estimated that approximately 1.6 billion people worldwide suffer from inadequate shelter. Global housing conditions are being further stressed by rapid urbanization, particularly in the developing world, and the damage caused by natural and human disasters. These deficits paint a picture not only of tremendous human need, but also of a vast and largely untapped market of financing opportunities.

Interestingly, much of the housing demand is not for newly built, formally financed units, but rather for improvements and repairs to existing shelters. Low-income populations are frequently characterized by high rates of homeownership², but

Housing microfinance refers to nonmortgage loans that are intended to finance home improvements, repairs and incremental building and are characterized by common elements of microfinance, such as:

- **Small loan amounts:** Financing a single improvement or step in a gradual construction process.
- **Short terms:** Generally between 12 and 36 months.
- **Market-based pricing:** Typically on par with other microfinance products.
- **Nonmortgage guarantees:** Such as co-guarantors or promissory notes, and accepting alternative proofs of land ownership from legal titles, such as purchase agreements or utility bills.

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

2. For example, declared homeownership rates in four of the countries included in this study are: Philippines – 80 percent; Peru – 72 percent; Uganda – 85 percent; India – 87 percent (see “Capitalizing Housing for the Poor: Findings from Five Focus Countries,” C. Young, J. Hokans and B. Ahern, HFHI, December 2009, p. 47), while in the U.S., homeownership was reported at 65 percent at the end of 2012.

the quality of these homes is often deemed inadequate.³ Around the world, the predominant pattern for building and improving homes is progressive, by means of small, incremental stages, in accordance with families' priorities and financing availabilities.⁴

Meanwhile, the supply of appropriate financing to support families' progressive construction is minimal. Conventional mortgage finance is not well matched with this population's financing needs and realities, and government housing programs are usually constrained by limited resources. Microfinance institutions have been somewhat hesitant to get involved in housing in recent years, as the pace of growth of housing portfolios has slowed in the face of the global economic crisis, the Andhra Pradesh microfinance debacle⁵ and other more localized setbacks.⁶ Moreover, until recently, microfinance institutions' interest in housing microfinance has been largely eclipsed by their historic focus on microenterprise lending.

As microfinance markets mature and increase in competitiveness, institutions are likely to reconsider housing microfinance as a compelling business opportunity. A 2010 report published by J.P. Morgan revealed that affordable urban housing represented the largest financial market opportunity for impact investors, measuring between US\$214 billion and \$786 billion.⁷ The rise of nontraditional suppliers of housing microfinance from within the private

sector gives evidence of the attractive business proposition this immense market represents. Latin America-based companies such as Promigas ("Brilla" program) and Corona ("Viste tu Casa"), along with housing finance veteran CEMEX ("Patrimonio Hoy"), attained a combined outreach of approximately 615,000 clients in Mexico and Colombia alone during 2011.⁸ These are very low-income households, making up what is known as "the base of the pyramid."

When microfinance practitioners consider entering housing markets, they will likely be asking: What contextual factors particularly favor robust, high-performing housing microfinance portfolios? What factors constrain successful housing microfinance? Can steps be taken to mitigate these? The following article attempts to address these questions, using insights gained from studying a variety of microfinance institutions around the world that developed housing microfinance products in partnership with Habitat for Humanity in each of their countries.

Housing microfinance: The industry's well-tailored response

Housing microfinance refers to a type of microfinance product that is directed toward financing the incremental repairs, improvements and progressive construction of housing. Housing microfinance is uniquely tailored to the needs and realities of the poor and is designed to match their specific building and financing patterns. For example:

- Improvements are undertaken in a series of small, incremental steps.
- Financing is determined based on clients' repayment capacities, pre-established loan terms, and the costs of an improvement "step."
- Guarantees are tied to alternatives that are within clients' reach (e.g., co-guarantors, promissory notes).
- Tenure security is confirmed via informal documentation vs. legal title (e.g., purchase agreements, utility bills).

3. UN-HABITAT defines adequate shelter as meeting a variety of criteria, including adequate space, security, durability, secure tenure, and access to basic services such as water and sanitation.

4. For example, researchers have estimated that 70 percent of housing investment in Mexico is for incremental construction; 98 percent of housing stock in urban areas of Tanzania is built incrementally; and 93 percent of owner-occupied homes in the Philippines were built incrementally. (See "Financing Urban Shelter," UN-HABITAT, 2005, p. 99).

5. The crisis of microcredit in the southern Indian state of Andhra Pradesh began in October 2010 with a suicide wave caused by widespread overindebtedness, badly tarnishing the sector's image in India and abroad.

6. See "Status Report: Housing Microfinance in Latin America," Habitat for Humanity International, Center for Innovation in Shelter and Finance, Nov. 9, 2011.

7. "Impact Investments: An Emerging Asset Class," J.P. Morgan Global Research, Nov. 29, 2010.

8. "Status Report: Housing Microfinance in Latin America."

- Financing is often accompanied by housing-related services⁹ such as support to the family in planning and staging improvements, determining materials needed and associated budgets, providing technical advice, and offering recommendations about where to source materials and labor.

Within this category of housing microfinance loans exists a range of potentially differentiated and diversified offerings, such as loans tailored for common improvements (flooring, roofing) or distinct products (water cistern purchases, septic tank installations). Ultimately, a well-structured product development process has proved effective in helping a microfinance institution determine what specific housing microfinance products are best suited to particular target markets and contexts.¹⁰

This study's findings highlight specific opportunities and constraints to housing microfinance, organized below into five categories of contextual factors: land and location; sociopolitical factors; economic environment; microfinance markets and regulation; and government housing programs.

Opportunities and constraints

Land and location

Study results reveal that a favorable condition for housing microfinance is a setting in which land tenure is secure and homeowners feel confident of their property rights, even if they are not formally registered and titled. These factors feed vibrant housing markets and stimulate investment in improving homes, infrastructure and public services.

Conversely, contexts plagued by insecure tenure, land repossessions and government-sponsored relocations are less suitable for housing microfinance. Families are notably more reluctant to invest in tenuous housing circumstances,

and lending risks are also heightened by clients' unreliable residence. Similarly, marginalized neighborhoods lacking basic infrastructure (e.g., roads and public services) tend to suffer from lower investment in private housing, as residents are forced to divert precious resources to purchase costly services from private suppliers, and property values often stagnate.

Zones at high risk of natural disasters are also difficult contexts for housing microfinance, given the associated lending risks. Nevertheless, the effects of natural disasters often present unique opportunities for housing microfinance. For example, migration to the Dominican Republic after the earthquake in Haiti catalyzed a surge in demand for housing finance, particularly in the areas where Haitians were settling.

When housing microfinance is offered in contexts that are particularly vulnerable to natural disasters (e.g., hurricanes, earthquakes, landslides, flooding), microfinance institutions tend to give special importance to pursuing qualified technical guidance. This advice might come in the form of neighborhood assessment and prequalification, whereby a civil engineer or architect approves of (or disqualifies) specific zones for housing finance, based on the perceived level of disaster-related risk. For example, in the Dominican Republic, certain marginalized communities were too close to precarious rivers to be deemed appropriate for financing. Technical support may also be provided directly to clients, assisting them in the construction of disaster-resistant homes. For example, a microfinance institution in the Philippines provided on-site technical advising to ensure that homes were built to withstand seasonal monsoons.

Sociopolitical factors

Global urbanization presents a vast opportunity for housing microfinance, because urban areas experiencing significant growth and migration are often hosts to vibrant housing markets, where demand for financing far outstrips supply. Microfinance institutions operating in Lima, Peru, and Manila, Philippines, attested to the impressive markets for housing finance in low-income neighborhoods in those cities.

Another setting favoring housing microfinance is in areas facing reconstruction after wars have caused significant destruction to physical property. For example, a microfinance

9. Commonly referred to as "Housing Support Services," or HSS, and defined as nonfinancial support that is intended to equip families or the suppliers of housing materials or services with knowledge, connections or other resources that will improve the quality or reduce the cost of solutions built.

10. See "Housing Microfinance: Product Development Tool Kit," Habitat for Humanity International's Center for Innovation in Shelter and Finance, May 2012. habitat.org/cisf.

institution in Bosnia signaled the relevance of housing microfinance to post-war home rebuilding efforts.

Notably, areas that are facing substantial negative migration (e.g., war zones, or Mexican towns near the U.S. border) or that are highly populated by temporary residents (e.g., refugee communities) are considered less appropriate for housing microfinance. While these contexts present definite challenges for housing microfinance lending, specific product design features may be employed to partially mitigate obstacles faced. For example, by liaising with community-based organizations, a microfinance institution in the Dominican Republic was able to sufficiently diminish lending risks among communities heavily populated by Haitian refugees and temporary farm workers. The microfinance institution relied on these local entities to facilitate client prescreening, based on observed character traits and the stability of their permanence.

Microfinance institutions offering housing microfinance faced a particular challenge in settings where men were frequently absent, leaving women with the responsibility of overseeing any necessary home repairs or improvements. A microfinance institution in Tajikistan, for example, noted that while men were off working in Russia, the women remaining at home often felt less confident or equipped to take on construction projects. Hence the microfinance institution ensured that housing microfinance lending to this population was accompanied by necessary support in project planning and technical advising.

Economic environments

Evidence confirms that an ideal condition for housing microfinance, and indeed any type of microfinance, is a macroeconomic environment that is conducive to business investment and growth. In other words, contexts experiencing stable economic growth and reasonable rates of inflation — and where investment is considered relatively secure — are generally considered favorable for housing microfinance.

On the other hand, high-risk markets, where capital is constrained and costly, are difficult contexts for growing housing microfinance. A microfinance institution in Uganda was feeling the consequences of high national inflation on its housing microfinance portfolio, as loan capital had become extremely expensive. Moreover, the price of construction

materials was constantly on the rise, potentially outpacing its clients' borrowing capabilities. A microfinance institution in India was facing similar challenges, attempting to access needed loan capital in a highly constrained financing environment for microfinance institutions after the crisis in Andhra Pradesh.

A related challenge is the noted effect of struggling economies on clients' income, thereby compromising their borrowing capacity. A microfinance institution in Bosnia voiced this concern and ensured that its housing microfinance design was well-targeted, financing only small, incremental improvements, and that housing support service costs were kept low. Furthermore, it intentionally promoted via reduced interest rates a distinct housing microfinance product known as "energy-efficiency loans," targeting home improvements that resulted in energy cost-savings for families.

Microfinance institutions in India and Bosnia both raised concerns about clients' limited abilities to plan and budget for home improvements. In India, the microfinance institution discovered that 90 percent of its clients failed to properly determine needed loan amounts because they were unable to correctly calculate construction project costs on their own. In these contexts, the inclusion of support services to help clients plan and budget their home improvements appeared to be vital.

Microfinance markets and regulation

The state of local microfinance markets can also have a significant impact on the performance of housing microfinance portfolios. In countries such as Peru and Bolivia, where microfinance institutions are relatively mature, the banking business is more sophisticated, and product diversification is commonplace, housing microfinance appears to be growing and diversifying in its offerings. Interestingly, in most countries (e.g., the Philippines, Bosnia, India) housing microfinance remains a relatively nascent product among microfinance institutions, creating a welcoming environment for strategic market positioning and housing microfinance portfolio growth.

In a few countries (e.g., the Philippines, Bolivia), banking regulators have recognized housing microfinance as a distinct product, and this will likely serve in encouraging product

differentiation among lenders. Housing microfinance product differentiation, in turn, enables microfinance institutions to direct specialized services to these clients, undertake well-informed loan analysis, and verify loan usage. It also allows the microfinance institution to sell housing microfinance as a distinct product to specific target markets. Furthermore, the product's segregation within a microfinance institution's portfolio management system facilitates housing microfinance performance assessment.

Where microfinance markets (or credit markets in general) are saturated or burdened by over-indebtedness, predatory lending and other irresponsible lending practices, housing microfinance faces challenging prospects. Because housing microfinance loans are frequently repaid with existing income streams, when these are already overcommitted, repayments are likely to suffer. These types of environments signal the need for well-designed and highly targeted housing microfinance products. A microfinance institution in Peru addressed this issue by equipping loan officers to undertake particularly thorough credit analyses for housing microfinance loans. In India, where responsible lending practices are more critical than ever, a microfinance institution required that all potential housing microfinance clients attend orientation training that included home improvement guidance, loan terms and requirements, and basic financial education.

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

microfinance institutions in Brazil are not legally permitted to diversify microfinance lending for purposes outside of income-generating endeavors (termed "productive microcredit"), thereby discouraging the development of housing microfinance products among this sector. A final constraint mentioned by housing microfinance lenders was related to industry concerns surrounding major shifts in microfinance regulatory bodies and their leadership. A microfinance institution in Bolivia, for example, mentioned how the announced changes to banking authorities and their perceived impact on regulatory requirements were fostering an environment of uncertainty. This, in turn, was dampening microfinance institutions' readiness to engage in further innovation and diversification.

Government housing programs

Government programs targeting improved housing may also be perceived as opportunities or constraints to housing microfinance portfolios. Microfinance institutions have sometimes found that government-sponsored programs stimulate housing markets by helping families acquire land or build a portion of their homes. Consequently, families who have benefited frequently seek financing to continue with or complete their home-building aspirations. For example, the government of Tajikistan donated 50,000 plots of land for new construction, which has generated a substantial pool of clients for a local microfinance institution offering housing microfinance.

In some cases, an actual partnership may form between government entities and local microfinance institutions, whereby the latter offers financing to increase access to public services. For example, a microfinance institution in Peru collaborated with the municipality of Huachipa to finance connections to public water and sanitation services.

Unfortunately, in certain contexts, government housing programs — particularly subsidy-based initiatives — are perceived as having a negative effect on housing finance markets of low-income sectors. In Brazil, for example, the government development bank, CAIXA, has been criticized for creating unfair competition with suppliers of housing microfinance, offering home improvement loans at very low interest rates and with few restrictions. A microfinance institution in Peru expressed concerns that government

housing entities were creating an expectation of widespread subsidies for housing construction, thereby tempering demand for housing microfinance.

Conclusion

Housing microfinance is the microfinance industry's well-tailored response to the vast and relatively untapped housing finance market among low- and very low-income households (those earning less than US\$2 per day). While housing microfinance tends to thrive in contexts where microfinance is generally prospering, certain factors need to be considered that are particular to housing microfinance lending. A study of experiences from around the world highlights the following observations:

- Land tenure security and access to basic infrastructure are factors that contribute to vibrant housing microfinance markets. Conversely, where these are lacking, housing finance demands tend to be diminished and are considered to be of higher risk.
- The threat of natural disasters may add to lending risk, but products may be designed in such a way as to help mitigate these risks for both microfinance institutions and their borrowers. Notably, reconstruction after human and natural disasters contributes to increased demand for housing microfinance.
- Global urbanization tends to contribute to urban housing markets' growth and vibrancy, fueling demand for housing microfinance.
- Struggling economies and high-inflation environments pose several direct threats to housing microfinance: increased construction costs, lower or less stable incomes among the poor, and the heightened cost of capital to microfinance institutions. Housing microfinance products need to be carefully designed to address these contextual challenges.
- Where microfinance markets are mature and lending is conducted responsibly, housing microfinance is prone to thrive. Similarly, where banking regulators permit good housing microfinance lending practices, even if not yet fully recognized and supported as a distinct loan product, there is greater potential for housing microfinance success.
- Finally, housing microfinance benefits when government housing programs stimulate healthy housing finance markets rather than compete with them.

In the coming decade, we are likely to see housing microfinance rising as a shining star among microfinance institutions, impact investors and the private sector, as contextual realities are leveraged for the benefit of the poor and their shelter needs.



HABITAT FOR HUMANITY, DOMINICAN REPUBLIC

Masons work on a home improvement in the Dominican Republic.

ARTICLE 2:

Housing Support Services: Do They Add Value to Housing Microfinance?

January 2013

Microfinance has grown dramatically over recent decades, now reaching more than 200 million clients worldwide, of which approximately two-thirds are considered among the poorest. Recent challenges to the industry, such as the global financial crisis and the microfinance crisis in Andhra Pradesh¹, have prompted microfinance institutions to focus more intently on the clients they seek to serve by improving responsible lending and ensuring social outcomes. The inclusion of training, technical advising and other related support — typically referred to as “nonfinancial services” — is a tangible expression of the development

community’s dedication to pursuing deeper, lasting results among microfinance clients and their families. In addition to increasing value to the clients, nonfinancial services and products can be advantageous to the financial institutions, especially when the added services increase the client’s ability to repay. These services and products might represent a new profit opportunity for the institution or generate increasing client loyalty. But not all financial institutions have the ability to offer nonfinancial services that could benefit clients, either because they do not have the expertise and skills in-house to do so or because they cannot provide such services and cover their cost. In that case, even social-mission microfinance providers might do better to focus on sustainable delivery of client-focused financial services, while leaving other services to those who have a comparative advantage and expertise

1. The crisis of microcredit in the southern Indian state of Andhra Pradesh began in October 2010 with a suicide wave caused by widespread overindebtedness, badly tarnishing the sector’s image in India and abroad.

in providing them. Moreover, it's not about stacking just *any* nonfinancial services on top of the financial services but rather identifying the ones that clients really need and finding a way to deliver them powerfully.²

Nevertheless, the added value of these services is difficult to quantify, and providing them effectively alongside the delivery of efficient, demand-driven financial services is highly challenging.

Microfinance for housing (commonly referred to as “housing microfinance”; see box below) faces this same challenge. Loans intended for building home improvements are frequently disbursed to clients who have no relevant construction experience or knowledge and who, seeking to minimize costs, undertake projects without a proper design or qualified oversight. Lacking sufficient preparation to adequately oversee construction work, low-income households — often headed by single mothers — find themselves at the mercy of their hired builders, unable to ensure construction quality or validate pricing. Of particular concern is the risk of inappropriately built structures, such as when roofs or second stories are added, which may present hazards to residents, especially in disaster-prone areas.

Housing microfinance refers to nonmortgage loans that are intended to finance home improvements, repairs and incremental building and are characterized by common elements of microfinance, such as:

- **Small loan amounts:** Financing a single improvement or step in a gradual construction process.
- **Short terms:** Generally between 12 and 36 months.
- **Market-based pricing:** Typically on par with other microfinance products.
- **Nonmortgage guarantees:** Such as co-guarantors or promissory notes, and accepting alternative proofs of land ownership from legal titles, such as purchase agreements or utility bills.

In an effort to help families achieve durable, safe and low-cost housing solutions, institutions such as Habitat for Humanity have sought to develop housing support services that complement housing microfinance. Housing support services may be broadly defined as nonfinancial services intended to equip families or the suppliers of housing materials or services with knowledge, connections or other resources that will improve the quality or reduce the cost of solutions built. These services are extremely context-specific and may range from a very light touch, such as an informative handout delivered punctually by a loan officer, to a much more involved participation, such as an on-site visit from a civil engineer to oversee construction progress. Thus, the definition of these services — and the evaluation of their benefits to families and financial institutions — is difficult to generalize. Furthermore, demonstrated successes in linking these services to the provision of sustainable and scalable housing microfinance have yet to emerge.

This document summarizes insights from nine microfinance institutions from around the world that have partnered with Habitat for Humanity to provide housing microfinance coupled with some form of housing support service. Their initial experiences point to emerging lessons and suggest priorities for future research in the provision of nonfinancial services accompanying housing microfinance.

Classification of housing support services

As mentioned previously, housing support services are extremely varied depending on contextual factors and institutional priorities. With respect to the services provided by the nine institutions studied, a classification may be made in terms of the type of service offered, the level of intensity of the approach, and the method of delivery. This typology was borrowed from previous studies of nonfinancial business development services, and is quite easily adapted to housing support services³. The types of services are grouped into three basic categories: educating families in construction-related themes, providing technical advice in the construction process, and facilitating access to construction materials (see Table 1 on page 2-3).

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

3. “Synergies Through Linkages: Who Benefits from Linking Microfinance and Business Development Services?” Merten Sievers and Paul Vandenberg, 2007. linkinghub.elsevier.com/retrieve/pii/S0305750X07000691.

Table 1 - Housing support services: Type, intensity and delivery

Type	Intensity (examples)		Modes of delivery
	Low	High	
Construction-related education for families.	Handouts describing common tips and errors to avoid in specific types of improvements.	Financial education course training families in how to plan and manage home improvement projects.	Loan officer interactions. Training workshops. Loan group meetings.
Technical advising or oversight.	Assistance in developing a project materials list and budget.	Direct oversight of construction projects.	Loan officer interactions. On-site visits by in-house or external construction specialists.
Access to construction materials.	Negotiated discounts with local hardware stores.	All materials purchased from and delivered directly by selected providers (no-cash loans for materials).	Partnerships with hardware stores, cement companies and other materials suppliers.

Do clients value housing support services?

Of primary interest is how clients view housing support services, and whether they perceive that these add value to their housing loans. The attitudes expressed by clients in the nine case studies varied widely, depending on the context and perceived need for these services, as well as the types of services envisioned or received.

The following observations emerged regarding client satisfaction with housing support services:

- For the most part, clients positively affirmed a perceived value in the services received.
- The most appreciated services were those that educated the clients and contributed to their ability to successfully undertake the desired improvement project.
- With respect to technical advice, clients frequently affirmed the value of support received in preparing construction plans, materials lists and budgets (relatively low-intensity services). Guidance in selecting materials and laborers and cutting costs was also highly valued. While in certain cases clients mentioned appreciating having access to more qualified technical advice, they generally preferred to rely on their own social networks to carry out the actual construction work. This might suggest that more involved support is most valued when it's optional rather than mandatory.

- Regarding access to construction materials, clients valued price discounts.
- Housing support services were highly valued by communities where construction projects were predominantly overseen by women, who often felt less confident or qualified to prepare plans, select materials or laborers, or oversee progress. A specific example was in Tajikistan, where men were off in Russia during the construction season (spring and summer), engaging in temporary labor.

While perhaps obvious, it is worthwhile to note that the most favorable responses came from clients of microfinance institutions that had been intentional in seeking their perspectives in designing housing support services. Seven of the nine microfinance institutions included inquiries regarding housing support services in their market assessments, and these results informed how services were designed and priced. Furthermore, evidence suggests that where housing support services were developed at the same time as the housing microfinance product, there was greater likelihood of an effective integration between the two.

Perhaps the most relevant test of clients' appreciation of housing support services is whether they're willing to pay the full cost of these services. In three of the institutions studied, a specific, mandatory fee was already being charged for these services. Responses were varied in terms of clients' satisfaction with the fees being charged. Interestingly, in none

of these cases were the fees sufficient to cover the full cost of the housing support services rendered. Other institutions had yet to add a fee but had inquired and initially received verbal confirmation of clients' willingness to pay for services. Clearly, reaching a convergence between what a client values and what he or she can and is willing to pay remains a frontier issue in the provision of housing support services alongside housing microfinance.

Do financial institutions value housing support services?

Financial institutions must also perceive a benefit from providing housing support services in order to make the needed adjustments to accommodate these additional services and, ultimately, to ensure the efficient provision of those services alongside housing microfinance as it reaches scale. The nine financial institutions studied presumably entered into a partnership with Habitat for Humanity with the understanding that some form of housing support services would be included alongside housing microfinance. In the case from Peru, the addition of housing support services was the main draw for the microfinance institution in partnering with Habitat, as the institution was already offering housing finance without housing support services within its portfolio. Furthermore, at least three of the microfinance institutions were already providing training or other types of nonfinancial services to their clients; therefore these institutions were apparently conceptually and operationally well equipped to add housing support services to their offerings.

The nine financial institutions valued housing support services for a variety of reasons, which may be grouped into the following three top categories:

1. **Social impact:** The strongest appeal for the microfinance institutions studied was the conviction that housing support services linked to housing microfinance were contributing to the social impact of the institution, assisting clients in undertaking desired improvements, raising construction quality and potentially reducing costs. Particularly in institutions where nonfinancial services were already being delivered to clients for other purposes (business development, women's empowerment, health training, etc.), housing support services were perceived as a natural complement to undertaking housing loans.
2. **Reducing loan risk:** Housing support services were frequently seen by microfinance institutions as a valuable support to the lending process, serving as part of the necessary due diligence. Most common was the perceived value of the project budgeting support offered by trained staff, whereby clients' proposed home improvement projects were validated along with their corresponding loan requests. Microfinance institutions also perceived that construction quality might ultimately affect housing portfolio quality, as projects left uncompleted or completed unsatisfactorily might have a negative bearing on clients' willingness to repay their loans.

"We learned from the pilot phase the true value of the technical services to our clients, and it was important that we continue to offer those services to improve the housing of the clients."

— Lyn Onesa, director of programs, Tulay Sa Pag-unlad Inc., the Philippines

The microfinance institution in the Philippines was an interesting case in this respect. Its housing microfinance product had already been scaled up to 128 branches around the country, achieving a cumulative disbursement of more than 11,000 housing microfinance loans since November 2006. Its housing support services were of relatively high intensity, involving project-based foremen to oversee construction progress, and direct disbursements to materials suppliers and construction laborers. Although these represented significant costs to the institution, management felt that these services helped ensure a low-risk portfolio. Notably, its housing microfinance portfolio was extremely sound, boasting only 1.6 percent PAR⁴ (July 2012), compared with its overall portfolio's PAR of 4.4 percent (September 2012).⁵

In India, in particular, housing support services were seen as contributing to responsible lending, assisting clients in segmenting desired improvements into small steps and manageable loan sizes. Research undertaken by a microfinance institution in India revealed that

4. PAR means portfolio at risk over 30 days.

5. The total portfolio PAR is based on MixMarket data (mixmarket.org).

up to 90 percent of clients were unable to correctly estimate needed loan amounts because they were unable to properly calculate project costs⁶. The microfinance institution also appreciated that the follow-up housing support services visits to clients helped to both confirm and encourage appropriate loan use, thereby potentially reducing lending risk.

3. **Competitive advantage:** For several of the microfinance institutions, housing support services were perceived as a differentiating feature within the market, allowing them to compete with other providers of housing microfinance with a more attractive product. For example, the microfinance institution in Tajikistan perceived that housing support services strengthen its image as a socially oriented institution that cares for its clients. The expectation is that this would, in turn, result in higher client satisfaction and retention.

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

Linkages between housing support services and financial services

An important consideration in determining how to deliver housing support services is creating an effective link between the provision of these services and housing microfinance. While it has already been demonstrated that housing microfinance, as a solely financial product, can be offered sustainably and at scale, this is less evident when it is linked with housing support services. Several of the key questions that must be resolved when designing these links include:

1. Are the housing support services delivered as an optional service or as a mandatory component of the housing microfinance loan?

2. Are these services provided by the microfinance institution or by a separate organization?
 - a. If by a separate organization: How will the two organizations operate effectively to deliver both services to the same clients?
 - b. If the microfinance institution directly delivers the housing support services: Will the existing field staff assume these functions, or will new positions be created?
3. In either case, how will these costs be covered?

One helpful way to design housing support service delivery is to determine whether the services are to be conducted as an essential component of the housing microfinance loan, or whether they are seen as optional or occasional. The former might imply services that are required and relatively standardized steps in the loan due diligence and follow-up processes. These services are likely to be delivered by the microfinance institution's staff, and their costs are usually included in the price of the loan. The second suggests relatively customized services that are delivered by a separate business unit that charges on a fee-for-service basis. Clearly, a microfinance institution may offer both types of housing support services, employing multiple linkages.

Regarding the nine microfinance institutions studied, a variety of staffing configurations were employed for the delivery of housing support services. The two most common positions to be assigned housing support service responsibilities were:

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

Table 2 (see Page 2-6) contains an example of how housing support service roles might be divided between these two positions for the delivery of specific services.

6. "Housing Microfinance in Southern India: A Case Study from Growing Opportunity Finance and Habitat for Humanity India's Technical Assistance Centre," Habitat for Humanity International, 2013.

Table 2: Example of housing microfinance and housing support service division of labor

Loan officer	Construction specialist
<ul style="list-style-type: none"> • Conducts initial site visit and takes photo. • Creates home improvement development plan with client. • Distributes relevant printed materials with information on the type of improvement selected. • Assists client in preparing a list of needed materials and a budget for the selected project. • Prepares loan application. • Conducts loan utilization visit and takes photo of completed project. • Oversees loan repayments. 	<ul style="list-style-type: none"> • Prepares designs or floor plans of more structurally complex projects. • Provides on-site supervision to these projects. • Reviews all project plans and budgets prior to loan approval.

Another helpful way to understand the links between housing support services and housing microfinance is to classify them according to the institutions involved in delivering the housing support services. Three classifications of linkage methods emerged from the nine cases studied:

- **In-house:** Housing support services are delivered by the staff of the microfinance institution, whether via loan officers or construction specialists.
- **Linked:** Housing support services are delivered by the staff of another organization⁷ operating in partnership with the microfinance institution.
- **Embedded:** Housing support services are delivered by the staff of another organization but are placed within the offices of the microfinance institution.

7. In all the cases, “another organization” refers to a national organization of Habitat for Humanity.

Masons work on the home improvement of a house in Bolivia.



ADRIANA LLORCA/HABITAT FOR HUMANITY INTERNATIONAL

The following table classifies the housing support service linkages for the nine cases studied.

Country	Method	Staff involved		Observations
		Loan officer	CTA specialist	
Peru	In-house	X	X	
Bolivia	In-house	X	X	
Brazil	Linked		X	Partnership discontinued.
Dominican Republic	In-house	X		Tested linked delivery with Habitat for Humanity Dominican Republic's team but was too difficult to manage effectively.
Philippines	In-house	X	X	Was previously linked during the pilot project in Metro Manila.
India	Linked		X	
Tajikistan	In-house and embedded	X	X	
Bosnia	In-house	X	X	
Bulgaria	Linked			Only offered financial education courses.

It's important to note that the majority of these services were considered "mandatory" in the sense that they were offered to housing microfinance clients regardless of whether they wanted these or not. Certain services were tied closely into the loan process, such as the creation of project budgets, while others were offered only in specific situations. For example, in several cases, a visit from a construction specialist depended on whether the project involved structural changes to the house.

Noteworthy is that none of the "linked" housing support service partnerships listed above reached projected outreach goals, signaling the difficulty of linking services between organizations. One of these partnerships has already been discontinued, and two others were still struggling to conclude pilot project objectives. The microfinance institution in the Dominican Republic also temporarily pilot tested specialized housing support service delivery in partnership with Habitat Dominican Republic, but results were well below set targets. Although the Philippines case initially involved linked services between the microfinance institution and Habitat, all these were later transferred to the microfinance institution once it decided to expand nationally. Habitat simply did not have the operational capacity to

provide housing support services at that scale.

From the cases studied, one of the most valued services provided by Habitat was equipping microfinance institutions to deliver services themselves. Microfinance institutions repeatedly mentioned the importance of the loan officer trainings received from Habitat, along with the tools and guides provided to assist them in delivering housing support services. In several cases, Habitat assisted the microfinance institution in hiring, training and overseeing the initial work of an in-house construction specialist. The intention was that as the housing microfinance portfolio grew, these positions would be financed by income from loan interest rates or fees.

As the institutions studied look toward scaling up housing microfinance, the tendency is to seek increased efficiency in providing housing support services so that they will not hold back financial product growth but enable sustainability to be reached. Given this, microfinance institutions generally appear to favor offering housing support services in-house, and expect to rely most heavily on simplified services that can be delivered by their loan officers. This trend is consistent with the recognition that the majority of improvements undertaken are not structurally complex and therefore do

not require highly specialized technical advice.⁸ For example, in Bosnia, the microfinance institution hired Habitat to train its loan officers to provide loans specifically for the three most common improvements: door and window replacements, bathroom and kitchen repairs, and flooring. Another interesting trend is the expressed desire to negotiate discounts with materials suppliers, capitalizing on the projected increase in volume to attract optimum deals for clients.

Lessons and trends in housing support service delivery

Although successful models, clear guidelines and best practices have yet to be identified, lessons and trends are beginning to emerge in the area of housing support services and their effective delivery alongside housing microfinance. The following key lessons were identified from the cases studied, and may inform future design of housing support services:

What clients value: Evidence suggests that clients place a high value on training and technical services that inform and guide them in planning and carrying out their intended home improvement projects, such as:

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

Clients also appreciate having access to more qualified technical services when needed, and in many cases they are willing to pay for these, provided they are not mandatory but optional. This suggests the need for creating a demand-driven method of providing more specialized and customized services.

Furthermore, clients value alliances with materials suppliers

that result in price discounts, product delivery services, and other forms of preferred treatment.

Illustrative cases from the Dominican Republic: Alliances with hardware stores⁹

Home improvement initiatives may find natural allies among construction materials suppliers, such as hardware stores. In the Dominican Republic, two microfinance institutions reached favorable negotiations with hardware stores operating in the same areas where they were extending housing microfinance loans.

FIME, a member of Vision Fund International, negotiated with hardware stores in the south of the country and also in the province of El Seibo, obtaining discounts for its clients. These stores also assisted in pricing materials for clients, producing an actual budget based on the improvement project being proposed, which then supported clients' loan applications. Some of the hardware stores offered free transport of materials to the construction site. Moreover, the hardware stores helped promote FIME's housing microfinance product by displaying marketing materials and banners in strategic locations.

ADEMI Bank, a member of ACCION network, negotiated with hardware stores in the communities surrounding Santiago, where they were extending housing microfinance loans. The alliance allowed the bank to directly deposit to hardware stores the portion of clients' loans that were to be used for construction materials. This spared clients from having to handle cash to buy materials, thereby reducing the risk of robbery or diversion of loan use. The stores also helped ADEMI market its housing microfinance loans by distributing promotional fliers.

What microfinance institutions value: Microfinance institutions tend to value linking housing support services to housing microfinance for any or all of the following reasons: the perceived social impact this generates, the contribution

8. A study in India revealed that 60 percent of clients' construction projects could be classified as medium to low complexity.

9. Taken from "Sistematización de los proyectos pilotos de Microfinanzas para Vivienda en la República Dominicana," Habitat for Humanity International's Center for Innovation in Shelter and Finance-Latin America and the Caribbean, July 2012.

this makes in reducing loan risk, and the increased competitive advantage this earns them among clients.

Moreover, lessons emerging in housing support service delivery from the cases studied are consistent with many of the principles adopted by institutions that provide business development services linked to microfinance. The following guidelines, slightly adapted, apply well to housing support services.¹⁰

- **Assess the market:** Learn about existing supply and demand of services in the low-income housing markets, including informal and indigenous sources. Determine what clients already have, including sources of financing, and what they need to improve their homes with quality and at low cost.
- **Determine a core competency:** Providers of housing support services must determine what specific services are to be delivered efficiently alongside housing microfinance. “Have a broad vision, but a narrow specialization.” Without this, housing support service provision will not reach sustainability.
- **Be client-driven:** In order to remain relevant, housing support service providers need to keep a pulse on clients’ needs and preferences with respect to services offered, delivery methods and pricing.

From the nine cases studied, along with other research undertaken by Habitat over recent years, the following trends in housing support services can be identified:

Housing support services as an integral component of housing microfinance: One of the increasingly common ways of viewing housing support services is as a crucial component of doing good housing microfinance. Socially minded microfinance institutions offering housing microfinance are often eager to differentiate their product from consumer lending, ensuring that loans actually contribute to building a safe and durable home for their clients. Services directed toward equipping clients to make a wise investment in improving their homes, such as financial

education oriented to homeowners, may be considered responsible lending practice. Similarly, housing support services that support the loan process are often justified as contributing to portfolio quality.

In these cases, housing support services are likely to be carried out by microfinance institution staff, primarily loan officers. Thus, the complexity of services provided is limited by the educational level and time availability of these employees. The cost of these services is generally covered by loan charges (interest rates or fees). While additional tasks associated with housing support services delivery may have an impact on loan officers’ productivity, and ultimately on the product’s profitability, microfinance institutions may feel this is offset by the added benefits of having a sound housing microfinance portfolio and satisfied clients.

Housing support services as a social enterprise¹¹: Housing support services that extend beyond the realm of what loan officers are able to assume are increasingly being conceived as a social enterprise, whether managed within the microfinance institution or by a separate partner. In other words, these services are becoming increasingly demand-driven, more in line with financial services, and sold to clients who value and can pay the cost of their delivery. This business-oriented dynamic may imply that these kinds of housing support services have a “softer” link with housing microfinance, as services are optional and may even be sold to clients who choose not to avail of a housing loan.

Clearly, these types of housing support services frequently require greater technical specialization than those provided by loan officers, are more customized, and are typically more costly. Examples include designs drawn by a qualified engineer, supervising a complex improvement, and directly overseeing a construction project. While attempts are underway to deliver housing support services as a sustainable enterprise, demonstrated successes have yet to emerge. Nevertheless, practitioners are driven by the increasing awareness that if housing support services are not managed sustainably they will not reach scale alongside housing microfinance.

10. Lessons adapted from “Synergies Through Linkages: Who Benefits from Linking Microfinance and Business Development Services,” Merten Sievers and Paul Vandenberg, 2007.

11. Mohammed Yunus defines social enterprise as a “nonloss, nondividend company designed to address a social objective.” en.wikipedia.org/wiki/Social_business.

Conclusion

In conclusion, evidence suggests that housing support services are increasingly becoming accepted as an important component of and complement to sound, responsible, socially oriented housing microfinance. While strong examples are emerging in the provision of integrated services, the delivery of more complex, specialized housing support services as a scalable social enterprise alongside housing microfinance is an area of continued exploration and study. Similarly, the creation of links with materials suppliers and other existing service providers to the low-income housing markets is an area of needed research, as growing housing microfinance portfolios become able to attract and leverage new types of partnerships that benefit the shelter needs of the poor.



JENNIFER OOMEN/HABITAT FOR HUMANITY INTERNATIONAL

This family in the Philippines received a housing microfinance loan to improve their home.



Monic now has an improved home in Uganda, thanks to housing microfinance assistance.

JENNIFER AGUTTI/HABITAT FOR HUMANITY UGANDA

ARTICLE 3:

Housing Microfinance Product Development: Key Factors for Success

January 2013

The steady rise in housing microfinance providers and portfolios over the past decade heralds the vast, unmet demand for shelter finance among the poor. Even while earlier reports from microfinance practitioners revealed that loans intended for business ventures were frequently diverted to home improvements, many were not prepared to offer loans for nonproductive assets. However, as microfinance has evolved and diversified its offerings, microfinance institutions are increasingly finding housing microfinance to be an attractive option for building client loyalty, strengthening portfolios and improving social returns.

As microfinance institutions attempt to add products that intentionally address this evident demand, many are asking what key steps and considerations are helpful in designing and launching a successful housing microfinance product. A frequent assumption is that housing microfinance is simply a form of consumer lending, or that it can be grouped within a more broadly defined housing loan product (which often includes mortgages). Therefore, why undertake a more

Housing microfinance refers to nonmortgage loans that are intended to finance home improvements, repairs and incremental building and are characterized by common elements of microfinance, such as:

- **Small loan amounts:** Financing a single improvement or step in a gradual construction process.
- **Short terms:** Generally between 12 and 36 months.
- **Market-based pricing:** Typically on par with other microfinance products.
- **Nonmortgage guarantees:** Such as co-guarantors or promissory notes, and accepting alternative proofs of land ownership from legal titles, such as purchase agreements or utility bills.

structured and potentially costly process to design a distinct housing microfinance product? Interestingly, experiences from the field demonstrate unique possibilities for housing microfinance to generate significant business benefits and increase social outcomes, suggesting that a well-designed process is indeed justified. Conversely, when products were developed without following a clear, intentional process, outcomes were notably diminished.

The following report analyzes the experiences of 10 microfinance institutions from around the world that partnered with Habitat for Humanity to develop housing microfinance products. These cases were selected to represent a diverse range of approaches to housing microfinance within a variety of contexts. They serve as a basis for studying what processes were undertaken and the impact these had on product performance. Finally, lessons and key factors of success are highlighted.

Why do microfinance institutions seek housing microfinance product differentiation?

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

1. **Ensuring client-focused, successful products:** A compelling concern among microfinance institutions undertaking housing microfinance is ensuring that their new product responds to the needs and interests of their target population. In two of the cases studied, a clear product development process was not undertaken, and product uptake was notably slow. One of these cases was in Brazil, where clients were not consulted before product design. Consequently, the microfinance institution discovered that clients did not value the mandatory
2. **Seeking social objectives:** Socially oriented microfinance institutions are commonly attracted to housing microfinance because of the potential social impact of housing loans. Therefore, a top priority is ensuring that loans designated for home improvements are actually being used for their intended purpose. A revealing study undertaken by one of the largest microfinance institutions in Latin America discovered that as few as 30 percent of their housing microfinance loans were being invested fully in housing, highlighting the challenge potentially faced by conscientious housing microfinance providers². Proper loan use takes on added importance in the case of microfinance

construction support provided with housing loans, or at least not enough to pay the associated fees. Moreover, the target group was restricted to a small pool of existing clients, thereby compromising product growth.

Housing microfinance practitioners recognize that loans invested in housing tend to result in high repayments, which highlights the importance of ensuring proper loan use. The assumption is that loans tied to a family's most valued asset are likewise assigned top repayment priority.¹ Similarly, microfinance institutions have noted that when improvement projects are completed well, this helps to motivate timely repayment. Thus, housing microfinance product design features that contribute to the successful completion of construction projects on the ground are frequently viewed as improving the product's risk profile. One such example is in the Philippines, where the microfinance institution decided to disburse loans directly to materials suppliers and laborers, ensuring that loans are fully used for their intended construction purposes.

1. See "Getting to Scale in Housing Microfinance," page 7, Nino Mesarina and Christy Stickney, ACCION Insight #21, May 2007.

2. "Status Report: HMF in Latin America," Habitat for Humanity International's Center for Innovation in Shelter and Finance – Latin America and the Caribbean, November 2011. habitat.org/lc/lac_eng/pdf/Informe_Estado_MFV_en_AL_eng.pdf

institutions that offer housing microfinance at lower interest rates than other products, risking potential cannibalization³.

Furthermore, housing microfinance providers are frequently concerned that home improvements result in safe, durable, cost-effective solutions for clients and their families. These microfinance institutions tend to include services that assist clients in preparing improvement plans and budgets, which are both valuable to the client and also validate their housing microfinance loan request. Microfinance institutions may offer additional nonfinancial services⁴, either directly or in partnership with other providers, assisting clients with tasks related to home construction projects, such as drawing up technical plans, selecting materials suppliers, and hiring and overseeing laborers.

It's also important to note that a microfinance institution may decide to undertake an intentional product development process when seeking to redesign a low-performing housing microfinance product, or when adding a new housing microfinance product targeting a specific clientele. Two of the microfinance institutions studied, Tajikistan and the Dominican Republic, had sought to strengthen their existing housing microfinance products through such a process, and the resulting products achieved increased growth and

improved repayments. In Peru, the microfinance institution used a similar development process to design a new housing microfinance product that could reach lower-income families, initially perceived as risky because of their informal wages. This process also involved the incorporation of housing support services, which were especially valuable to this target group.

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

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

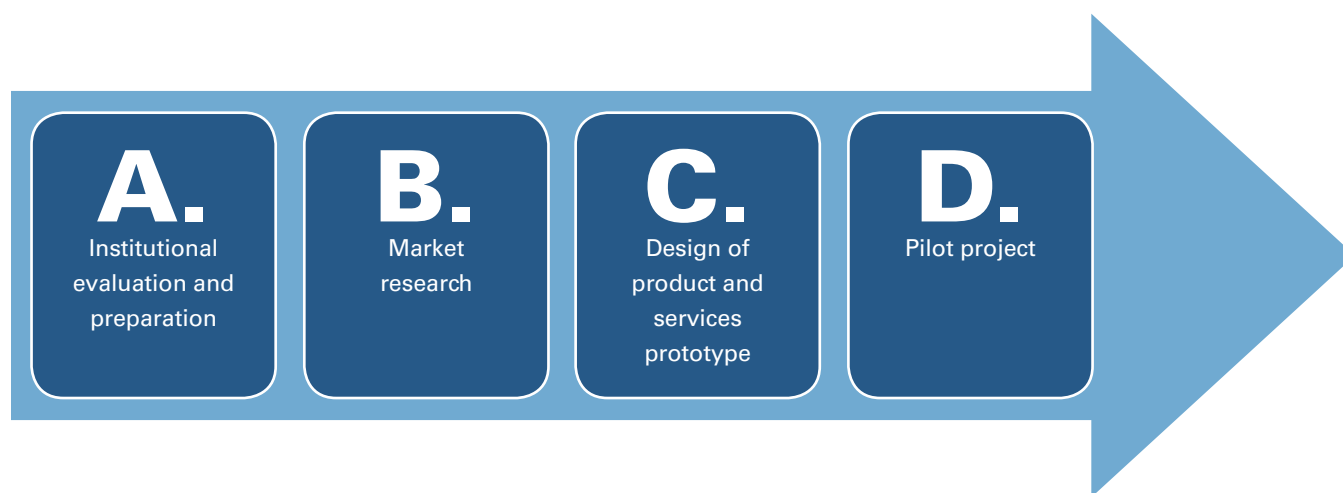
3. Cannibalization refers to nonproductive competition between products of the same institution.

4. Commonly referred to as "housing support services" and defined as nonfinancial, demand-driven products or services designed to help low-income households reach adequate housing quality standards or make essential health, safety or livelihood-related housing improvements in affordable stages.

Housing microfinance product development: Process and outcomes

Housing microfinance product development may involve a variety of approaches. However, the majority of the cases studied followed a similar process, based on the practices and methodological approach promoted by Habitat for Humanity's Center for Innovation in Shelter and Finance⁵.

The CISF's four-stage process was originally adapted from MicroSave's methodology and then refined over the past five years through worldwide field testing. The four stages are found below, in Figure 1:



Stage A: Institutional evaluation and preparation

This stage helps a microfinance institution assess its institutional readiness for undertaking successful housing microfinance and helps it prepare the needed resources to engage in product development.

Stage B: Market research

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

Stage C: Design of product and services prototype

At this stage, the microfinance institution seeks to define attractive and competitive housing microfinance products, backed by quantitative projections of loan volumes, associated costs, revenues and the break-even period. The microfinance institution also assesses its institutional capacity to offer these products and services, and determines how best to adapt systems and equip staff before pilot testing.

Stage D: Pilot project

The pilot project stage involves testing clients' response to the new products and services, which are offered within a specific geographic area for a set period. Performance is monitored closely, and observations inform product adaptations and further testing. This stage concludes with an evaluation and appraisal of the institutional adjustments needed to scale up the housing microfinance product and services.

5. See "Housing Microfinance: Product Development Tool Kit," Habitat for Humanity International's Center for Innovation in Shelter and Finance, May 2012. habitat.org/cisf/publications/toolkits.aspx

“We took these steps very literally; it was a very helpful framework.”

– Melnisa Begovic, marketing manager of LOK microfinance institution, Bosnia

Product development outcomes

Of the 10 microfinance institutions studied, eight engaged in intentional processes of housing microfinance product development. The other two relied on secondary sources of information and their existing knowledge of markets to inform product design. Of the eight that underwent systematic product development, the majority undertook all four of the stages listed above with some form of technical assistance from Habitat for Humanity. In cases where the microfinance institution already had its own product development methodology, Habitat served in more of a consulting role. In other cases, Habitat directly engaged in product development alongside the microfinance institution. Where housing microfinance was being redesigned, the process was modified according to the microfinance institution's specific objectives and needs. For example, in Tajikistan, the product development process focused heavily on training staff and improving systems to support housing microfinance and add housing support services.

Portfolio growth: Seven of the 10 microfinance institutions studied reported strong growth in their housing portfolios. The 10 microfinance institutions and their total housing microfinance loans are listed in Table 1 below. Also included are the total number of housing microfinance loans disbursed per institution and the average number of housing microfinance loans disbursed per year, as indicators of product growth. Two of these microfinance institutions, in the Philippines and Tajikistan, have already begun scaling up their products, and five others are poised to do so. On the other hand, the two microfinance institutions that engaged in minimal product development before launching housing microfinance, in Brazil and Bulgaria, presented the lowest performance in reaching pilot project objectives, suggesting the importance of a thoughtful development process in ensuring a successful product. Notably, the microfinance institution from India did not engage in an institutional assessment before undertaking housing microfinance product development, and thus failed to identify critical barriers to launching the product, ultimately constraining its outreach.

Table 1: Housing microfinance loans by microfinance institution

Country	Microfinance institution	Housing microfinance loans disbursed ⁶	Over period (years)	Average loans per year
Uganda	UGAFODE	1,629	3.6	455
Peru	EDYFICAR	1,138	2.3	506
Bolivia	CRECER	196	0.9	214
Dominican Republic	ADOPEM	465	2.0	233
Brazil	Santander	4	0.5	8
Tajikistan	IMON	4,419	1.4	3,119
Bosnia	LOK	1,985	1.7	1,191
Bulgaria	Mikrofond	355	4.2	85
Philippines	TSPI	11,000	5.7	1,941
India	GO Finance	171	1.9	89

6. Dates figures were reported are as follows: EDYFICAR, ADOPEM, LOK, Mikrofond, and GO Finance – September 2012; UGAFODE – June 2012; TSPI – July 2012; IMON – August 2012; Santander – February 2012; CRECER – October 2012.

Portfolio quality: Of the eight microfinance institutions that undertook intentional product development, all declared high-quality housing portfolios, with PARs⁷ reported between 0.0 and 2.6 percent. In general, housing microfinance loans were performing as well as or better than their overall portfolios, which is consistent with industry trends in housing microfinance.⁸

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

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

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

Lessons in housing microfinance product development

A series of lessons emerged from the 10 cases studied, which are listed below, under the related stage of product development.

Stage A: Institutional evaluation and assessment

The institutional assessment stage proved to be critical in confirming the readiness of seven of the microfinance institutions to undertake housing microfinance, and it paved the way for them to engage in well-structured product development processes. Analysis of the cases suggests that microfinance institutions that are both aware of and willing to assign the staff and capital resources that this process entails are well-positioned for success.

The importance of this stage in determining institutional readiness to undertake housing microfinance was further highlighted by two examples from the 10 cases studied. In the case from Brazil, where the housing microfinance product was ultimately unsuccessful, the microfinance institution had not undertaken an institutional assessment before launching the product. Thus, the level of institutional willingness to assume needed internal practices to support the new product was left undetected. As the product launch neared, the staff discovered, for example, that the institution's policies restricted assigning specific targets and incentives for housing microfinance, thereby compromising the product's growth.

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

Stages B and C: Market research and prototype design

The market research stage was of particular importance in determining the roles of other actors and the particularities of certain client groups, guiding microfinance institutions in the identification of potential strategic partnerships, unique niches and noteworthy competitors. Examples of each are included below:

7. PAR means portfolio at risk over 30 days.

8. See "Getting to Scale in Housing Microfinance" for earlier figures, or the more recent "Status Report: Housing Microfinance in Latin America," Habitat for Humanity International Center for Innovation in Shelter and Finance, Nov. 9, 2011.

- **Strategic partnerships:** The microfinance institution in Peru identified the opportunity to provide financing for water and sanitation connections by working in conjunction with the municipality of Huachipa.
- **Unique niches:** The microfinance institution in the Philippines designed “specialty products,” such as loans for septic tanks or water connections, which were especially suitable for particular improvements. In Tajikistan, the microfinance institution identified a unique opportunity to leverage a government subsidy program that had granted 50,000 plots to families. Loans were made available to assist families in financing the completion of their new homes on these plots, ultimately comprising 60 percent of the microfinance institution’s total housing microfinance loans.
- **Noteworthy competitors:** In the highly competitive microfinance markets of Peru and Bolivia, the microfinance institutions astutely determined that a housing microfinance product that is bundled with housing support services would have a unique appeal, particularly among the very poor.

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

An important step in prototype design is determining whether a sufficient market exists for the housing microfinance product to generate volumes needed to reach sustainability. The microfinance institution in the Philippines employed a “branch profiling tool” to calculate potential demand before launching the product in new regions. (See

box below). It also increased product efficiencies by batching clients into groups of 10. Conversely, in Brazil, the product’s growth was overly confined to a limited pool of existing clients, compromising potential growth.

Housing microfinance product development in the Philippines: TSPI’s branch profiling tool

As TSPI prepared to expand its housing microfinance product to new branches, it developed a “profiling tool” to assist branch managers in determining whether the product could be financially viable. The tool, which involves a simple market study and the creation of a client profile, projects potential demand for the resulting product. TSPI has calculated that a branch must be serving at least 500 housing microfinance clients in order for the product to reach viability within two years, which is an institutional target.

The profiling tool puts product design in the hands of local managers and provides them with a blueprint for ensuring the product’s success. This field-oriented process has also contributed to the design of what TSPI calls “specialty products,” referring to housing microfinance products that are tailor-made to specific improvements such as septic tank installation, toilet construction and connections for water and electricity.

Stage D: Pilot test

The microfinance institutions studied highlighted several components of pilot testing that were of critical importance:

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

- **Setting outreach goals and staff incentives:** Several microfinance institutions mentioned the importance of setting specific institutional targets for housing microfinance, particularly at the outset. At least three microfinance institutions implemented loan officer incentives specifically for housing microfinance, and insisted that these were critical to overcoming initial hurdles associated with marketing the new product. The Philippines was a unique case, where the microfinance institution decided to promote housing microfinance through loan officers dedicated exclusively to this product. Not only has this assured them of a committed work force in promoting housing microfinance, but it also has allowed the microfinance institution to develop greater specialization among its team in housing finance and support services.
- **Pilot project location:** Most of the microfinance institutions pilot tested their new housing microfinance product in communities near their central office, frequently within the metropolitan area of the capital city. This allowed for close monitoring, and facilitated agile decision-making as the product's delivery was being fine-tuned. Clearly, the selected communities also needed to meet other important criteria, such as sufficient market demand for the new product and services, and a high enough population density to ensure efficient delivery.
- **Marketing strategy:** Before launching housing microfinance, each institution designed a marketing strategy for its new product. Interestingly, the most effective strategy proved to be word-of-mouth promotion via the microfinance institutions' existing clients, particularly those who were considered well-networked.
- **Reporting and monitoring:** During the pilot test, close tracking of housing microfinance uptake and clients' responses were critical to microfinance institutions' ability to make opportune modifications to the new product. They highlighted the importance of making needed adjustments to their loan tracking systems to ensure timely and accurate reports on the housing microfinance portfolio, and the value of outside support received from Habitat during this period (see Point 3 on page 3-9).

Prevailing lessons in product development

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

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

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

Conclusion

As housing microfinance continues to rise as an attractive option for microfinance institutions seeking business opportunities and social returns, evidence suggests that well-structured product development is a wise investment. Notably, the intricacies of housing microfinance are more nuanced than many financial institutions initially assume. The cases studied suggest that intentional product development is likely to have contributed to more robust products, resulting in strong performance (loan uptake) and increased client satisfaction and retention. Moreover, they equipped microfinance institutions to successfully design niche products, reaching new markets or financing specific products.

Microfinance institutions venturing into housing microfinance are encouraged to consider the four stages of product development outlined in this report. The study findings also highlight that a key to product development success is identifying an appropriate "product champion" with the necessary dedication and influence to lead the process within the microfinance institution. Furthermore, pursuing qualified technical guidance and support during product development, whether from consultants or strategic partners, is a worthy consideration. Finally, microfinance institutions would do well to transform product development into a continuous cycle of improvement, supporting expansion of housing microfinance to new areas and keeping their products and services relevant to the changing housing needs and priorities of their clients.



This family in Tajikistan renovated their home with the support of a housing microfinance loan.

MIKEL FLAMM/HABITAT FOR HUMANITY

ARTICLE 4:

Taking Housing Microfinance Products to Scale: Institutional Commitment and Capacity

January 2013

The demand for housing finance among lower-income households is vast. Looming housing deficits throughout the developing world reveal the need both for new units to house growing populations and for improvements to bring the existing housing stock to “adequate” status.¹ Global urbanization trends and natural and human disasters heap more burdens onto already stressed housing conditions.

Meanwhile, the supply of appropriate financing to help close this gap is extremely constrained. Mortgage markets reach only a small segment of the population (usually less than 10 percent of populations in developing countries) and are hampered by deficient land titling systems, families’ fluctuating incomes, and unsupportive legal and regulatory frameworks. The outreach of government

Housing microfinance refers to nonmortgage loans that are intended to finance home improvements, repairs and incremental building and are characterized by common elements of microfinance, such as:

- **Small loan amounts:** Financing a single improvement or step in a gradual construction process.
- **Short terms:** Generally between 12 and 36 months.
- **Market-based pricing:** Typically on par with other microfinance products.
- **Nonmortgage guarantees:** Such as co-guarantors or promissory notes, and accepting alternative proofs of land ownership from legal titles, such as purchase agreements or utility bills.

1. “Getting to Scale in Housing Microfinance,” by Nino Mesarina and Christy Stickney, ACCION Insight #21, May 2007.

programs is generally limited by short-term political support or restricted budgets. Thus, the majority of the world's population is confined to building their homes incrementally as financing becomes available, whether from savings, remittances, or costly loans such as store credit or funds from local loan sharks.

Within this context, housing microfinance has emerged as an attractive proposition. Microfinance institutions have recognized for years that 20 to 30 percent of loans intended for business activities have been used for housing. The rise of housing microfinance as a product distinctly tailored to the incremental building and financing patterns of the poor is a natural response of microfinance institutions to their clients' priorities. Growing experience in housing microfinance over the past decade has paved the way for broader industry acceptance, confirming that housing microfinance is an attractive product that builds bonds with families and contributes to customer loyalty and retention, in addition to a diversified, well-performing portfolio for the microfinance institution. Moreover, the careful development of housing microfinance products has enabled microfinance institutions to reach new markets and find competitive niches.

Despite the compelling advantages, housing microfinance still represents a surprisingly small share of microfinance activity (less than 5 percent of total microfinance portfolios). A study published in 2007² revealed that although housing microfinance portfolios were growing at impressive rates within leading microfinance institutions, housing microfinance was still not being fully embraced as a core product central to the institutions' mission. As a result, housing microfinance's growth was being overtly or implicitly confined, as institutions continued to focus on microentrepreneurs and their income-producing activities. This analysis highlighted two related subthemes:

- If microfinance institution management tended to classify housing microfinance loans as a type of "consumer" loan, viewing them as an investment in an unproductive (or non-income-producing) objective, this would harm housing microfinance's acceptance as a strategic product. However, this perspective has evolved within the industry, as empirical evidence has revealed

that improved housing often results in increased income (e.g., host microenterprises, room rental)³ or cost savings (e.g., energy efficiency, better health)⁴. Furthermore, housing is now recognized as a form of savings, representing a family's greatest financial asset and contributing to financial stability.

- Although microfinance institutions' original mandate was to serve microentrepreneurs and their families, restricting housing microfinance to existing clients and even microentrepreneurs would ultimately compromise the product's outreach.

This earlier study concluded with the assessment that if housing microfinance portfolios were to thrive and reach their potential scale, microfinance institutions would need to move beyond the constraints of their original mandates (target groups and products) and assume a broader commitment to addressing clients' financial needs and priorities. Fortunately, emerging trends in microfinance suggest that housing may be entering a new era, as financial inclusion and a renewed dedication to client-focused services rise as industry agendas. Moreover, the growing recognition of housing as one of the three top priorities of poor families, along with food and children's education, signals a hopeful shift⁵. Certainly, the search for new products and markets in the face of competition will further stimulate microfinance diversification.

The following report is intended to shed light on contemporary issues related to taking housing microfinance to scale. It will also highlight institutional factors that facilitate reaching scale. The report is based on an analysis of recent case studies written of 10 different microfinance institutions around the world that partnered with Habitat for Humanity in the development of housing microfinance

2. "Getting to Scale in Housing Microfinance," by Nino Mesarina and Christy Stickney, ACCION Insight #21, May 2007.

3. For example, see "Building the Homes of the Poor – One Brick at a Time," by Warren Brown, ACCION Insight #4, January 2003, p. 6.

4. One example of this is found in the evaluation of the Piso Firme program in Mexico, documenting the positive impact of concrete floors on children's health. See "World Bank Policy Research Working Paper 4214." Cattaneo, Matias, et al. World Bank, April 2007.

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

products coupled with housing support services⁶. These cases were selected to represent a diverse range of approaches to housing microfinance within a variety of contexts. In particular, seven of these cases described scenarios where the product development process had been completed, including the pilot testing stage, and microfinance institutions were either looking to scale up their housing microfinance products or had already begun that process.

Observations from cases

With respect to the seven cases studied, six microfinance institutions were poised to scale up housing microfinance, and the seventh (in the Philippines) was already engaged in a nationwide rollout of its housing microfinance product. Table 1 on page 4-4 summarizes the scale-up scenario of each of the seven microfinance institutions in terms of their growth vision, key contributing factors, and challenges or constraints faced. The sections that follow provide analysis of this table.

The Karovik family's daughter plays in front of their home, which the family was able to improve thanks to housing microfinance assistance.



HABITAT FOR HUMANITY INT/ EMEA REGION

6. Housing support services refer to nonfinancial support that is intended to equip families or the suppliers of housing materials or services with knowledge, connections or other resources that will ultimately improve the quality or reduce the cost of solutions built.

Table 1: Housing microfinance scale scenarios by country/microfinance institution

Country	Microfinance institution	Housing microfinance loans disbursed ⁷	Housing microfinance scale projections or vision	Contributing factors	Constraints
Uganda	UGAFODE	1,629	Expand both housing microfinance products to all branches	\$500,000 loan secured from MicroBuild. Recent granting of their MDI ⁸ license will contribute to public image and growth potential.	Access to capital at favorable terms. Role of housing support services is still undefined.
Peru	EDYFICAR	1,138	Expand to all branches; reach 16,000 clients over next three years.	Large microfinance institutions with a national presence – 112 branches in 16 regions. Owned by a large commercial bank, facilitating access to capital.	Current housing support services are not financially sustainable and difficult to scale nationwide (relying on recruiting and managing a team of specialists).
Bolivia	CRECER	196	Housing microfinance tied to strategic plan. Project 822 clients during first phase of scale up.	Access to capital through MicroBuild. Experience delivering nonfinancial services facilitates housing support service provision at scale.	Cost-recovery for housing support services has yet to be worked out.
Dominican Republic	ADOPEM	465	Intend to expand housing microfinance to all branches. Estimate 5,000 housing microfinance clients within next five years.	Registered microfinance bank with national presence.	No existing scale-up plans. Access to capital.
The Philippines	TSPI	11,000	Have expanded to 128 branches (75 percent of total), and plan to cover 100 percent in 2013. Could lend more than \$5 million if it had access to funds.	Large microfinance institution with a national presence. Sole provider of housing microfinance loans in the market.	Product costs related to housing support services compromise sustainability. Access to capital.
Tajikistan	IMON	4,419	Considered a core product, and intend to scale nationally. Project 2,000-4,000 additional housing microfinance clients per year.	Largest microfinance institution in the country. Funding secured from MicroBuild (\$2 million).	Access to capital. Housing support service costs are constraining product sustainability.
Bosnia	LOK	1,985	Grow housing microfinance from 6 to 15 percent of overall portfolio.	Institutional capacity and commitment to scale housing microfinance.	Access to capital. Housing support service costs have yet to be taken into account in calculating sustainability.

7. Dates figures were reported: EDYFICAR, ADOPEM and LOK – September 2012; UGAFODE – June 2012; TSPI – July 2012; IMON – August 2012; CRECER – October 2012.

8. MDI stands for microfinance deposit-taking institution.

Challenges to reaching scale

As may be noted from the comments in the table above, two primary constraints were faced by microfinance institutions as they sought to scale housing microfinance. These may be summarized as follows:

- Covering costs of housing support services:**
 Microfinance institutions seeking to scale housing microfinance were concerned about guaranteeing product sustainability, particularly with respect to the housing support service costs. Five of the seven microfinance institutions stated that the costs associated with providing nonfinancial housing support services to housing microfinance clients were not being entirely recovered, thereby compromising sustainability. A sixth microfinance institution (in Uganda) had yet to design its housing support services and determine associated costs. Although in most cases either the microfinance institution or Habitat (or both) had subsidized a portion of these costs during product development and testing, the prospect of scaling up housing microfinance was driving both institutions to revisit housing support service design and cost-recovery mechanisms.

A tendency among microfinance institutions that were moving from pilot testing to scaling housing microfinance was to streamline and standardize housing support services by pulling them in-house while relying more heavily on loan officers to provide the bulk of services. The microfinance institution in the Philippines had initially depended on Habitat to provide more specialized housing support services to clients during the pilot testing in Manila, but once the microfinance institution rolled the product out to its branches around the country, these responsibilities were assigned to housing microfinance loan officers and project-based foremen. The microfinance institutions in Peru, the Dominican Republic and Bosnia all chose to train loan officers in providing basic support for home improvements as part of their strategies for scaling up their products.

Cost-recovery for housing support services was assumed within the loan interest rate for only two of the microfinance institutions. The majority were either currently charging or expecting to add a specific fee for housing support services. While clients were generally

Taking housing support services to scale: The case of EDYFICAR in Peru

Upon conclusion of housing microfinance pilot testing, EDYFICAR conducted an evaluation of housing support service sustainability by calculating the costs associated with providing specialized services directly to clients via a hired engineer. It estimated housing support service costs of approximately \$59 per loan, but felt it could charge only \$40 in fees to clients for these services. In light of this cost-recovery gap along with the institutional challenge that hiring and training a fleet of engineers would imply in preparation for product scale-up, EDYFICAR determined that a new model of housing support service delivery was necessary. It is now seeking an approach that gives loan officers added housing support service responsibility in providing basic assistance, and that forges alliances with materials suppliers and technical training facilities to create a local supply of qualified construction support.

reported as being willing to pay these fees, in none of the cases were the fees considered sufficient to cover all associated costs. Another important consideration is whether specialized housing support services, such as advising more complex and structural improvements, could be provided as an optional service, charging clients on a fee-for-service basis. Clearly, the provision of more customized housing support services at scale remains a frontier issue for housing microfinance practitioners.

Also noteworthy is the possibility of creating links with material suppliers, hardware stores and other providers of goods and services to local low-income housing markets when scaling up. The microfinance institution in the Philippines relies on selected suppliers to deliver construction materials directly to families. Because of bulk purchases and the efficiencies gained by batching clients into groups of 10, suppliers are able to extend 5 to 10 percent price discounts to the microfinance institution's clients. The microfinance institution in Peru is considering building links with a construction materials supplier to negotiate favorable prices for

its clients, and providing qualified technical support to clients undertaking structural improvements. The microfinance institution also hopes to partner with a technical training facility to train and certify local construction foremen.

- **Access to capital:** As institutions seek to grow their housing microfinance portfolios, capital is needed at conditions that match their products. Most important is that financing accommodate housing microfinance terms, which are generally longer than working capital loans, in some cases extending three to five years. Several microfinance institutions also have sought favorable rates to finance housing in order to keep prices low for their clients, recognizing that improved housing might not directly result in increased income but rather in longer-term benefits for the family, such as improved health, safety and education, and a financial asset.

Five of the seven microfinance institutions mentioned access to capital as a primary constraint, and three of the seven have been approved for financing from Habitat's MicroBuild facility⁹, providing them with resources to help finance the next stage of their housing microfinance product's rollout. No other outside sources of capital were mentioned, but the Peruvian microfinance institution is owned by a large commercial bank and didn't express any concerns about finding capital to expand housing microfinance. Although the microfinance institution in the Philippines was scaling up housing microfinance with its existing resources — already offering housing microfinance in 128 branches (75 percent of its total branches) — the institution's leadership projected that they could absorb at least \$5 million if external capital were to become available for housing microfinance.

9. MicroBuild is a social investment fund to mobilize capital to invest, primarily debt, in sustainable housing finance products designed for the lower-income households in developing countries. The fund is a separate company (LLC) and is majority-owned by Habitat for Humanity International.

Factors that facilitate scale

Housing microfinance products appeared to flourish in institutions that were characterized by the factors listed below. These may be considered criteria for determining where housing microfinance has the best potential for reaching scale.

- **Microfinance institution's existing outreach and growth trajectory:** Microfinance institutions with a national presence and a history of strong growth were well poised to scale up housing products through their existing operational structure. For example, the microfinance institution in the Philippines was able to expand housing microfinance outreach to 11,000 clients in six years by leveraging its presence in 167 branch offices. Furthermore, microfinance institutions with a strong commitment to growth are generally more open to venturing into new products and markets with the necessary dedication (and related experience) to overcome initial hurdles.
- **Microfinance institution's legal figure facilitates access to capital:** Although specific funds for housing microfinance are uncommon, regulated microfinance institutions with access to savings and other sources of domestic and foreign capital were better equipped to fund housing microfinance portfolio growth within their existing range of resources. For example, the microfinance institution in Peru had been purchased by a large, local commercial bank, facilitating access to resources needed to fund growth. Similarly, the microfinance institution in the Dominican Republic is a registered microfinance bank with access to a broad range of financial resources, including savings.
- **Housing's "fit" within the microfinance institution's mission:** Microfinance institutions that embraced broad social missions and actively sought to pursue these were most eager to engage in housing microfinance and integrate housing as a core product. These institutions' mandates tended to incorporate a more extensive target group than microentrepreneurs and their families, and supported engagement in a wide range of financial products and services. For example, the mission statement of the microfinance institution in the Dominican Republic begins as follows: "Promote the development of the Dominican family through their

incorporation into formal economic and credit systems.” That focus is aligned with broader financial inclusion and clearly welcomes a variety of products and priorities, including improved shelter.

- **Microfinance institution’s culture embraces learning, innovation and credit-plus:** Microfinance institutions that could be characterized as “learning organizations” — placing a high value on training staff, listening intently to their clients, and welcoming innovation — are particularly ripe environments for scaling up robust housing microfinance products. Furthermore, microfinance institutions that were already engaged in providing nonfinancial services such as women’s empowerment training (in Bolivia) and business development training (in Tajikistan) alongside financial services were particularly well-equipped to deliver housing-related training and support to housing microfinance clients.

As housing microfinance is expanded to new branches and regions, field staff must be equipped to constantly test and innovate loan products and support services, because housing is very context-specific. For example, the microfinance institution in the Philippines designed a “branch profiling tool” to equip branch staff to research potential markets and project loan demand before launching housing microfinance, enabling them to fine-tune the product for new settings.

Also noteworthy is that as microfinance institutions ventured further into housing finance, they often sought greater diversification, whether in response to business opportunities or clients’ demands. This led to the development of specialized housing products for distinct market segments that were not being served, or products uniquely tailored to specific types of improvements. For example, the microfinance institution in Uganda designed a micromortgage product that was launched alongside its housing microfinance loan but serves a slightly higher-income population. The microfinance institution in the Philippines ventured into a variety of specialty products as it scaled its housing microfinance nationwide: loans for toilets, septic tank installations, and water and electricity connections. As the microfinance institution in Tajikistan positioned itself

to scale up its housing finance product, it contemplated expanding its offerings to include financing of starter homes and a form of mortgage.

In addition to microfinance institution characteristics that facilitate scale, analysis of the seven cases highlighted the following specific practices that supported housing microfinance growth:

- **High level of appropriation of housing microfinance throughout the organization:** The majority of the microfinance institutions commented on the importance of winning institutional commitment to the new product at all levels, from the board to the loan officers, thereby supporting its continued development and expansion. The social outcomes resulting from housing loans and the increased contact with clients that is entailed by housing support services both contributed significantly to the field staff’s commitment to the product.
- **Housing microfinance growth incorporated into institutional growth plans:** Housing microfinance has a much greater chance of receiving needed attention and support to reach scale when its growth is tied into the broader plans of the microfinance institution. For example, the microfinance institution in Bolivia has incorporated housing microfinance goals into its strategic plan, and the board of the microfinance institution in Tajikistan has now embraced housing microfinance as a core product, projecting housing microfinance growth within its business plan. Important aspects to be included in the plan are (a) criteria for determining staging and prioritization of branches for housing microfinance product expansion, (b) staff training in housing microfinance product delivery and support, and (c) the role of the central office in supporting product rollout.
- **Staff incentive schemes promote housing microfinance rollout:** Of critical importance to housing microfinance growth, particularly during product rollout, is the incorporation of supportive incentive policies among field staff to promote product uptake in new locations. These frequently include setting product benchmarks in terms of number of housing loan clients, loan amounts and repayment rates, and may be applied to individual staff (as in Tajikistan) or to entire branches (as in the Philippines). Another way the microfinance

institution in the Philippines addressed this challenge was by assigning the housing portfolio to loan officers dedicated exclusively to selling and supporting housing microfinance products. This has promoted greater focus and specialization in housing within the microfinance institution's team, and allowed them to reach aggressive growth goals in housing microfinance.

- **Access to dedicated capital to fund housing microfinance growth:** As mentioned above, the limited access to appropriate capital to finance housing microfinance is one of two principal stated barriers to reaching scale. Nevertheless, three of the microfinance institutions have been approved for financing from Habitat for Humanity International's MicroBuild facility, largely because of their robust financial and operational capacities and readiness to grow housing microfinance. It is expected that these resources will help fuel the next stage of their products' expansion.
- **Extending housing microfinance to new client groups:** Although two of the microfinance institutions have restricted housing microfinance to their existing clients —and at significant scale in the Philippines — the more common practice among the studied microfinance institutions is to open access to new market segments, allowing for expansion into these markets and further diversification of their portfolios. Examples include extending housing microfinance loans to salaried workers (in Uganda) and informal wage earners (in Peru). Clearly, more competitive lending environments will push microfinance institutions to venture further in this direction.
- **Financial reporting tracks housing microfinance performance:** Study findings highlighted that the ability to separately track loan products' performance, both in terms of portfolio data and relative to sustainability calculations, is critical to scaling housing microfinance. This latter requirement is constrained by microfinance institutions' capacities to provide cost-accounting figures along product lines, particularly when the field staff is engaged in selling multiple products, thereby complicating an accurate assessment of product-specific operating costs. For example, during its pilot

project evaluation, the microfinance institution in the Dominican Republic commented that loan officers spent more time preparing housing microfinance clients and their loan applications than it spent on other types of loans. However, these costs were not explicitly tracked, nor were the benefits of longer-term, high-performing loans (0.4 percent PAR¹⁰) on financial outcomes clearly assessed. Evidently, these types of analyses are necessary for accurately evaluating product performance.

Conclusion

Housing microfinance appears to be entering a new era, as microfinance institutions are increasingly eager to develop new products and services that respond to clients' needs and priorities, thereby improving business and social outcomes. Within this context, housing microfinance arises as an attractive proposition, responding to a vast market opportunity and demonstrating a growing track record of success. A study of seven microfinance institutions sheds new light on factors contributing to reaching scale in housing microfinance. Furthermore, study findings highlight that the following characteristics of microfinance institutions tend to facilitate scaling housing microfinance:

- Extensive outreach and a steady growth trajectory.
- Regulated institutions with access to a range of financial resources.
- A clear fit for housing within the institution's mission.
- A culture of learning, innovation and social performance within the institution.

Once microfinance institutions have carefully designed and tested housing microfinance products, evidence suggests that one of the principal barriers to taking these products to scale is ensuring the sustainable provision of housing support services alongside housing microfinance. Hence, the supply of value-added nonfinancial services coupled with housing microfinance at significant scale remains an area of continued innovation and learning. Moreover, as housing microfinance portfolios continue to grow, access to appropriate capital will likely remain a key priority for microfinance institutions.

10. PAR means portfolio at risk over 30 days.



INTERNATIONAL HEADQUARTERS: 121 Habitat St. Americus, GA 31709-3498 USA
229-924-6935 800-HABITAT fax 229-928-8811 publicinfo@habitat.org habitat.org