Habitat for Humanity®

Terwilliger Center for Innovation in Shelter

The 2015-16 State of Housing Microfinance:

A Review of the Housing Microfinance Practice Around the Globe

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About this report

Housing microfinance is a small but growing sector. As such, there is a dearth of research and information on how microfinance-based housing loan products are administered and performing. To build a greater understanding of this practice, Habitat for Humanity International, through its Terwilliger Center for Innovation in Shelter, surveyed 83 financial institutions practicing housing microfinance. This is the second year the survey has been conducted, and the report assesses the current state, trends and challenges of the global housing microfinance sector based on survey results supported by external research.

The survey was operated on the SurveyGizmo platform and collected responses for five months between December 2015 and April 2016. It consisted of 43 base questions, with additional logic-based questions posed to gather detailed information from the institutions regarding the demographics of their borrowers, characteristics of their housing microfinance products, performance of their housing portfolios, and prospects for the future of housing microfinance within their institutions. During this edition, questions were structured to distinguish the characteristics of the housing microfinance loan portfolio from the overall lending portfolio in order to better understand the nuances of having such products and whether there is a business case for offering housing microfinance. Additionally, the survey included questions on the tenure security of housing microfinance borrowers, as many low-income families do not own or do not have proof of ownership of the property on which they reside, which can complicate financing without the title guarantee, and can delay or jeopardize the home improvement project itself if the claim to the land is at risk.

Data were analyzed to determine common themes among the surveyed institutions, then further examined to identify any distinctions based on geography, legal structure and asset size. Responding institutions also had opportunities to provide commentary alongside their answers, giving the report qualitative material to support the quantitative findings.

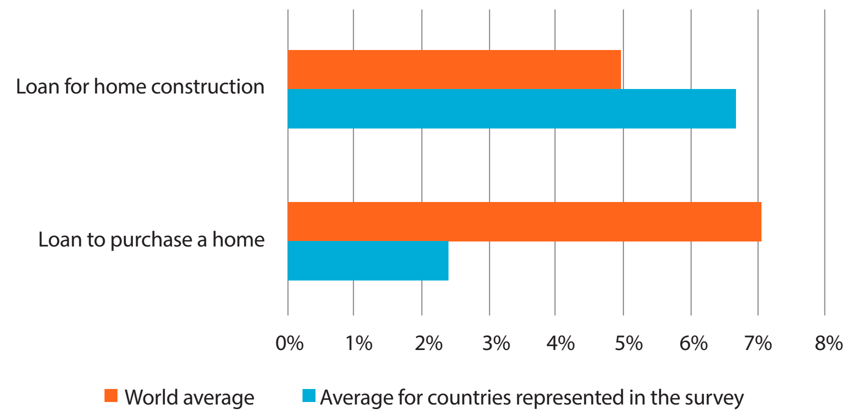
Introduction to the housing microfinance sector

The global population living in substandard housing is 1.6 billion and climbing[1], especially as the world becomes more urban. According to the United Nations' Sustainable Development Goals[2], half of the global population – 3.5 billion people – currently lives in cities, and 828 million people live in slums. This rapid urbanization has fed housing deficits and fostered substandard living conditions. The International Finance Corporation estimates that "more than one billion low-income people – one out of every seven people – currently live in slums that often lack basic infrastructure such as water and sanitation."[3]

There are many shelter challenges facing low-income households, and chief among them is access to finance. Traditional financing methods, such as mortgages and developer financing, are often rendered useless in meeting the needs of low-income populations in emerging markets. These households typically have undocumented and volatile incomes and lack the collateral or guarantee for a typical mortgage or loan. Indeed, World Bank data demonstrate how countries presented in this report – and those in developing countries at large – have fewer individuals with outstanding loans toward formal house purchases but more loans toward construction.

Microfinance helps these formerly unbanked individuals meet their business needs. Housing microfinance applies similar principles to improving housing. With housing microfinance, families upgrade their homes as many do around the world: incrementally and as needed. While many financial institutions do not have a dedicated housing microfinance loan product, evidence suggests that over 20 percent of microfinance loans are diverted toward housing.[4]

Breakdown of outstanding loans



Source: World Bank FinDex data, 2011 and 2014

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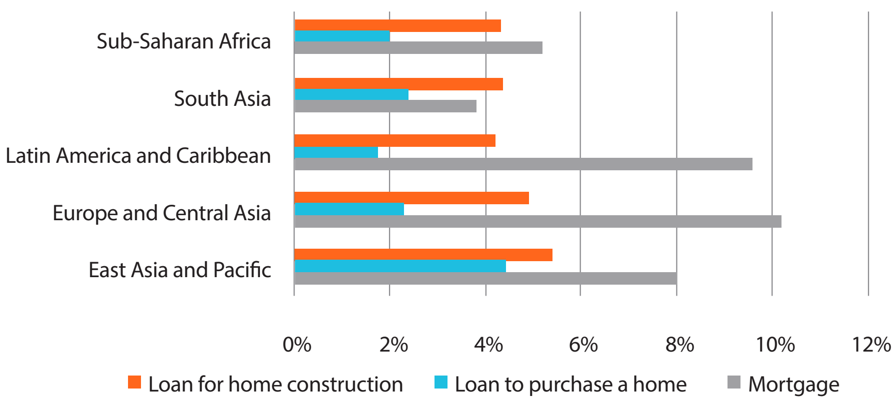
[1] UN-HABITAT. "Up for Slum Dwellers – Transforming a Billion Lives Campaign Unveiled in Europe." UNHabitat.org. unhabitat.org/up-for-slum-dwellers-transforming-a-billion-lives-campaign-unveiled-in-europe/ (July 2, 2016).

[2] United Nations, "Goal 11: Make Cities Inclusive, Safe, Resilient and Sustainable." U.N. Sustainable Development Goals. www.un.org/sustainabledevelopment/cities/ (Aug. 11, 2016).

[3] Stein, Peer, and James Scriven. "Capturing Our Impact: IFC Housing Finance – Multiplying Impacts." International Finance Corp., World Bank Group. December 2013.

[4] Daphnis, Franck, and Bruce Ferguson, *Housing Microfinance: A Guide to Practice*, (Kumarian Press Inc., 2004), 23.

Regional landscape of housing finance
(developing countries only)



Source: World Bank FinDex data, 2011 and 2014

Habitat for Humanity is encouraged to see the growth of these products and the housing opportunities they create for households. To speed the industry's expansion and learning, Habitat launched the MicroBuild Fund, a $100 million investment fund for housing microfinance. The fund is one of the first microfinance investment vehicles to demonstrate the viability of housing microfinance by offering financial institutions longer-term capital to grow housing microfinance loans for low-income households. In addition to the MicroBuild Fund, Habitat's Terwilliger Center for Innovation in Shelter offers advisory services to financial institutions to help design client-responsive housing loan products.

By offering capital and capacity to financial institutions, Habitat for Humanity aims to address two of the main constraints to the growth and innovation of housing microfinance. But many other challenges remain, including:

- **Regulatory constraints:** Housing lending gets special regulatory oversight in some countries. Bolivia and Ecuador both have instituted interest rate caps to protect housing borrowers, but these caps may limit the commercial viability of expanding housing microfinance.
- **Market saturation and overindebtedness:** On the other hand, markets with no regulation

(such as Cambodia) have suffered from an overabundance of credit and high levels of consumer debt. Institutions in such environments have become fearful of the longer term and size of housing loans.

- **Political risks and currency volatility:** Beginning in 2015, the Caucasus and Central Asian region began to experience severe currency volatility affecting many financial institutions' operations and profitability. The region has witnessed steady depreciation of its local currencies since the onset of the Russia-Ukraine crisis. For example, in Kazakhstan, the tenge devalued over 45 percent against the U.S. dollar in 2015. This currency devaluation has led to a slowdown of business activity, which subsequently led to a decrease in demand for loans. The banking sector's response has been to adopt a more conservative approach to lending, which has deprived even good borrowers of access to financing. Additionally, unsteady relations with Azerbaijan have led the government to strain or halt the operations of internationally based organizations in the country and to devalue its local currency, creating operational problems for financial institutions and decreasing portfolio quality.
- **Rental market:** Some financial institutions have shifted focus on rental housing, a segment that is quickly becoming the modern urban reality in crowded cities such as Nairobi, Kenya. Affordable, decent rental housing is yet another option for low- to middle-income households. Further research is needed to better understand various aspects of this product, including construction quality and proper rental contracts supported by documents such as leasehold title.
- **Tenure security:** The presence of slums has increased tremendously with the urbanization of the world's population, and many low-income households do not have formal claim, through a deed or title, to the land on which their home resides. Encouragingly, financial institutions have begun to recognize alternative forms of land ownership, but the use of these forms as risk-lowering collateral remains limited.

In spite of the many challenges facing funders and financial institutions, housing microfinance's impact is significant: for financial institutions, it provides a business opportunity to meet the market demand, and for the end-clients, it improves low-income households' living conditions and includes them in the financial sector.

Main results from the survey

According to the 83 financial institutions that participated in the survey, housing microfinance is an important loan product within their portfolios. It has emerged to meet existing client demands, and allows them to retain loyal clients, diversify portfolios and provide social impact to their local communities.

Overall, survey results revealed that housing microfinance loan policies – financial requirements and collateral, loan sizes, disbursement methods and repayment schedules – are similar to those of other loan products offered by the institutions. The main distinctions are interest rates charged and loan tenor. Housing microfinance loans are typically used for home improvement projects, including basic repairs and upgrades, though loans can be used to purchase energy-efficient appliances, add rooms, construct new homes, and even purchase land or secure legal tenure. Construction support (e.g., training in building techniques or providing oversight during construction) is one of the most popular forms of technical assistance offered alongside the housing microfinance loan, as it allows the financial institutions to ensure better quality of the home improvement.

The survey also found compelling evidence of the "continuum of land rights," suggesting that a binary perspective toward land rights (formal versus informal) is too simplistic in practice. Instead, households work along a trajectory toward secure, formal land rights. As such, although formal land documents can be held as a type of collateral for a housing microfinance loan, many other forms of guarantee are accepted by responding institutions. Furthermore, the survey results revealed that institutions will accept many types of land documents, ranging in formality, in lieu of a title.

A key survey finding was that the portfolio quality of housing microfinance is better than the overall portfolio's quality. On the other hand, institutions tend to offer lower interest rates for housing compared with their other loan products. This substantiates the challenge of making housing microfinance more profitable, though it does not seem to affect institutions' plans to implement the product in more branches or to find ways to offer it in harder-to-reach demographics, further suggesting the perceived importance of housing microfinance from a social impact perspective.

Comparison to 2014 survey results

This year's survey (2015-16) required respondents to provide information on their housing microfinance products as they compare to their other loan products in order to understand how these products are positioned within portfolios, and whether they are administered differently when compared with the institution's primary loan products. Last year's survey did not explore housing microfinance from this perspective, yet had many similar findings. The survey results last year also indicated that housing microfinance was introduced to meet client demand, retain loyal clients and diversify portfolios. The 2014 results pointed to similar practices regarding loan terms. Technical assistance and product performance were also aligned to the results received this year.

Other distinctions in the survey design included the expansion of the secure tenure section, as the results from 2014 showed the need for additional insight into how land rights factor into housing microfinance practices. Finally, last year's survey received responses from 48 financial institutions, and this year's received 83 responses, almost doubling the data received and allowing for better analyses by region and institution type.

Survey coverage

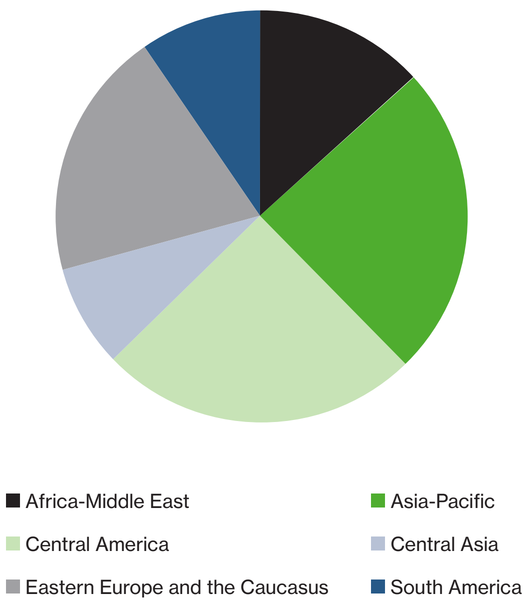
The survey was distributed toward the end of calendar year 2015. Over five months, 83 surveys were collected from financial institutions (see Annex 1) representing 37 distinct countries in Central and South America, Africa and the Middle East, Eastern Europe and the Caucasus, Central Asia, and Asia-Pacific. Forty of the institutions represent the lower-middle-income category designated by the World Bank, while 11 represent low-income countries and 32 represent upper-middle-income countries. The countries most represented by the respondents are:

- India (7)
- Bosnia (6)
- Cambodia (6)
- Peru (5)
- Uganda (5)

Survey respondents represent a variety of different financial institutions, including most notably nonbanking financial institutions and companies, nongovernmental organizations, foundations, and commercial banks.

- Fifty-one of the responding institutions do not have a deposit-taking license.
- Thirty-two institutions have a deposit-taking license, including all responding commercial banks and those with larger assets: half of the institutions with assets between US$51 million and $100 million, and all of the institutions with assets greater than US$100 million.
- Regarding the institutions' typical lending practices, 59 use an individual lending methodology, and 24 use a group lending methodology. Half of the institutions practicing group lending are located in Asia-Pacific.

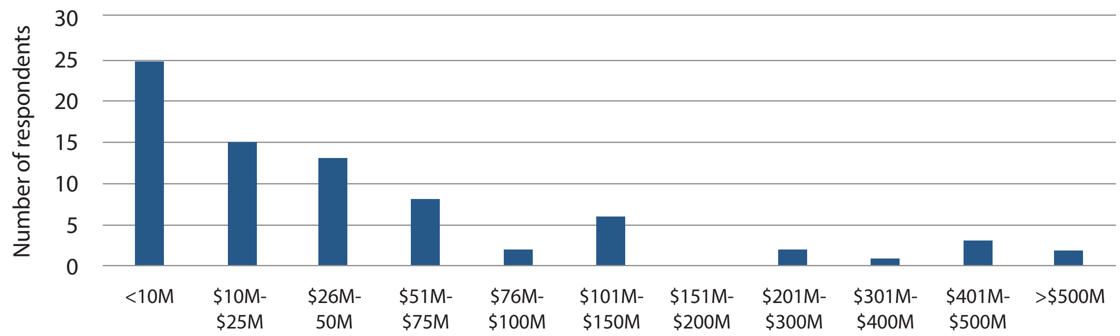
Regional breakdown



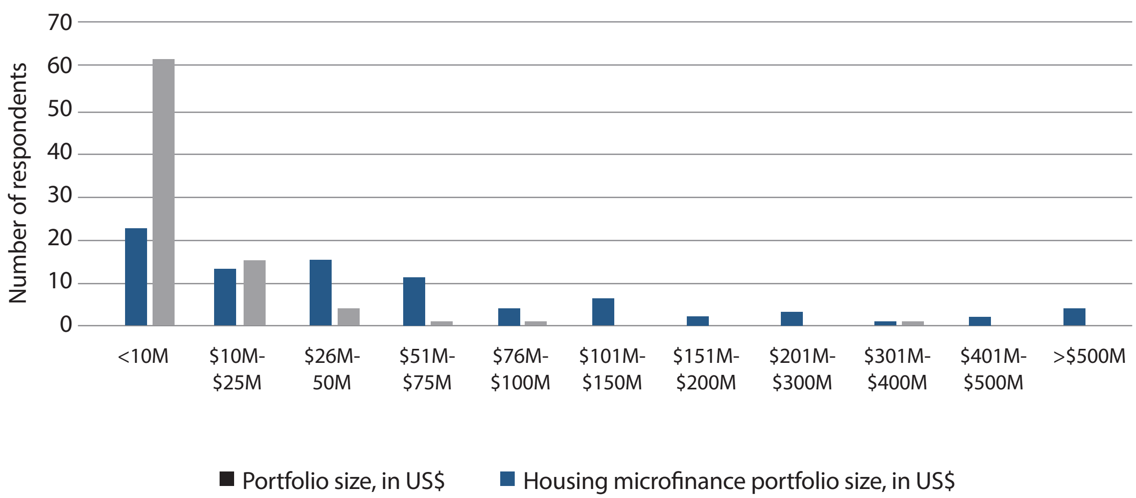
The institutions also represent various sizes in terms of assets and portfolio. The bulk of the respondents have assets under US$50 million (64 percent), though eight institutions (primarily commercial banks) have assets greater than US$200 million. Sixty percent of the respondents have an overall portfolio size beneath US$50 million, and 73 percent have a housing microfinance portfolio beneath US$10 million. Further, 91.5 percent of the housing microfinance portfolio sizes are beneath the US$25 million threshold.

Asset size of institutions

(in US$ millions)

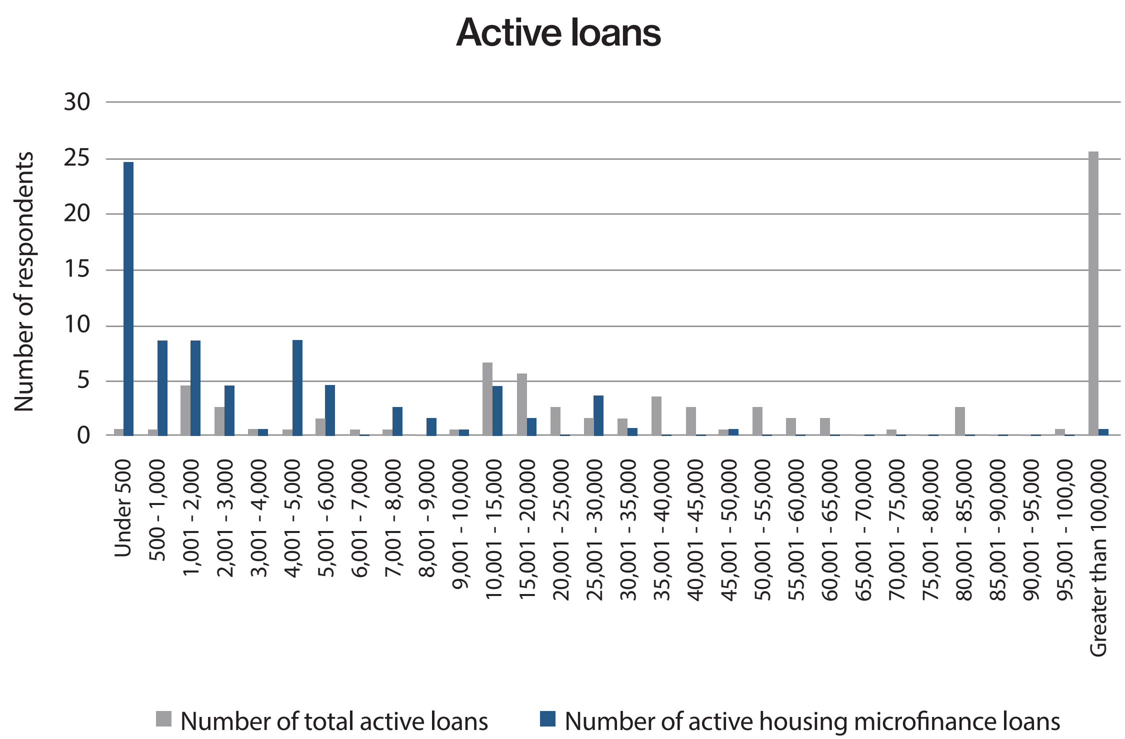


Portfolio sizes



Responding institutions are generally large; the most commonly selected number of active loans was “greater than 100,000.” In contrast, housing is still a nascent product, with most respondents having fewer than 10,000 active housing loans. Yet the percentage of borrowers who are uniquely housing microfinance clients – meaning they have only the housing microfinance loan with the institution – is 22 percent, indicating that nearly a quarter of clients are seeking only loans for home improvements. On average, housing microfinance represents 16 percent of the overall portfolios, though the most selected choice for the respondents was 5 percent of the overall portfolio. Here the biggest discrepancy is found by institution type; housing microfinance’s share of the overall portfolio is smallest in commercial banks (10.7 percent) and largest in NGOs (25 percent).

The survey respondents have been in the sector for different periods, allowing for the results to cover institutions in operation since as far back as 1966, along with those only 3 years old. Regarding the practice of housing microfinance specifically, the earliest introduction of the product in the survey respondents was in 1992, and the most recent housing microfinance launch was in 2015.



Demographics of housing microfinance borrowers

Outreach to women and rural borrowers

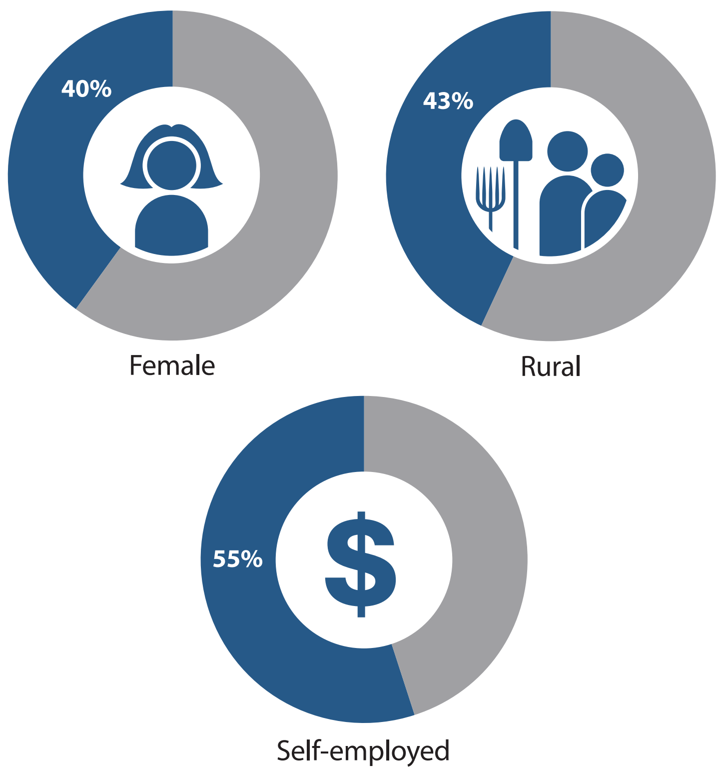
The responding institutions' borrowers are, on average, majority female (63 percent), whereas the housing microfinance borrowers are, on average, 40 percent female. However, as the home loan impacts the entire family, women are indirectly impacted by a housing microfinance loan even when they are not the borrower. A few institutions lend only to women; 11 of the respondents have 100 percent female borrowers for their general loan products, and nine of the institutions are offering housing microfinance only to female borrowers. Additionally, 48 of the respondents – more than half – have more than 50 percent female borrowers, and 26 respondents for the housing microfinance products only have over 50 percent female borrowers. The greatest discrepancy in lending to women is regional; the highest share of female borrowers can be found in the Asia-Pacific region, while the lowest share is in Central Asia.

Poverty exists in both rural and urban areas, though access to financial services is limited in rural areas, making it important to highlight the reach the responding institutions have in rural areas. For general loan products, borrowers living in rural areas represent, on average, 57 percent of the clients, and for housing microfinance products, 43 percent of the clients are in rural areas. The Central Asia and Asia-Pacific regions have the highest rural outreach, while the South and Central American regions have the lowest.

Socioeconomic status of borrowers

The appeal of microfinance to low-income borrowers derives from their "unbankable" status. Most are self-employed, operating a small business that does not always provide steady or reliable income. When looking at the survey respondents, self-employed borrowers make up, on average,

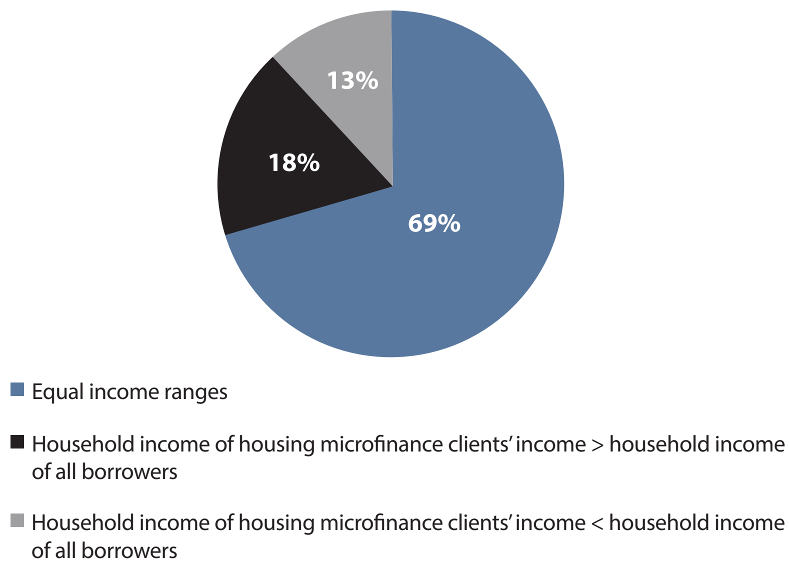
Demographic indicators



73 percent of the clients of the overall portfolio and 55 percent of the housing microfinance portfolio's clients. Fifty-nine responding institutions list over 50 percent of their client base as self-employed, and 43 institutions list over 50 percent of their housing microfinance client base as self-employed.

Household income did not vary too greatly between the clients of the overall lending portfolio and the housing microfinance-only portfolio. Fifty-seven institutions provided the same income ranges for both their general client base and housing microfinance-only clients, though it is possible the two sets of clients could be on opposing ends of the ranges. Fifteen institutions provided greater household income ranges for their housing microfinance clients, while 11 provided greater household income ranges for their general loan clients. Forty respondents – almost half – report that all borrowers have an average household income below US$3,000 a year. Evaluating the groups closer to the "bottom of the pyramid," 27 of the institutions believe their clients have an average household income beneath US$1,000 a year, and 29 placed their housing microfinance clients within that same salary range. Furthermore, 13 of the responding institutions reported that their clients have household incomes beneath US$500 a year, and 12 of the respondents reported that same figure for their housing microfinance clients.

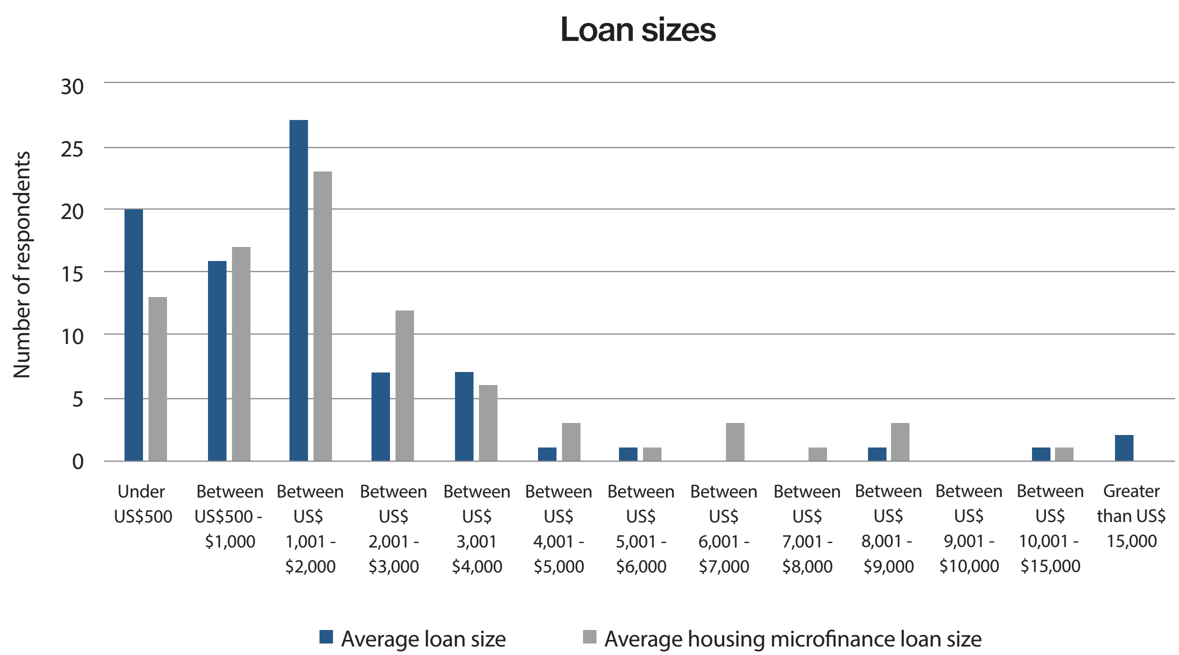
Annual household income of all borrowers versus housing microfinance borrowers



Loan product information

Loan sizes

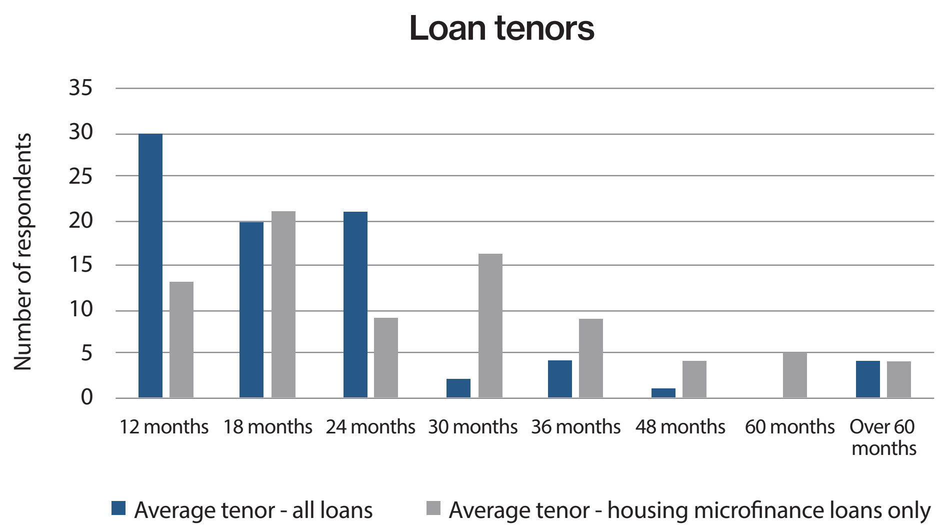
Minimum loan sizes for both housing microfinance and other types of loans were beneath the US$500 threshold, with some institutions offering loans below US$100. Maximum loan sizes offered for the general loan product exceeded the US$10,000 range for more than half of the respondents, with a few even exceeding the US$100,000 threshold, but typical maximum loan sizes for respondents were closer to US$20,000. For housing microfinance, the most common maximum loan size selected was US$5,000, though almost half reported a maximum loan size greater than US$6,000 and one-third provided a maximum greater than US$10,000. With such a variety present, the responding institutions were also asked to provide the average loan size. The majority of respondents reported that their average loan size for both general products and housing microfinance products is in the US$1,001-US$2,000 range. For general loan products, the second most popular average loan size selected was under US$500, whereas for housing microfi-



nance the second most commonly selected average loan size range was US$500 – US$1,000. The third most popular answer was US$500-US$1,000 for general loan products, and for housing microfinance it was under US$500. Thus, the majority of responding institutions are offering relatively small loans to their borrowers, regardless of whether they are housing microfinance clients. Only two institutions reported having an average loan size greater than US$15,000, and for housing microfinance the largest average loan size range selected was US$10,000-US$15,000.

Tenors and interest rates

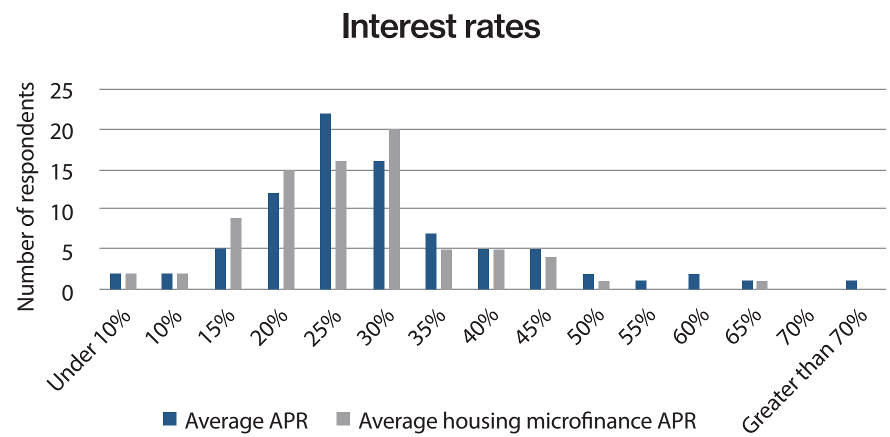
Some distinctions can be found in the loan tenors and interest rates of the different products. The survey found that housing microfinance products have longer loan tenors than other products; 46 institutions reported a longer loan tenor for their housing microfinance product, and 29 institutions reported the same loan tenors for its housing microfinance product and general loan products. Only six institutions reported a shorter loan tenor for the housing microfinance product. The majority of respondents selected a loan tenor of 18 months (21 institutions) or 30 months (16 institutions) for housing microfinance products. For other loan products, the institutions offer shorter tenors, with the most popular being 12 months (30 institutions) and 24 months (21 institutions). In fact, 85 percent fell at or below a 24-month tenor for the general loan products.

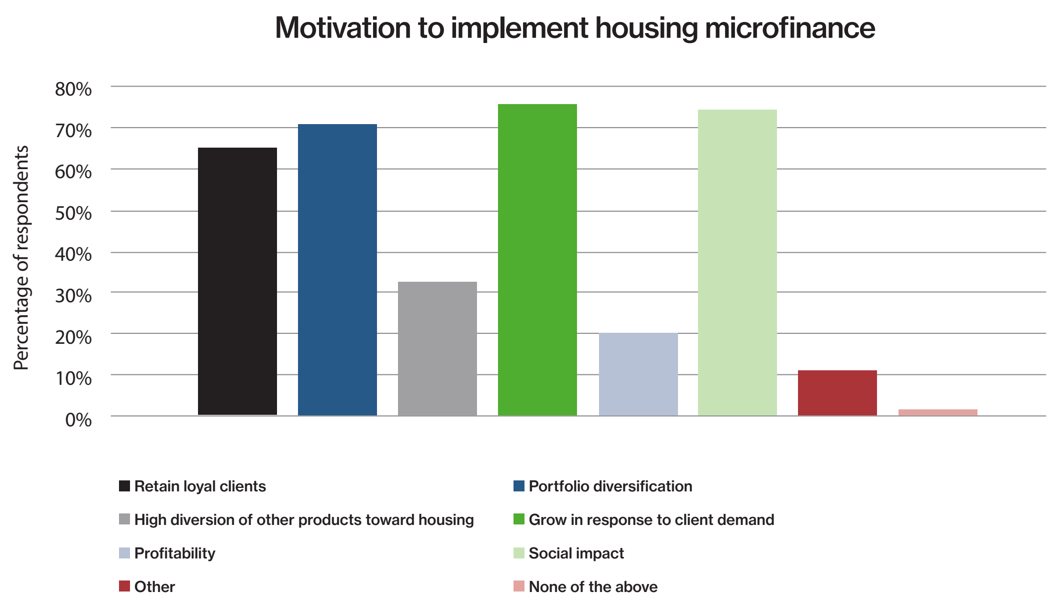


The survey also found that institutions tend to charge equal or lower interest rates for the housing microfinance product. Thirty-eight respondents provide the same interest rates for both sets of products, and 34 institutions reported a lower interest rate for their housing microfinance product. Sixty-four institutions provide interest rates at or below 30 percent for their housing microfinance products, compared with 57 institutions offering those rates on their other loan products. Additionally, seven institutions offer interest rates at or above 50 percent for their overall loan products, in comparison with only two reporting those interest rates for their housing microfinance products. But the most popular interest rates reported regardless of product type were 25 percent and 30 percent, representing the bulk of the responding institutions (close to 50 percent).

Positioning of housing microfinance in portfolios

To understand the motive and funding of these institutions toward their housing microfinance products, the survey asked the respondents to identify the reasons why their institution introduced a loan for housing microfinance, and to disclose the sources of funding of housing microfinance products. The survey results found that the responding institutions implementing housing microfinance have struck a balance between meeting client demand and contributing social impact. The institutions ranked "social impact" as one of the top reasons for introducing a housing microfinance product, alongside "portfolio diversification,"



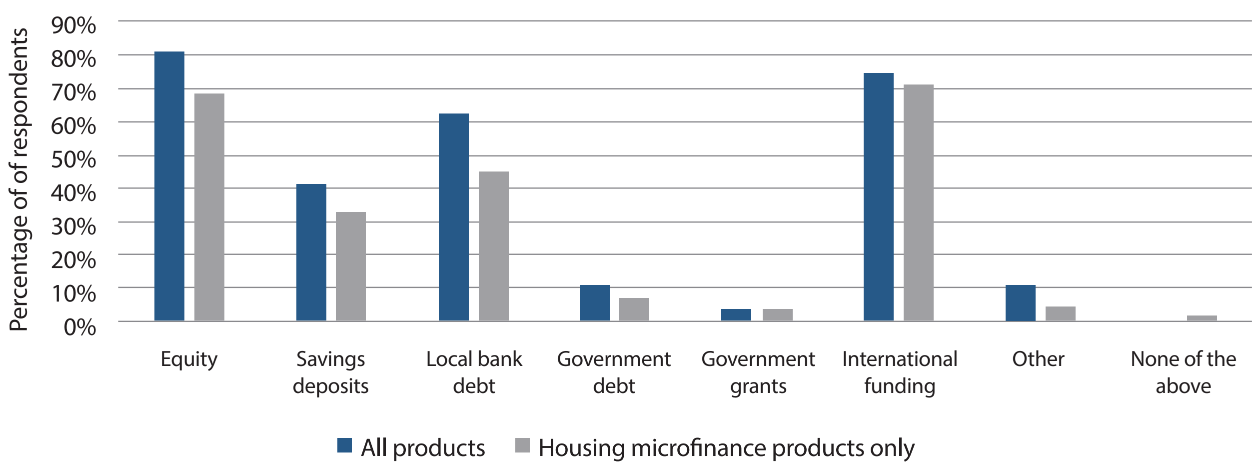


"grow in response to client demand," and "retain loyal clients." When evaluating these answer choices by region or institution type, "client demand" and "social impact" are often the top two selected responses. As such, housing microfinance is offered to new clients at 83 percent of the responding institutions, and for 82 percent of those institutions housing microfinance is used to cross-sell or market their other loan products to these new clients. To fund housing microfinance, responding institutions largely depend on international funding (71 percent) and equity (69 percent), which is not too different from the sources of funding for general loan products, with equity as the most selected answer. Commercial banks provided an outlier for this question's response; instead of equity and international funding, all responding commercial banks reported using savings deposits to fund their products, including housing microfinance.

83%

of respondents offer housing microfinance to new clients

Sources of capital



Loan processes and requirements

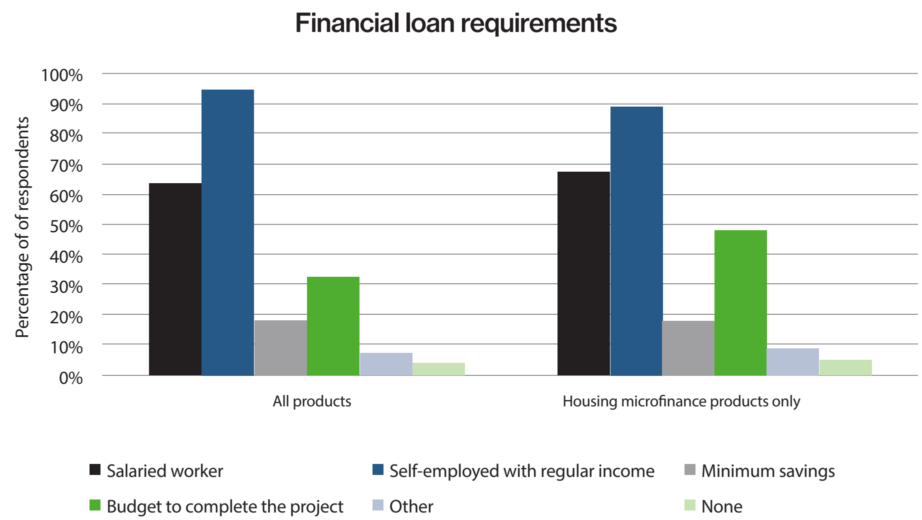
Like the previous section, this part of the survey did not find many distinctions between the practices of lending for housing microfinance versus other products.

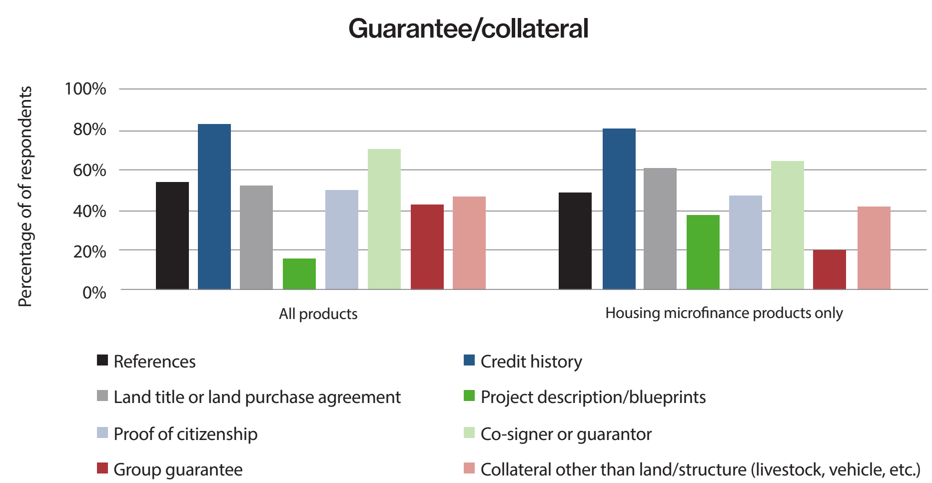
Financial requirements and collateral

The financial loan requirements selected by responding institutions were uniform; the top-selected choice was “self-employed with regular income.” This financial loan requirement was selected for general loan products by 95 percent of the respondents, and for housing microfinance loan products by 89 percent of the respondents. Another frequently selected answer choice was “salaried worker,” which was selected by 64 percent of the respondents as a requirement for a general loan product, and 67 percent of respondents for a housing microfinance loan. For guarantee and collateral, the top two selected answer choices for both the general loan product and the housing microfinance product were “credit history” (over 80 percent of respondents) and “co-signor or guarantor” (over 65 percent). For the general loan products, over 50 percent of respondents selected “references” as another popular form of collateral. For housing microfinance loans, the third most popular answer choice was “land title or land purchase agreement,” which was selected by 61 percent of the responding institutions. Responses differed in the Africa-Middle East region, where some respondents selected “land title or land purchase agreement” as the top collateral/guarantee requirement.

Disbursement processes and repayment practices

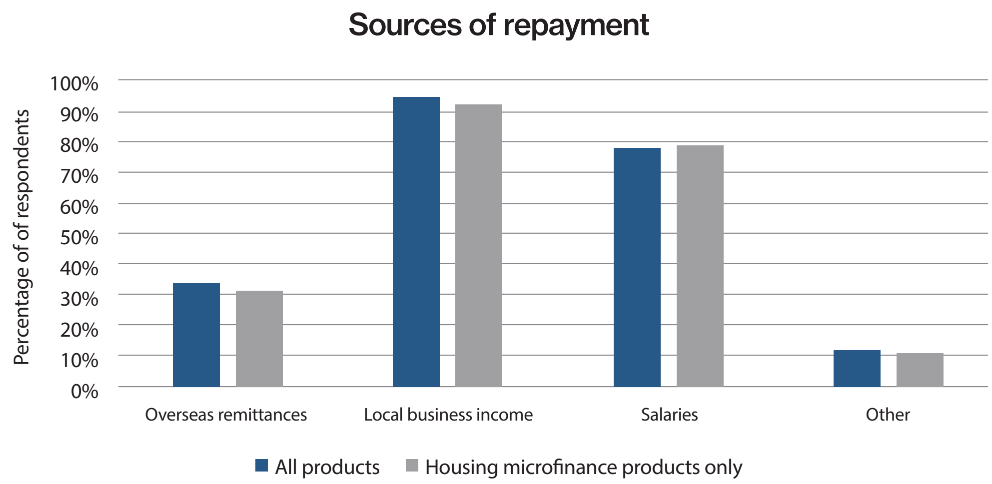
The loan process typically takes less than two weeks from application to disbursement, regardless of whether the product is a housing microfinance loan, and the disbursement method is to give the full amount in cash to the





borrower with a monthly repayment schedule. Repayment sources are also very similar for both sets of borrowers: "local business income" is the most common source of repayment, followed by "salaries." About a third of the responding institutions also selected "overseas remittances" as a source of repayment for both loan types.

The institutions confirmed uniformity in their practices for both housing microfinance and other loans by reporting that housing microfinance loans are administered by multiproduct loan officers, with only 18 percent of the responding institutions having specialized loan officers dedicated to housing microfinance. All but two institutions (98 percent) follow up to ensure the housing microfinance loan is used for its stated purpose. To conduct this follow-up, 41 of the respondents conduct field visits and on-site monitoring, and 21 others mentioned that they monitor the loan but did not specify how. Interestingly, two institutions reported that they are able to verify the loan's use through the technical assistance program and construction support, and three other institutions use material suppliers to ensure the housing microfinance loan is used as intended.



98%

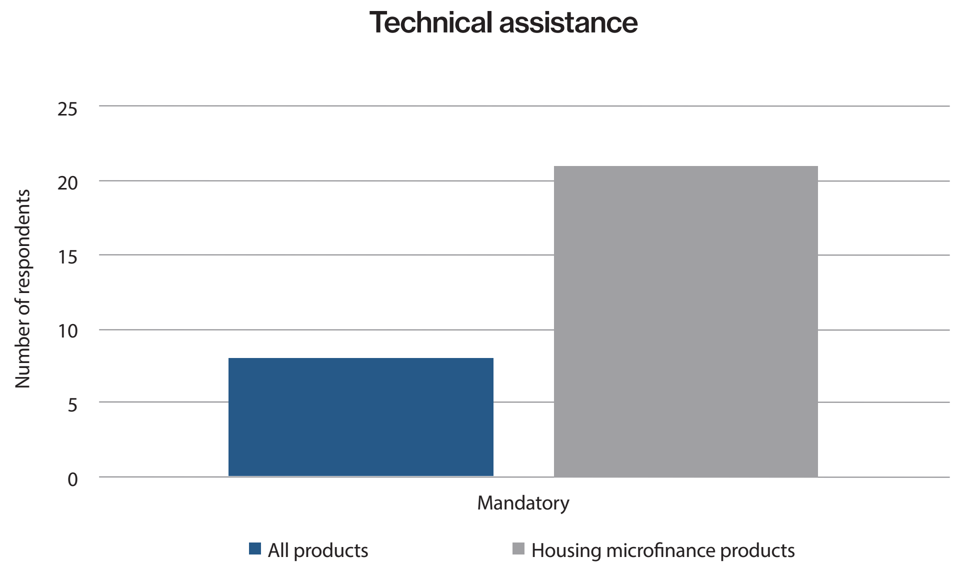
of institutions follow up on the housing microfinance loan's use

Household technical assistance

The provision of loan products alongside other nonfinancial components has been a common practice within the microfinance sector. Those providing advisory services to financial institutions in the development of housing microfinance products (such as Global Communities, Habitat for Humanity International's Terwilliger Center for Innovation in Shelter, and others) have promoted a variety of nonfinancial technical assistance services to increase the quality of the home improvements being made with housing microfinance loans. Therefore, it was important for the survey to understand the technical assistance practices of responding financial institutions.

The survey found that 54 of the respondents (65 percent) offer technical assistance, which is split almost evenly between those offering technical assistance for all loan products (28 respondents), and those offering technical assistance just for their housing microfinance products (26). An interesting distinction to note in this section is that seven of the eight South American institutions and half of the institutions from Eastern Europe and the Caucasus reported that they do not provide any technical assistance. For those offering technical assistance, it is typically an optional service, though for housing microfinance loan products it can be mandatory. As such, technical assistance is offered for the most part as a free service to clients, though a few respondents – four for all products, eight for housing microfinance – charge a portion of its cost, and others – one for all products, five for housing microfinance only – require clients to pay the full cost for the service.

Regarding the housing microfinance product, survey respondents were asked to select the types of technical assistance services they offer. The options given were "blueprint drafting," "construction advice," "budgeting," "personal finance education (focused on repayment of loan)," "home



"Some clients are enlightened and grateful for the advice and construction techniques; the advice helps the clients to reduce the cost on construction; clients who accept advice improve the quality of the structures."

maintenance skills," and "legal advice/education on home ownership/land title." The results found that the most common technical assistance services are construction advice (74 percent), budgeting (70 percent), and personal finance education (57 percent). Other technical assistance services in the write-in section included "education on the quality of building materials," "preparation of plans by an engineer," and "assistance in processing the property's title."

As technical assistance is a service tailored to individual clients and their needs, it can often be costly and difficult to implement. Thus, the survey offered a space for responding institutions to provide their challenges and insights from their experiences in offering technical assistance. This qualitative feedback confirmed that technical assistance is highly valued yet complicated to deliver. Comments in favor of technical assistance included:

- "Better performance and use of resources; better quality of the construction."
- "The additional benefit that distinguishes it from the products offered by competitors."
- "Created social impact in the society. Improved people's well-being."
- "Some clients are enlightened and grateful for the advice and construction techniques; the advice helps the clients to reduce the cost on construction; clients who accept advice improve the quality of the structures."
- "Efficient use of the resources; client loyalty; better product features for the bank; and higher quality for the client."
- "Clients have appreciated the services offered and thus been able to achieve their dreams through incremental construction."

While many others also reported high satisfaction levels by clients receiving technical assistance and improved client loyalty, not all respondents felt technical assistance was appreciated by clients. There were other frustrations, as captured by the following comments regarding the challenges in delivering technical assistance:

- "People don't see value in legal & technical advises as they are primarily driven by peer communities."
- "Shortage of skilled technical persons within the organization."
- "We trained local mason but some clients do not like to use trained mason, rather they take their relative or neighbor."
- "Local languages, logistics and limited resources."
- "Some clients ignore our advice."
- "Creating awareness among the clients about the importance of technical assistance. Inculcating technical assistance process in operations, making the operations staff realize (its) importance."
- "Hard to follow up on effectiveness and impact of technical assistance."

Thus technical assistance is perceived to add value to housing microfinance loans in terms of the construction quality and social impact, while also increasing client loyalty and offering a competitive advantage over other institutions. However, it is logistically demanding, requiring specialized skills and training at the institutional level, and significant time investment to deliver and monitor. In fact, of the institutions that do not provide technical assistance, similar reasons were given: lack of capacity to implement it, costs, and other financial constraints.

Ultimately, the success of technical assistance depends on client buy-in; it serves a purpose only if clients appreciate the service and see its value. The argument could be made that having clients pay for part or all of the service (e.g., by tacking on a marginal percentage to the interest rate) could ensure that those clients who want technical assistance can access the services.

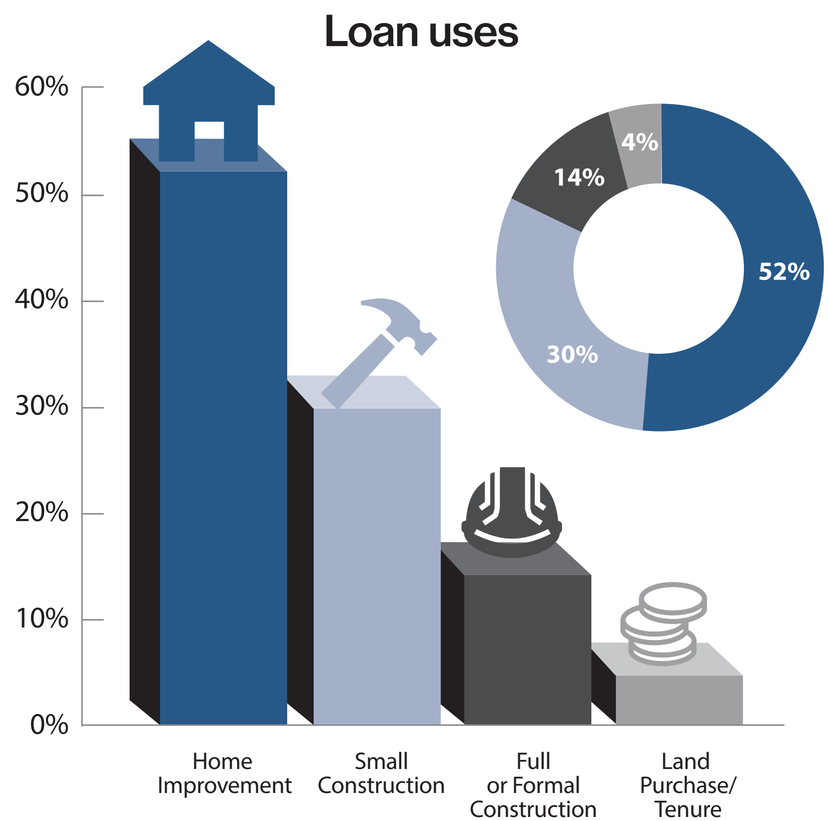
Housing microfinance loan uses

The survey provided four categories to prioritize how housing microfinance loans are used:

1. Home Improvement Loans, or HIL, which denotes small renovations.
2. Small Construction Loans, or SCL, which signifies larger projects, such as the addition of a room.
3. Full House or Formal Home Construction, to capture those loans used toward the construction of a full house.
4. Land Purchase or Tenure, to capture those loans used to buy land (to build a home) or the freehold title/deed to the land.

The results revealed that, on average, 51 percent of housing microfinance loans are used toward the first category, Home Improvement Loans; 30 percent are used toward the second, Small Construction Loans; 14 percent are used toward Full House or Formal Home Construction; and 4 percent are used toward Land Purchase or Tenure. Evaluating loan uses by region showed that the largest percentage of loans used toward the HIL category is found in Central America, while the largest percentage of SCL is in South America. Full House Construction has its largest percentage in Asia-Pacific; and Land Purchase or Tenure's largest percentage is in Africa-Middle East. Future surveys could focus on the regional discrepancies of loan uses to better understand this finding.

The topic on land tenure is continued in the Secure Tenure section, but this analysis begins to demonstrate how housing microfinance clients are using loans toward securing tenure (through the Full/Formal Construction and Land Purchase/Tenure categories). Those regions with the largest loan uses toward these two categories are Africa-Middle East (29 percent) and Asia-Pacific (28 percent); the smallest can be found in Eastern Europe and the Caucasus (5 percent) and Central America (9 percent). By institution type, commercial banks hold the largest share of housing microfinance loan uses toward larger or more formal housing improvements, at 26 percent, and foundations have the smallest share at 3 percent. Still, there is no strong correlation to the average loan sizes provided by those types of institutions, indicating that many factors contribute to how loans are used.



Housing and land rights

Land tenure and land rights are critical components when considering the housing microfinance sector. Two important considerations are the insecurity of land rights for the housing microfinance borrowers and the customary approach of institutions requiring a land title to extend the housing microfinance (or other) loan. The survey respondents noted that land title requirements are mostly based on institutional policies regarding collateral. As such, the survey reviewed the tenure security of the housing microfinance borrowers according to the lending institutions.

When asked whether the financial institutions assess their housing microfinance borrowers' tenure security, the majority (54 institutions, 65 percent of the respondents) reported that they do. The majority of these use the loan application, but a few use other methods, including land ownership verification with local authorities, title companies and attorneys; land records; or other due diligence documents required for the loan. Although the majority of respondents assess a client's tenure security, two regions showed discrepancies. The majority of respondents from Eastern Europe and the Caucasus (11 of 16) reported not assessing tenure security, likely because of the land reforms that came as a result of the Soviet Union's collapse. Seven of the 16 Central American respondents also do not assess, with one noting that it does not consider it necessary and another noting that its rural clients' land belongs to the community as a whole.

The survey also found that even though most institutions assess their clients' tenure security, they do not necessarily require a formal freehold title to extend a housing microfinance loan. Thirty-one of the respondents (37 percent) report that their institutions require a land title to extend the housing microfinance loan, yet many of those 31 respondents reported that

Assess housing microfinance clients' tenure security

65%

of institutions evaluate their housing microfinance clients' tenure security

their institutions accept alternative documents to prove tenure. Close to 40 percent do not require the title, and 23 percent require the land title only if the loan size exceeds a certain threshold. The majority of the latter respondents noted that loans exceeding US$5,000 require a title, which is a higher loan amount than typical housing microfinance borrowers obtain, as seen earlier in the Loan Sizes section.

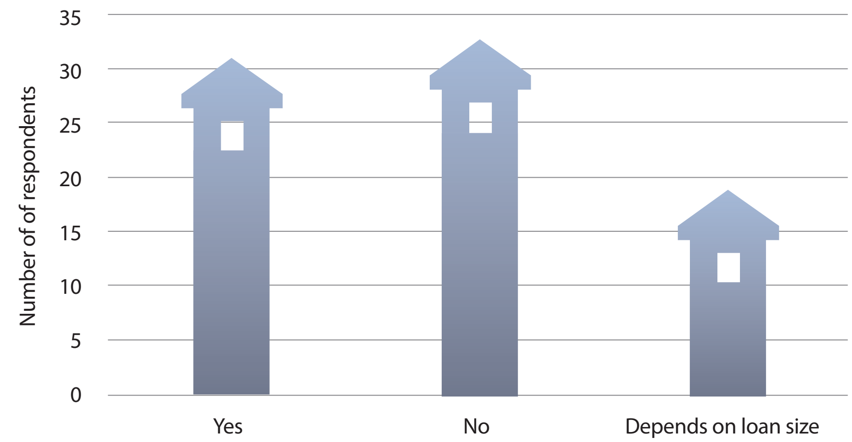
Formal alternatives accepted by the institutions include:

1. Registration certificate (61 percent).
2. Land purchase agreement (54 percent).
3. Municipal use document (49 percent), with other proofs of tenure accepted, though less favorable.

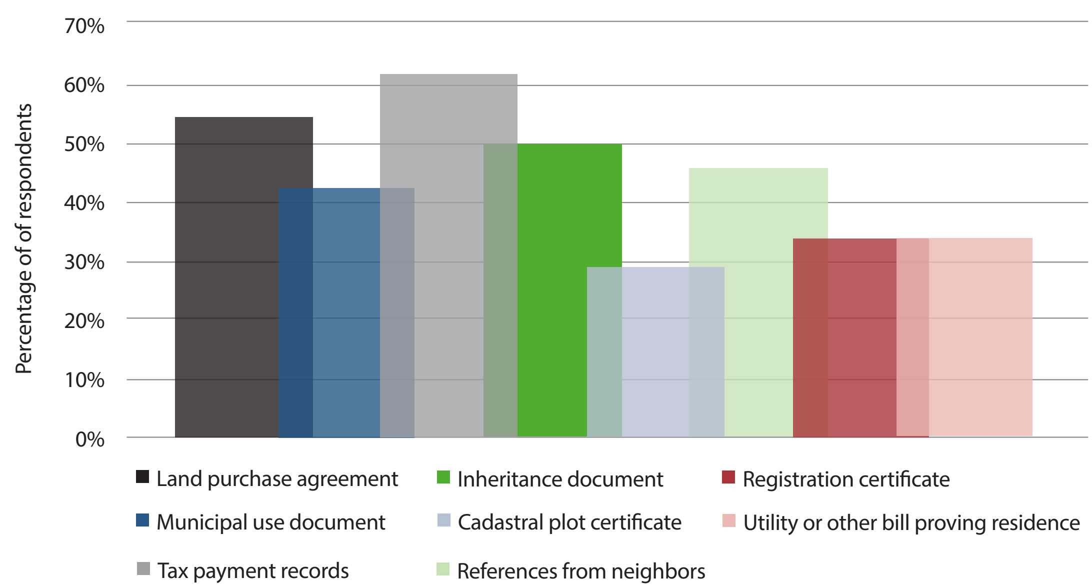
Only 14 respondents (17 percent) reported that they do not accept formal alternatives. Some institutions (48 institutions, or 58 percent of the respondents) will even accept what could be considered informal proxies of land tenure in lieu of the title. For example, utility bills are accepted by 46 percent of the institutions.

On average, the institutions reported that 39 percent of their housing microfinance borrowers could produce a formal freehold title, 31 percent could produce a formal alternative, 22 percent could produce only an informal proxy, and 8 percent could produce none of the options. Regionally, the Central and South American institu-

Is a title required for a housing microfinance loan?



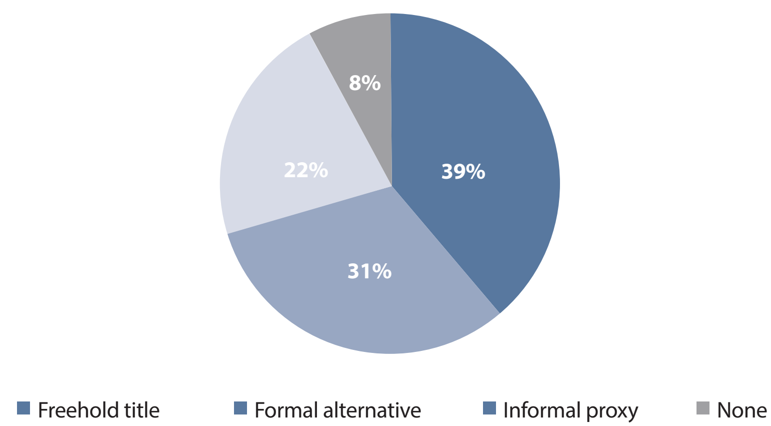
The continuum of land rights
Formal and informal documents accepted in leiu of a title



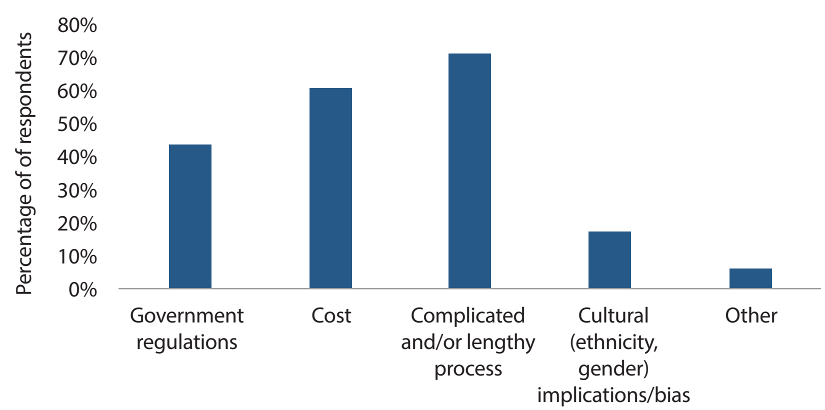
tions reported that over 40 percent of their clients are able to produce a formal freehold title, and almost none of their clients (0 percent in South America, 2 percent in Central America) are unable to produce anything. Similarly, the institutions from Central Asia have a high percentage of clients able to produce a formal freehold title (43 percent), formal alternative (46 percent) or informal proxy (11 percent), and no clients unable to produce anything. The Africa-Middle East region reported both the lowest percentage of clients able to produce a formal title (30 percent) and the highest percentage of clients unable to produce any document in lieu of a title (18 percent). This regional distinction correlates to the following question that asked respondents what their title requirements are based on, with the institutions overwhelmingly selecting "institutional policy" while the majority of the institutions from the Africa-Middle East region selected "government regulations," indicating a larger barrier to land rights in the region.

To determine whether there is a market demand for securing land rights, the survey asked the institutions if they currently offer or would consider offering a loan product for formalizing land documents. Thirty-three institutions confirmed interest, and 13 reported that they already offer a loan for such services. Although cost can certainly be an inhibitor for securing land rights, as noted by 60 percent of the respondents, the top challenge facing their borrowers in acquiring formal land rights is that land formalization is a complicated and lengthy process (71 percent). Thus, instituting better systems – often driven by

Housing microfinance client tenure status



Greatest challenges faced by borrowers in acquiring a formal title



local governments – is a necessary component of increasing land rights for low-income families.

Habitat for Humanity has explored a few other theories regarding home improvements and increased tenure security, in addition to acknowledging the need for better government land registration systems. One idea is that when a household invests in immovable assets such as housing, it is more likely to want to obtain greater rights of tenure. Consequently, households may be more willing to seek secure tenure improvements when they are improving their homes. An alternative theory suggests that improving one's house may give a household greater claim through adverse possession, along with credibility to request documentation from local land rights authorities. The latter theory fits neatly with the idea that there are no binary formal and informal land rights, but rather a continuum in which households move from the informal to the formal over time.

Global Land Tool Network and the continuum of land rights [5]

Land tenure is frequently understood in binary terms: formal/informal, legal/extra-legal, secure/insecure, de facto/de jure. However, in practice, a wide and complex spectrum of appropriate, legitimate tenure arrangements exists between these extremities. These can be documented as well as undocumented, formal as well as informal, for individuals as well as for groups, including pastoralists and residents of slums and other settlements, which may be legal or extra-legal. The extent of the actual security of such arrangements depends on local regulatory, institutional and governance contexts.

The continuum of land rights is a concept or metaphor for understanding and administering this rich complexity of land rights on the ground. It offers a powerful alternative approach to simply focusing on the titling of individually held private property. Tenure types that best suit both the social, cultural and economic needs of local communities and the needs of responsible land administration authorities at a particular time are advocated.

The continuum promotes recognition and increase of security across the spectrum, with opportunity for movement between numerous tenure forms. This offers land actors and governments an innovative approach to the realization of tenure security, through recognizing, recording and administering a variety of appropriate and legitimate land tenure forms. This approach is increasingly being followed by a variety of land actors around the world in initiatives aimed at achieving tenure security for all.

From an operational perspective, a continuum of land rights can be said to exist when the whole spectrum of formal, informal and customary rights are catered for within a land information management system; and when a range of rights in a country constitutes legally enforceable claims which can be asserted and defended in a forum such as a court.

[5] **Source: Global Land Tool Network, 2016. References:**

- UN-HABITAT and GLTN. (2012). "Handling Land: Innovative Tools for Land Governance and Secure Tenure." Nairobi: United Nations Human Settlements Programme, International Institute of Rural Reconstruction, Global Land Tool Network.
- Royston, L., and Du Plessis, J.(2014). "A Continuum of Land Rights: Evidence from Southern Africa." Proceedings of the 2014 World Bank Conference on Land and Poverty, 24-27 March 2014.
- Du Plessis, J.; Augustinus, C.; Barry, M.; Lemmen, C.; and Royston, L. (2016) "The Continuum of Land Rights Approach to Tenure Security: Consolidating Advances in Theory and Practice." Proceedings of the 2016 World Bank Conference on Land and Poverty, 14-18 March 2016.

Outlook for the housing microfinance market

Performance

The survey found that the portfolio quality for housing microfinance is better than the overall portfolio; the average portfolio-at-risk under 30 days, or PAR30, of the housing micro-finance product is 2.61 percent, compared with 4.92 percent for the overall portfolio. When analyzing these results by institution type or by geography, the results remain the same; housing microfinance portfolios have overwhelmingly lower PAR30 figures. The Asia-Pacific region reported a particularly low PAR30 ratio for both loan products; instead, institutions from Central Asia had higher PAR30 ratios, which could be a result of the recent economic crisis affecting the region.

Growth strategy and product innovation

The majority of the institutions noted that housing microfinance portfolios (as a per-centage of the overall portfolios) are growing (68 percent) or, at least, holding steady (23 percent). In fact, as mentioned in the Survey Coverage section, the percentage of borrow-ers who are uniquely housing microfinance clients, meaning they only have the housing microfinance loan with the institution, is 22

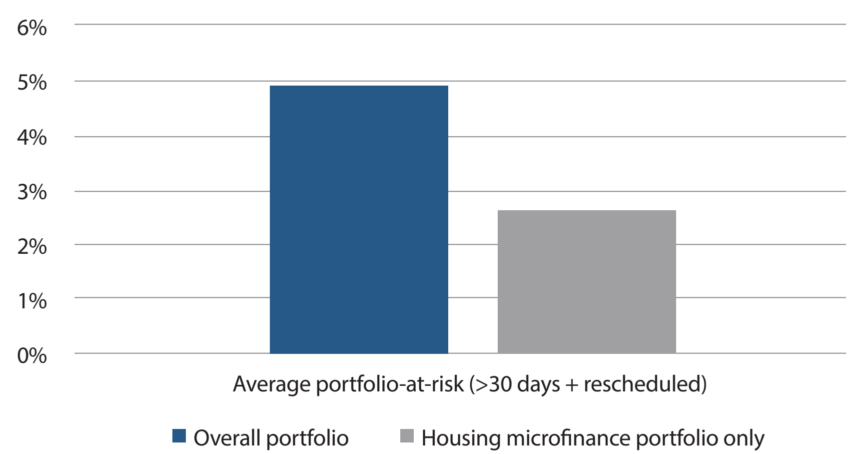
THE BUSINESS CASE FOR HOUSING MICROFINANCE: MIBANCO

Peruvian microfinance bank Mibanco (acquired by Edyficar in 2014) worked back in 2009 with Habitat for Humanity's Terwilliger Center for Innovation in Shelter to develop a new housing microfinance product that included nonfinancial technical assis-tance to the borrowers.

During the pilot, Mibanco's housing microfinance client base increased from 100 to 10,200 per month. In parallel, the disbursed loans also jumped from US$210,000 to US$2.1 million each month. The survey found that Mibanco has more than 100,000 active housing microfinance loans, which are largely used toward small construction projects. Now the institution is experiencing steady growth and success. Mibanco was one of the few institutions reporting assets greater than US$500 million, and it had the largest housing microfinance portfolio reported in this year's survey.

Mibanco's housing microfinance portfolio is per-forming well; its PAR30 ratio is lower than that of Mibanco's general loan portfolio. The institution was one of the few that offer a slightly higher interest rate for their housing microfinance products, and it reported the housing microfinance product to be more profitable than its other loan products. As such, Mibanco intends to expand the portfolio size by extending the product to new demographics and areas.

Portfolio-at-risk ratios

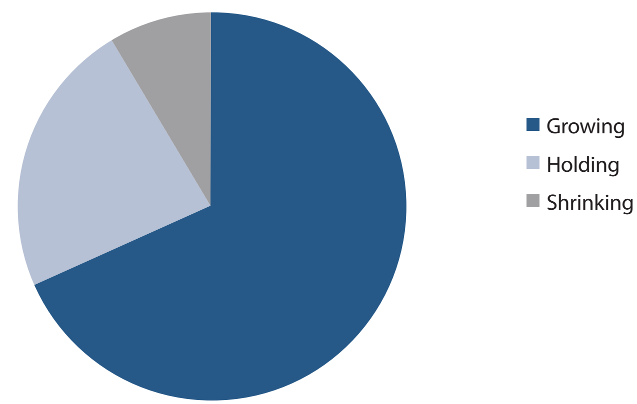


percent and housing microfinance represents, on average, 16 percent of the overall portfolios.

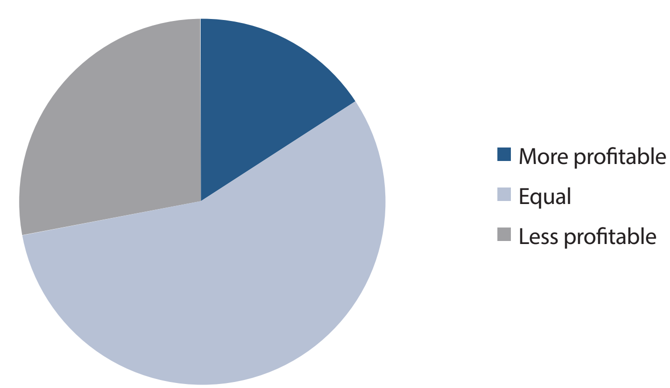
In terms of profitability, housing microfinance is seen as equally as profitable as other loan products in 56 percent of the institutions. Only 16 percent of the institutions reported housing microfinance as more profitable than the other products, and 28 percent found it to be less profitable. Returning to the Loan Product Information section, the profitability correlates directly with the interest rates charged. One institution that reported housing microfinance as less profitable than its other products charges an interest rate below 10 percent for its housing microfinance product, compared with interest rates above 70 percent for its other loan products. When looking at the institutions that provided both the interest rates and housing microfinance's profitability, 17 of the 22 institutions (77 percent) that find housing microfinance to be less profitable offer lower interest rates for the housing microfinance product. The remaining five offer the same interest rates regardless of product type. Interestingly, three of the institutions that found housing microfinance more profitable offered lower interest rates for their housing microfinance product. Future learning could focus on a deeper analysis to determine how financial institutions charging lower interest rates are able to achieve profitability, how much cross-selling of other products is achieved through the housing microfinance product, how much time is required to reach the break-even point (and when it becomes profitable), and whether this lending model can be replicated.

Given the portfolio quality and profitability of the housing microfinance product, it is not surprising that survey respondents also overwhelmingly

Housing microfinance growth in portfolio



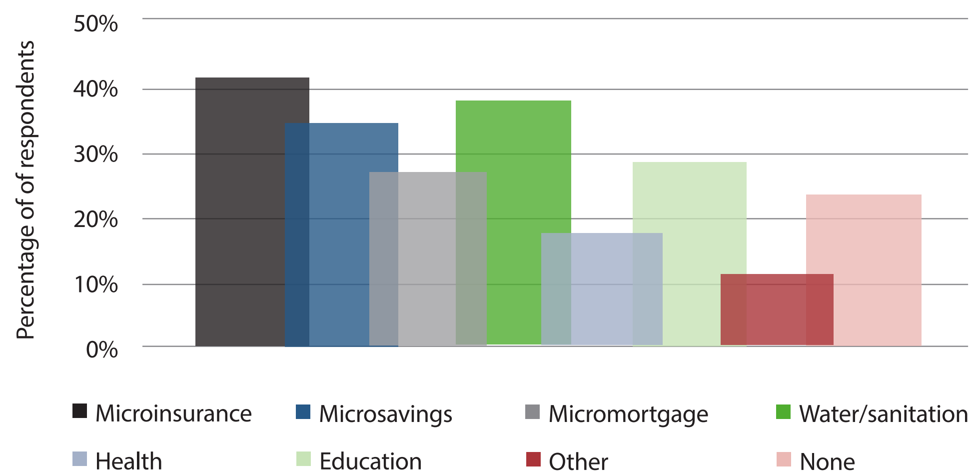
Housing microfinance's profitability compared with other loan products



reported that their institutions are expanding the size of the housing microfinance product (80 percent) and planning to extend it to new demographics and areas (63 percent). Expansion plans include implementing the product in all branches (or offering to all clients), and extending to rural areas, refugee camps or areas with low penetration. One interesting comment provided noted the institution's expansion plans include establishing partnerships with material suppliers to get discounts for its clients. The largest share of responses against expanding the housing microfinance portfolio came from the Central Asia (half) and Eastern Europe and the Caucasus (12 of 16) regions, likely as a result of the recent economic crisis facing the regions. Still, 93 percent of all respondents have housing microfinance listed in their institution's business plan.

The survey also looked at how institutions are expanding the scope of housing microfinance and whether they have plans to implement other housing-related products with social impact. Such products include microinsurance; microsavings; micromortgage; health; education; and water, sanitation and hygiene, or WASH. Microinsurance topped the survey responses; 41.5 percent of institutions are considering adding it, followed by WASH (37.8 percent) and microsavings (34 percent). "Green" loan products including for solar, renewable energy and other environmentally friendly appliances were among other responses provided by the institutions.

New products to complement housing microfinance



"Housing and consumer loans have the lowest rate of write-offs."

Yet challenges remain in the sector; institutions largely have capital constraints preventing them from scaling the housing microfinance product. One respondent wrote that the housing microfinance product was "discontinued due to lack of fund in spite of the fact that there still is a huge demand for housing loan." Close to 40 percent of the respondents reported lack of capital as a challenge, with other challenges including unavailability of land or title (30 percent) and a desire to focus on other products (25.6 percent).

The final question of the survey provided an open platform for respondents to share their thoughts that might not have been captured in the survey's questions. Comments demonstrated the product's value to the institution, including how housing microfinance helps institutions retain clients and build relationships with them. Regarding portfolio features, comments included that "housing and consumer loans have the lowest rate of write-offs" and that housing microfinance "helps in diversifying the risk from micro-enterprise loans," further demonstrating the importance of the product from a business standpoint.

The institutions made a few other notable insights in this section. One institution mentioned the need to gather information on land management and administration, which would help in learning how other countries manage land registration issues confronting housing microfinance lenders.

Finally, the responses acknowledged the value of the product to the end borrower and how housing microfinance improves livelihoods. One respondent wrote that "this product is very important because homeless people [can] complete [their] house... with drinking water, toilet, solar and improved cook-stove."

"The impacts are:

1. Improving the quality of life or happiness **2.** Improving health or health risks **3.** Safety **4.** Improved security of tenure **5.** Improves opportunity **6.** Improving education **7.** Improving economic opportunities social status. **One of the main challenges of the housing microfinance product is construction advice and the capacity to monitoring and achieve understanding of the added value to the customer."**

Conclusion

The first edition of this survey, in 2014, provided the basis for understanding housing microfinance's position in the portfolios of financial institutions across the globe. This year's survey, the 2015-16 edition, expanded its scope to allow for a deeper analysis into housing microfinance practice. It also reached more institutions in a greater number of countries, and regions across the globe, with diverse asset and portfolio sizes, licensure and legal statuses, and years of experience in the sector, thus providing a more meaningful representation of the sector.

The surveys from both last year and this year confirm that the housing microfinance loan product is expanding because of client demand, and that it presents a potential business opportunity for microfinance lenders. It serves to diversify portfolios and has been demonstrated to be high-performing. Housing microfinance also serves a social impact role, meeting the critical needs of low-income borrowers seeking to improve their living standards by providing them access to capital for home improvement.

The results revealed that housing microfinance loans are reaching individuals with low household salaries. Housing microfinance represents, on average, 16 percent of the overall portfolio of the respondents, which continues to be a promising trend (when compared with a previous analysis from 2011 conducted by Habitat, Omidyar Network and MIX Market, which found housing microfinance portfolios represent less than 2 percent of financial institutions' portfolios). While a few respondents noted that housing microfinance has a greater share of the overall portfolio, the most commonly reported figure was 5 percent. As such, most institutions reported the number of active housing microfinance loans as under 10,000, with the most popular answer choice falling below 500 active loans. On the other hand, the majority reported the number of active loans for all product types is greater than 10,000 with the bulk reporting active loan numbers greater than 100,000.

The average loan size for all products including housing microfinance is between US$1,001 and US$2,000, though most respondents reported housing microfinance loan sizes in the smallest loan size categories provided: below US$500; between US$500 and US$1,000; and between US$1,001 and US$2,000. This finding supports the following survey finding that most housing microfinance loans are used toward small home improvements. Institutions provided the breakdown of how housing microfinance loans are used, the average of all reported being 51 percent toward home improvement, 30 percent toward small construction, 14 percent toward full house construction and 4 percent toward land purchase/tenure.

Last year's survey demonstrated a few areas of confusion on land rights; not surprising when considering that 71 percent of survey respondents this year reported the greatest challenge faced by their borrowers in securing land rights is complicated or lengthy processes. Last year's survey touched on the variety of land documents that are often accepted by institutions in lieu of a title for collateral or guarantee. This year's honed in on the practice of assessing clients' tenure security, finding that 40 percent of institutions do not require a formal title for a loan, and an additional 23 percent require it only when it exceeds a certain loan amount. In the latter case, titles are usually required when a loan exceeds US$5,000. As the survey found earlier, most housing microfinance loan sizes do not come close to that loan size, let alone exceed it.

Instead, the majority of institutions accept a breadth of documents demonstrating a person's land rights, including registration certificates, land purchase agreements, municipal use documents, utility bills, and even references from neighbors. The reporting institutions believe over 50 percent of their housing microfinance clients can only produce one of these alternatives, while 39 percent could produce a title and 8 percent could not produce anything.

The survey also highlighted how institutions offer additional services, in the form of technical assistance, to their clients. For housing microfinance, institutions typically offer construction assistance, budgeting for the project, and financial education on repaying the loan. These services, whether for housing microfinance or other loan products, are typically offered as an optional but free service. As such, the commentary in the section demonstrated the financial and logistical challenges in providing technical assistance.

Finally, the struggles facing the reporting institution include that housing microfinance is less profitable than its other loan products, though most of the reporting institutions also offer lower interest rates for the housing microfinance product, which could explain this finding.

While the institutions seek to grow the housing microfinance product, they also face a lack of capital to do so. Indeed, the most selected funding source for the housing microfinance product is international funding, whereas institutions often use their equity to fund the other loan products.

The survey results confirm that housing microfinance could be a good business opportunity for microfinance lenders. Institutions overwhelmingly reported that housing microfinance was added to their portfolios in response to client demand (76 percent), to diversify their portfolios (71 percent), and to retain loyal clients (65 percent) but also for social impact (75 percent).

Housing microfinance follows many of the same requirements and procedures that institutions set for their other loan products: financial requirements, guarantee and collateral, and disbursement practices are all similar regardless of the product type. Disbursements are made in under two weeks, provided as full cash to the borrower with a monthly repayment schedule. Repayment sources do not differ between housing microfinance and other loan product clients.

Solidifying the demonstrated value housing microfinance brings to portfolios, the reporting institutions also overwhelmingly (69 institutions, or 83 percent) reported offering it to new clients with whom they do not have a credit history, and using housing microfinance to cross-sell their other financial services.

Finally, housing microfinance performs well in the portfolios, with a lower portfolio-at-risk ratio on the housing microfinance portfolio. Therefore, almost all the reporting institutions have plans to extend it to new areas or demographics, and to further expand its share of the overall portfolio. With those growth plans, institutions also intend to add innovative products related to housing (e.g., microinsurance) into their portfolios.

In this report we have found and reported on the trends and anomalies, challenges and accomplishments, and the growth of providing affordable housing microfinance loans to low-income families to improve their life conditions. Habitat for Humanity International’s Terwilliger Center for Innovation in Shelter hopes to use this research to inform the sector’s key actors, both funders and financial institutions interested or implementing housing microfinance — and to inform the future surveys so that its annual distribution continues to refine our knowledge of this growing sector.

This report was produced by Habitat for Humanity's Terwilliger Center for Innovation in Shelter.

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The Terwilliger Center for Innovation in Shelter 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/TCIS

Annex 1: List of survey respondents

Alsol Contigo S.A. de C.V.
AMK Microfinance Institution PLC
Amret Co. Ltd.
Annapurna Microfinance Pvt. Ltd.
ASA Philippines Foundation
Asociación Familia y Medio Ambiente (FAMA),
OPDF
Banco ADOPEM
Banco D-MIRO, S.A.
Banco Múltiple ADEMI, S. A.
Bimputh Finance PLC
Centenary Rural Development Bank
Chaitanya India Fin Credit Pvt. Ltd.
Chamroeun Microfinance Ltd.
Chhimek Laghubitta Bikas Bank Ltd.
CJSC MDO IMON International
Contactar
Coopenae, R.L.
Cooperativa COMIXMUL
Credicampo S.C. de R.L. de C.V.
Crezcamos S.A.
Edpyme Alternativa, S.A.
Enterprise Support & Community Development Trust (ENCOT)
Entreprenuers Financial Centre (EFC Zambia)
Federación Mexicana de Asociaciones Privadas de Salud y Desarrollo Comunitario A.C.
Finance for Development LLC
Financiera Confianza
Financiera FAMA, S.A.
Financiera ProEmpresa
First Finance PLC
Fondo de Desarrollo Local (FDL)
Foundation EMDA
FUNDENUSE, S.A
FUPROVI
Gramalaya Urban and Rural Development Initiatives and Network (GUARDIAN) MFI
Growing Opportunity Finance (India) Pvt. Ltd.
Habitat para la Humanidad El Salvador
Hattha Kaksekar Ltd.
HOPE Ukraine
Integrated Development Foundation (IDF)
Jeevan Bikas Samaj
JSC MFO Crystal
Kaebauk Investimentu No Finansas, S.A.
Kamurj UCO CJSC
KASAGANA-KA Development Center, Inc.
Kompanion Bank CJSC
KosInvest
Lebanese Association for Development - Al
Majmoua
Letshego Kenya Ltd.
LOK Microcredit Foundation
LOLC (Cambodia) PLC
LOLC Micro Credit Ltd.
Mahasemam Trust
MCC Salym Finance
MDO Arvand LLC
MFI Alter Modus DOO
Mibanco
Micro Development Fund
Microcredit Foundation Horizonti
Microcredit Foundation MI-BOSPO
Microcredit Foundation Mikro ALDI
Microcredit Foundation Sunrise
Microfinance Organization CREDO LLC
Microfinance Organization KMF LLC
Nor Horizon Universal Credit Organization LLC
Opportunity Bank Uganda Ltd.
Pride Microfinance Ltd. (MDI)
Select Financial Serivices Ltd.
Servicios Financieros ENLACE, S.A. de C.V.
Shakti Foundation For Disadvanatged Women
SHEPHERD Collective (Self Help Promotion for Health and Rural Development)
SOFIPA, S.C. de A.P. de R.L. de C.V.
Solución Asea, S.A. de C.V., S.F.P.
The First Microfinance Bank of Afghanistan
UGAFODE Microfinance Ltd. (MDI)
Ujjivan Financial Services Ltd.
VisionFund AzerCredit LLC
XacBank LLC

Other respondents wished to remain anonymous.

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