MAXIMIZING CHOICE: DIVERSE APPROACHES TO THE CHALLENGE OF HOUSING MICROFINANCE

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MAXIMIZING CHOICE: DIVERSE APPROACHES TO THE CHALLENGE OF HOUSING MICROFINANCE

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Portions of this paper are based on m*icroREPORT #92: Going to Scale with Housing Microfinance: The Role of Commercial Banks* by Carlos Martin of the Development Innovations Group.

CONTENTS

I. HOUSING MICROFINANCE AND CUSTOMER CHOICE

> "When dwellers control the major decisions and are free to make their own contributions in the design, construction, or management of their housing, both this process and the environment produced stimulate individual and social well-being. When people have no control over or responsibility for key decisions in the housing process, on the other hand, dwelling environments may instead become a barrier to personal fulfillment and a burden on the economy."
>
> —John F.C. Turner

URBANIZATION OF THE HOUSING CHALLENGE

The rapid urbanization of poverty throughout the world is a significant contributing factor to the rise of housing finance on the international development agenda. As much as 70 percent of the urban housing stock in sub-Saharan Africa, 50 percent in South Asia, and 25 percent in Latin America and the Caribbean are of poor quality, out of compliance with local building and planning regulations, lack basic services of water and sanitation and are characterized as slums. UN Habitat estimates that the number of slum dwellers will rise from one billion in 2003 to almost two billion by 2020, with the majority of new dwellers residing in secondary cities and regional towns.[1] With such rapid escalation of urban poverty, governments have not been able to effectively respond to the inter-related needs for basic services, housing and income opportunities for many people. Traditional approaches of subsidized housing for the poor, or resettlement of people residing in slums will not sufficiently address the growing problem. Rather, a sustainable approach – leveraging people's savings with market rate finance – will be the most likely way to reach scale in a timely manner.

Numerous housing advocates can attest to the fact that some of the most basic needs of a community include the provision of housing and urban services to its residents.[2] Most of the world's poor face an uncertain existence where many live without adequate access to water and sanitation, surrounded by uncollected garbage, subject to frequent violence, with limited access to education, and living in self-built homes on precarious land where they live in constant fear of eviction. Perhaps the most basic human service is the provision of shelter. Adequate housing is considered so important that 75 percent of countries in the world have ensured this right in national constitutions or legislation. Adequate housing is also critical to the social, economic, and political stability of a country. A viable housing sector can generate employment opportunities, improve public health, deepen the financial sector, provide a sense of ownership to the populace, and help develop complex institutions that provide benefits across many sectors of society. Housing is also typically the greatest source of wealth creation available to the poor. By investing in their individual homes, the poor accumulate equity which can then be used as collateral to start or expand a small business.

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[1] UN-HABITAT/World Bank (2005), The Millenium Declaration: An Urban Perspective, Nairobi, Kenya

[2] See USAID's and the World Bank's urban and housing sector site for more examples of this situation: including, www.makingcitieswork.org and www.citiesalliance.org.

Donors have begun to consider responses to the market's failure to supply affordable housing that facilitate long term solutions without distorting markets or displacing the formal financial sector. It is hoped that once donors have provided the initial seed capital or loan guarantees for a few nascent institutions in pioneering markets, the private sector will follow with longer-term financing, similar to the microfinance industry in the last decade. However, the lack of research and best practices available on informal housing markets limit donors and practitioners from informed allocation of funds and human capital. This paper seeks to review some of the most recent innovations in housing finance, focusing more specifically on the role of housing microfinance. It draws from five studies conducted in 2007, which explored housing finance for the poor. The studies are referenced throughout this report and can be found on the USAID microLINKS web site, under Financial Services Resources, Financial Products and Services:

- microNOTE #35 Habitat for Humanity Vietnam: Partnering with MFIs to Improve Housing for the Poor
- microNOTE #38 Housing for the Poor in Kenya: NACHU's Cooperative Approach
- microNOTE #39 Housing Finance for the Poor: El Salvador
- microREPORT #92 Going to Scale with Housing Microfinance: The Role of Commercial Banks
- microREPORT #96 Housing Finance for the Poor in Morocco: Programs, Policies and Institutions

Housing Microfinance (HMF) is an adaptation of traditional microfinance loans that target small loans for self-help housing or progressive building. Over the past 15 years HMF as a distinctly defined product line evolved in response to unmet customer demand, though at first at a relatively small scale. HMF has been shown to improve the livelihoods of households in a number of ways including improved income generation through the development of "productive housing" (e.g. rental units, space for home-based enterprises), access to longer-term financing and improved living conditions through better health and education. Furthermore, the demand for HMF has grown exponentially throughout the world as more and more clients of microfinance attribute a portion of their funds to improving their homes.

Microfinance institutions have long observed that clients use microenterprise loan proceeds to improve their living conditions.[3] Microfinance clients often make the economically rational choice to use business loans for housing needs in response to the lack of widespread access to housing finance (or to more flexible consumer finance, for that matter). A microenterprise loan offers much better repayment terms than informal sources of money lending, and such a loan can serve as a supplement or alternative to saving towards housing improvements. This suggests that microfinance has potential beyond income-generating uses (enterprise) and can apply to personal asset building activities such as investments in housing. This assumes that economically active poor people can finance their habitat needs in a manner that is incremental and affordable, and under conditions that allow the finance provider to cover all associated costs.

Today, as the market for microfinance grows - an estimated three billion potential borrowers in developing countries - so will the services offered to clients. Only 500 million people are currently being served by institutions that offer financial services, savings, credit and micro-insurance, beyond the

[3] Bruce Ferguson & Heider, E.; "Mainstreaming Microfinance of Housing." *Housing Finance International* (September 2000).

traditional clients of commercial banks.[4] The evidence suggests that HMF is benefiting from this take-off and in some instances growing significantly where policy environments for microfinance as well as housing improve.

Just as homeowners in the U.S. and Europe purchase homes based on household needs, the same principle of choice applies to households in developing countries. Current models in HMF face numerous challenges, but they all point to the basic notion that HMF, whatever its form and loan terms, gives its users a semblance of control over options for improving their housing when the time and conditions are right for the household. In the long run, this flexibility for customers to choose the qualitative improvement of their housing (and quantitative also when extensions and additions are chosen) may be the most enduring feature of HMF. This principle of choice may be why many practitioners favor community-driven in situ slum upgrading, whenever feasible, with the participatory planning of communities, NGOs, and the private sector on one hand, and a facilitative, enabling role for local and central government and donors on the other.

In recent years some government-led housing programs in emerging markets such as Mexico, Peru, Chile, Morocco, Egypt, and South Africa, have been able to achieve significant physical impact with substantial "top-down" subsidies. At their best, these state programs lay a foundation for household investment in post-construction. For example, in South Africa, after a post-occupancy "settling in" period, residents may add on rooms to their subsidized core houses with the use of market rate micro-loans.[6]

These state interventions, however, often pale in comparison to private sector and family-driven efforts to produce housing solutions. In Ghana, for example, state housing institutions produced less than 40,000 "mortgageable" units of developer-driven often heavily subsidized housing over a 10 year period (1991-2000), primarily for civil servants and some formal sector employees. Meanwhile, the self-help efforts of the informal sector and the private sector produced about 900,000 housing units, largely traditional compound houses as well as semi-detached houses, for themselves and their extended families over the same period.[7] An overarching theme emerging from examples around the world seems to show that financing of homes by the poor is possible and may be more sustainable in the long run than top-down initiatives.

One innovative example of the potential of planning and participation can be found in India. SPARC is a large membership based NGO based in the one of the largest slums in Mumbai. SPARC launched a community mobilization and planning campaign that led to the resettlement of 50,000 slum dwellers in their own units, constructed by social developers[5]. Although the whole project took over three years to complete, and involved significant efforts to bring the local government, banking sector, and donors together, the NGO was able to fully finance new homes for displaced slumdwellers. By selling land rights in a hot real estate market, the NGO was able to repay a commercial bank loan that was supported by a guarantee from USAID. Such schemes may not seem possible to replicate in other cities, but can be successful with strong community partners that are willing and able to advocate on behalf of the poor.

[4] Christen, R P, Richard Rosenberg, and Veena Jayadeva (2004), "Financial Institutions with a 'Double Bottom Line': Implications for the Future of Microfinance", *CGAP Occasional Paper, no. 8*, Washington, DC at www.cgap.org.

[5] For a useful synopsis on the historical relationship between housing microfinance and slum upgrading, see Fricska, Szilard (2007), *Slum Upgrading and Housing Finance* at www.habitat.org/hfhu/programs/cgap_working_group.

[6] In South Africa, the wholesale finance institution Rural Housing Loan Fund found that it took borrowers on average 18 months after occupancy to begin taking micro-credit to add on new rooms and make improvements. See Topham (1998), *Construction Quality Survey.*

[7] Hokans, J, Kofi Anku et.al. (2004), "Strategic Assessment of the Affordable Housing Sector in Ghana," Accra, for CHF International available at www.chfinternational.org.

The missing link between the surging need for housing and scarce supply demands the attention of donors and policymakers to produce information, policies and environments that will demonstrate to private actors the value of investing in the low-income market. Given the high growth in some domestic capital markets and the high levels of liquidity in developing country commercial banks, the potential for the creation of long-term loans for housing is high. Many banks recognize the market potential in financing housing at the base of the pyramid, but are hesitant to enter without risk mitigation or at least a much better understanding of the risks in low-income markets. Asymmetric information, inherent in providing longer-term loans to the working poor in the informal sector, limits the ability of formal financial sector institutions to assess the creditworthiness of potential borrowers. Financial intermediaries are needed to bridge the existing gap between the demand for housing finance and supply of lending vehicles. For more information on the role of banks, please see MicroREPORT #92 Going to Scale with Housing Microfinance: The Role of Commercial Banks.[8]

THE MORTGAGE INSTRUMENT AND HMF

Until recently, access to housing-related finance has been extremely limited in the developing world. Its focus has been almost exclusively on home acquisition and mortgage-backed lending. Yet, mortgage lending and a supporting secondary mortgage market have rarely materialized as financially viable options in addressing the housing needs of the poor. This is due to three key barriers. First, few sources of funds exist that can match repayment periods spanning 10 to 30 years, creating a severe asset-liability mismatch for commercial institutions interested in housing finance. Second, when these sources do exist (government pension funds, for example), research has shown that poor borrowers do not sustain repayments over long periods of time.[9] Third, the majority of the poor do not have clear title to the land they occupy for a variety of reasons, thereby prohibiting their access to mortgages. Because poor people cannot access mortgages, in short, they have been effectively shut out of all formal housing finance.

But the shortcoming of the mortgage market also relates to low-income people's livelihood strategies. Adjustable interest rates over long periods, usually 20 years on average for a traditional mortgage, do not match up well with many people's time horizons and make borrowers even more vulnerable to changes in the macro-economy. The mortgage is not well suited to those households with diverse and irregular forms of employment and income, or the ways in which they build, reside in or improve their houses. Numerous studies suggest that mortgages serve the housing finance requirements of only the top 20-30 percent of the population of a low-to-middle income country.[10]

Microfinance institutions offer an alternative to the limitations of formal housing finance, by providing short-term cash-flow-based credit for renovation and incremental construction purposes. In this institutional context, the practices of housing microfinance as we generally recognize them have flourished.[11] Loan amounts have been modest, as have credit terms. Limited available data suggests that HMF services perform as well or better than traditional microenterprise lending from a credit risk

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[8] microREPORT #92 Going to Scale with Housing Microfinance: The Role of Commercial Banks by Carlos Martin, Development Innovations Group, www.microlinks.org/ev_en.php?ID=12662_201&ID2=DO_TOPIC

[9] Some studies have shown that repayments are not typically sustained for more than 3 years. See Franck Daphnis, "Housing Microfinance: Towards a Definition" in Daphnis and Ferguson (eds); *Housing Microfinance: A Guide to Practice* (Bloomfield, CT: Kumerian Press, 2004).

[10] See for example Ferguson, B. (2003) "Housing Microfinance: A Key to Improving Habitat and the Sustainability of Microfinance Institutions" Small Enterprise Development, Vol 14, No. 1.

[11] See Daphnis (op cit) for additional elaboration of conventional practices and known advances in the field.

standpoint, although the income profile of the clientele and the guarantee requirements are similar. Data also shows that HMF is usually priced marginally lower than microenterprise lending, perhaps reflecting the perceived reduction of risk.[12] Indeed, portfolio yield rates are often on par with or higher than the traditional banking sector.

In short, HMF has proven itself to be a viable and growing product line for all kinds of MFIs. Historically, it has been the traditional MFIs that have led HMF (occasionally becoming HMF-specialized institutions), and "upscaled" microfinance banks that have led bank-channeled HMF. As shown in the four case studies accompanying this microREPORT, clients are demanding more flexible methods of financing their home improvements, and institutions are responding to this need.

Nevertheless, with the transformation of financial NGOs into regulated institutions, and where land ownership has been regularized, primarily in Latin America and parts of Asia and Africa, some MFIs have begun to make smaller, shorter-term mortgages to low wage, salaried employees and successful informal entrepreneurs with good credit histories. This is highlighted in the microNOTE on housing finance for the poor in El Salvador. Two Salvadoran MFIs, ACCOVI and Apoyo Integral, are making small mortgages at market rates to near poor and moderate income households. A recent study by ACCION on its affiliates in Latin America (all regulated institutions) highlights that eight of the ten MFIs surveyed are making mortgage loans, while seven are also experiencing significant growth of their HMF portfolios, and two other affiliates are currently piloting housing micro-loan products.[13] The limited experience thus far suggests that clients are able to repay longer-term loans of up to five years, and possibly up to fifteen years.

A significant limitation of the mortgage instrument for poor people, however, is the high upfront lump sum costs associated with meeting down payments and title deed registration costs, even if both the applicant and the property are actually able to qualify for mortgage financing[14]. This conundrum is highlighted in the microREPORT on housing finance in Morocco. The MFIs, Al Amana and Zakoura, offer short-term micro-loans to qualifying borrowers to finance down payments for the eventual purchase of subsidized housing units with long-term finance provided by Banque Marocaine du Commerce Exterieur (BMCE). In El Salvador, the title processing and mortgage registration fees are capitalized and rolled into the loan amount. Such innovations which combine a MFI's experience with the working poor and the ability to creatively finance mortgages may test the traditional assumptions about market segments of the poor and their ability to purchase a home.

BARRIERS TO ENTRY

1. How to assess construction quality?

The primary barrier to entering the HMF segment is the perceived risk of financing the most precarious possession of a precarious population: their homes. There are a few unique characteristics of HMF that increase the perceived risk among institutions. These include the lack of formal land title or security; limited capacity of borrowers to correctly estimate loan amounts required for the home improvement task

[12] Alejandro Escobar and Sally Roe Merrill, "Housing Microfinance: The State of the Practice" in Daphnis and Ferguson (op cit).

[13] Mesarina, N. and C. Stickney (2007) "Getting to Scale in Housing Microfinance: A Study of ACCION Partners in Latin America", ACCION *InSight No. 21.*

[14] Porteous, DJ (2006) "Assessing the potential of financial markets: Connecting low income borrowers," KfW Symposium, Berlin, November.

at hand (which could lead to an unfinished improvement, an unsatisfied client, and subsequent delinquency); and the ultimate quality of the improvement and the client's satisfaction with it (again, potentially leading to increased delinquency).

Microfinance best practices are based on non-collateralized loan methodologies. Mechanisms can be put into place at relatively low cost to reconcile home improvement estimates with the loan value, and to reinforce that the client is ultimately responsible for construction quality (unless the lender becomes involved in construction assistance, providing building materials, or actual construction). However, despite these available solutions, the perceived risk of the market, of the product methodology, and for the MFI's operations continues to limit expansion into this product. A discussion of the value of construction assistance follows later in the paper.

2. Insecure Land Tenure

Unfortunately, in the absence of formal financial sector support, housing for most poor people has long been a progressive endeavor. The urban poor often live in informal settlements treated as illegal by municipal authorities. Poor households invade land or purchase a subplot in an informal subdivision, and then construct their homes incrementally, over a period of years or even decades. The lack of legal recognition and the corresponding lack of tenure rights by the inhabitants can be a major hurdle to securing access to improved services—including financial services. Without land security or title registration, traditional mortgage finance is difficult, if not impossible. Even when land tenure security exists, the legal framework for enforcing mortgage collateral can be problematic at best.

HMF is one way to offer financing to clients who do not formally own the land on which their dwelling is built. In most cases, land "security," rather than proper ownership is the operative criterion for approving an HMF loan. In cases where local governments are accessible, MFIs or other partner community based organizations can advocate for land rights for their clients. SEWA Bank in India provides more than financial services by actually mobilizing the community and educating them on their rights. Most MFIs are not well suited for such advocacy, but can develop partnerships with other organizations in order to provide a suite of services.

3. Government subsidies can distort markets

In addition to the complexity of land tenure and housing quality, housing is often the vehicle for providing subsidies across the globe. In fact, it is perceived as a critical economic development engine even when publicly provided. Unfortunately, subsidies are usually structured poorly, and often result not only in distortions in the market but in detrimental effects on poor citizens (such as relocation, displacement, or increased costs) that defeat the purported intent of the subsidy. The microREPORT on Morocco demonstrates how subsidies often can be misdirected and may lead to inflation of housing prices.

However, when subsidies are closely monitored and directed to the low-income, they can be a key bridging mechanism in the affordability gap of housing markets. Where communities have the opportunity to participate in the design of such government initiatives such as relocation, displacement, or subsidized housing, leakage of funds (or the misdirection of subsidies to higher-income groups) will be reduced. Policymakers, donors, and MFIs working in a context of subsidized housing or land should ensure a fair representation of the community in the design and implementation of the program.

4. Commitment to social bottom line

The successful delivery of housing microfinance services is dependent on a commitment to improving the quality of service provided and overall livelihoods of clients. Institutions must be willing to invest significant upfront costs in client origination and follow up, line staff management, and field-based work that can differ significantly from the established practices of MFIs. This required level of understanding and commitment to a different management culture and mode of operation explains, in large part, why MFIs have yet to rush and embrace HMF, despite the promise of client loyalty, expanding market share, and increased competitiveness. In all of the examples documented in the case studies, this commitment must be great enough to overcome the other barriers so that actual risks can be more fully understood and addressed.

CLIENT PREFERENCES AND LOAN CHARACTERISTICS

The client process for arriving at the decision to take a housing microfinance loan, or for that matter the decision by a MFI to develop a specific HMF product to meet client demand, is less well understood. The institutions highlighted in the case studies represent diverse approaches. One predominant process rewards repeat clients, who have built reliable credit histories and micro-enterprises with joint liability products, to use portions of micro-credits for some sort of home improvement purpose. Some institutions, such as Al Amana and Zakoura Foundation in Morocco, may offer larger, individual loans to loyal clients for housing.

By responding to client demand, MFIs are actually building their competitive edge in saturated markets. In markets that are less developed, adding housing microfinance can build customer loyalty thereby improving performance. However, an MFI focused exclusively on growing outreach and reaching financial sustainability may find HMF too costly and time-consuming to implement. Thus, understanding how HMF fits into an institution's strategy and mission should be considered prior to conducting market research.

Clients utilize HMF loans for a variety of home related purposes including: additional rooms for storage, sale or production related to home-based enterprises; rooms to rent to supplement income; or to host rural family members for extended visits. The clients may also want finance for installing security bars and doors, building external walls, repairing roofs and other improvements related to an existing dwelling. Clients may want to purchase title to land where possible or acquire access to municipal services, such as water, sanitation and electricity/lighting. Since these municipal services often do not exist, clients may purchase tanks for water harvesting, pre-fabricated ventilated pit latrines or composting toilets, or solar panels and other modern energy items, all of which may be acquired with either conventional unsecured HMF or with "lease to buy" or "hire purchase" loan products, usually associated with consumer finance for white goods and furniture[15]. Financial instruments sought by these clients are mostly individual housing micro-loans, but also savings and insurance (credit life and possibly others).

Critical loan characteristics are:

- Flexible, simple product design, primarily for individual borrowers;

[15] In the energy financing field, closely linked to both housing and consumer finance, FIS in Argentina and Faulu Kenya are financing solar panels, which themselves serve as collateral for the loan. Similarly, SEWA Bank in India is financing SELCO low-energy lamps for domestic use.

- Longer loan terms (12-24 months) and access to larger loan amounts ($500-$2,000), usually at comparable interest rates and perhaps lower rates for existing clients or repeat borrowers;
- Alternative collateral requirements (forced savings, physical collateral, other personal assets and household items) up to 125% of the face value of the loan;
- Fixed installments, if not fixed interest rates, which remove cash flow risk; and
- Non-mandatory fee-based options for construction assistance.

PROGRESSIVE HOUSING AND CUSTOMER CHOICE OF CONSTRUCTION ASSISTANCE

Progressive housing, often messy and expensive in the eyes of external observers, is valued by clients because it is household driven (as opposed to a developer, NGO, MFI or government driven). However, whether a client is able to maximize the housing impact of the loan often depends on whether construction assistance is available. The research on pre-loan and post-loan technical assistance is limited.[16] A separation of the lending function from the construction assistance function, "ring-fenced" in two separate organizations, may well facilitate cost savings through greater scale, and reduce credit risk through tighter enforcement of lending conditions. Some MFIs, such as FUNDASAL in El Salvador or the Kuyasa Fund in South Africa, encourage and arrange off balance sheet housing technical assistance to borrowers as part of credit delivery. But overall, most institutions question the value and high upfront cost of on-balance sheet construction assistance[17].

Some evidence suggests that construction assistance is a value-added service promoting greater client satisfaction. Most importantly to the MFI, construction assistance may lead to repeat business. In an impact study in South Africa on retail lenders, borrowers who received building advice handouts on avoiding common building problems reported that the information received was highly useful and that they were more likely to go back to that MFI for another housing loan[18]. Yet the Vietnam microNOTE found CEP, one of the largest MFIs in the country, reluctant to invest in construction assistance for clients. In Kenya, the cooperative NACHU, is attempting to offer (and subsidize) both construction assistance and finance. This "holistic" approach may mean extra costs burdening the financial sustainability of the lending operation, and may negatively impact housing assistance itself.

Similar to the issue of land rights, MFIs are not well-suited to include technical assistance as part of a loan. A more sustainable approach may be for MFIs to offer construction assistance as an option through partner organizations. Subsidies to launch and adjust a suite of fee-based technical services may be offered to both MFI clients and those households who cannot afford credit. Market research will reveal to what extent and for what purposes potential borrowers are likely to pay for or desire construction assistance.

Figure 1 below depicts the progressive housing process. Households make both monetary and non-monetary inputs into the building or improving of their houses over time. On the monetary side, the client

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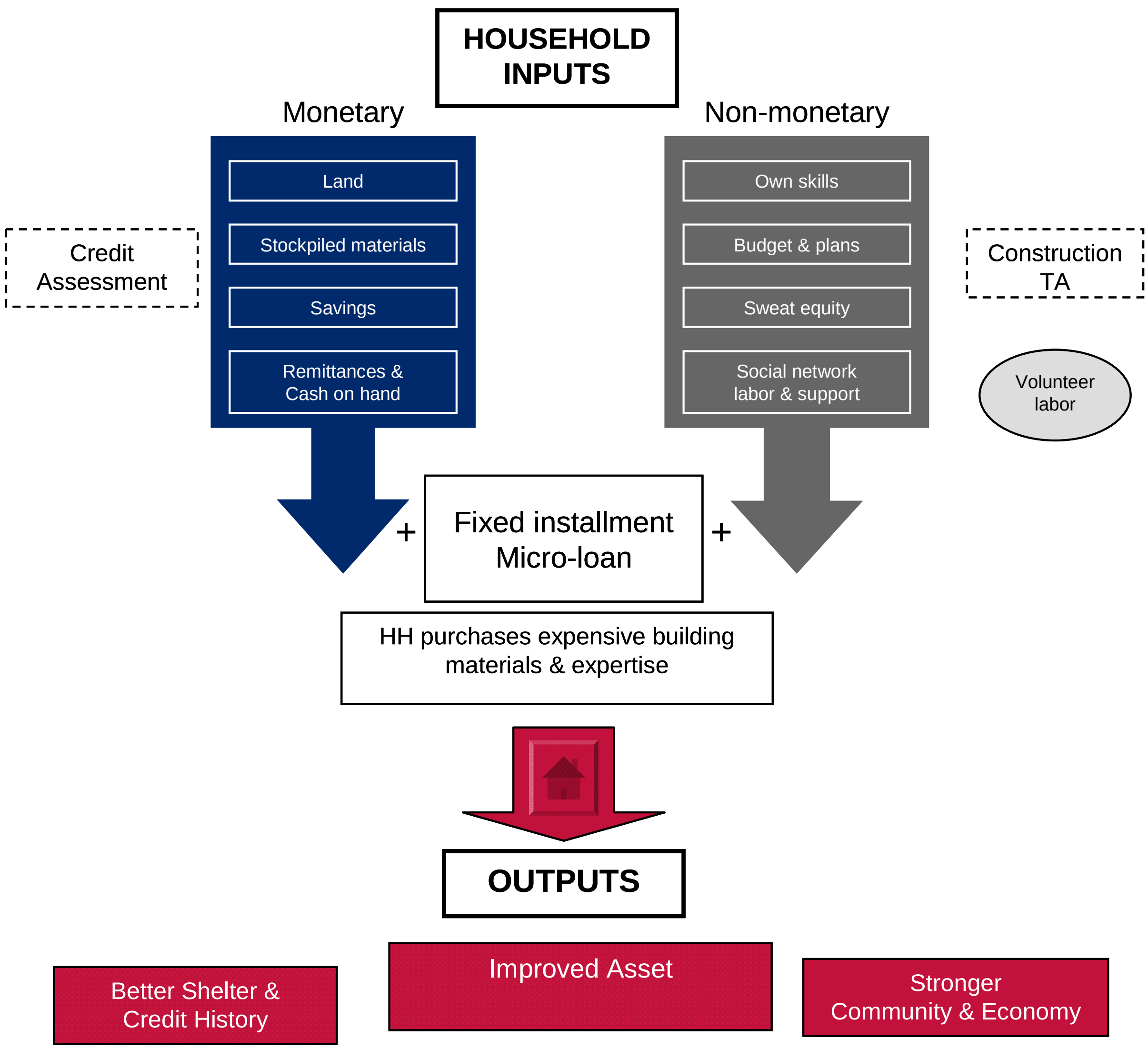
[16] See Shumann, R (2004), "Developing Housing Microfinance Products in Central America," ACCION *InSight* 12.

[17] Mesarina, N. and C. Stickney (2007).

[18] Shisaka (2004), *RHLF Impact Evaluation 2003/2004,* Johannesburg, South Africa. Building problems abound in progressive housing but the most commonly observed ones are avoidable without incurring too many additional costs: building a house too big (horizontal rather than vertical increments), missing lintels above doors and windows, poorly mixed cement, lack of damp proofing in foundations and technical complications in installing roofs.

usually has some sort of permanent access to land that is often cemented by a formal or informal financial transaction with a local authority, traditional authority, private land owner or sometimes a utility company or corrupt political party official. This transaction, whatever its form, is perceived by the client as a form of security, whether legally enforceable or not, offering a climate for personal investment into housing and community.

FIGURE 1: HOUSEHOLD-DRIVEN PROGRESSIVE HOUSING PROCESS



An important form of household savings is stockpiled building materials such as secondhand doors, windows, toilets and sinks, and cement blocks usually stored on site or on roofs. These materials are an important hedge against inflation, which has been rampant at times in many developing countries. They represent significant monetary value and should be taken into account for budgeting and construction assistance purposes. Other monetary inputs include savings, remittances and cash on hand underscoring the importance of a household's access to bank accounts.

Non-monetary inputs into the progressive housing process are invaluable because their quality and quantity significantly leverage their “on hand” monetary inputs and reduce or even eliminate the need for a micro-loan. These non-monetary inputs of the borrower’s household include their own skills (specialist building expertise and experience), budgeting and planning capacity and their own labor (“sweat equity”). Of special significance is the client’s social network of micro-entrepreneurs in the building sector, family, friends, church-goers, neighbors, municipality, employer and building supplier who all may bring special contributions to the progressive housing process. These contributions may include additional labor, knowledge of reliable builders, skills in negotiating building permits and contracts, making progress payments, and recommending appropriate building materials.

Access to a predictable fixed payment, short-term micro-loan links the monetary and the non-monetary inputs and speeds up the building process. The micro-loan usually goes toward the purchase of building materials not easily stored and vulnerable to theft (cement, roofing) and/or expertise (plumbing, electrical, roofing) not found in one’s social network. The poorer the borrower, the more careful the staged planning must be to complete the project chosen by the individual client (rather than chosen by the lender or the TA provider)[19].

Outputs include not only the improved housing asset, but also a better credit history, a more confident and skilled client and a better community comprising citizens more willing to pay for basic services. The progressive building process is not orderly or always compliant with all standards, but it is more affordable and people are more likely to live with their own mistakes than someone else’s—and therefore more likely to pay their loans. The expenditure of loan proceeds also tends to revolve in the local economy fueling business and jobs.

[19] In Haiti, Fonkoze Shoulder to Shoulder Foundation’s Kredit Kay program, a group-based loan product funded under Habitat-LAC’s revolving loan fund, attempts to limit client choices to only cementing dirt floors, installing a new roof or building pit latrines. Given Haiti’s public health crises, the imposition of these limits is understandable. Nevertheless, evidence there already suggests that some borrowers are getting around this limitation. It will be interesting to see in time if Fonkoze can reach scale and operational and financial sustainability without broadening its policy of client choice.

II. FEATURES OF EFFECTIVE HOUSING MICROFINANCE MARKETS

THE POTENTIAL BROAD, MIDDLE MARKET OF HMF

The studies prepared as a part of this series, featuring El Salvador, Kenya, Vietnam, and Morocco with some references to Peru, confirm that housing microfinance has the potential to serve clients across several segments of a broad middle and lower income market. Based on this research, the greatest success in launching HMF seems to be in urban areas with a higher concentration of households and more informal housing. However, depending on the legal and regulatory environment of each country, the penetration of HMF varies. As shown in Morocco and El Salvador, a strong regulatory environment supporting low-income housing and microfinance will allow institutions more flexibility in financing housing for the poor.

Figure 2 below depicts a stylized view of the primary demand for housing finance. While the mortgage suits the income and land security situation of the top 20-30 percent segment of the market, the housing micro-loan is reaching the urban near poor and poor. Investment in rural housing often emanates from the urban working poor who are usually renters or family members from rural areas living with their urban cousins and remitting funds back home.[20] Integral's experiments with remittances not withstanding (discussed in the El Salvador case), Bank Rakyat Indonesia (BRI) in Indonesia is one of a few MFIs that make housing loans to the rural poor on any scale.

Around the world, those near poor households with incomes derived from both formal employment and which possess title to their land are increasingly "banked", often with commercial banks "downscaling", or regulated MFIs.

A market segment of the near poor comprising households which derive their incomes primarily from formal employment but who reside on land without legal title may have high potential for housing microfinance. Nevertheless, this segment is also targeted by consumer credit companies in many countries, e.g. Mexico and South Africa, leading to increased indebtedness in this segment.

Therefore, an important and under-served market segment is the informal sector. These households may have formal title or some documented rights to their land or may have no documentation but have informal rights to the land on which they reside and feel sufficiently secure to invest. They may also operate their businesses out of their homes, as noted in all of the case studies.

The question then becomes: how deep into the lower end of this market can housing micro-finance penetrate? Evidence suggests that 15-20 percent of all undirected micro-loans made by large micro-lenders go for housing, but few MFIs appear to have reached down into the poorest 25 percent of the

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[20] Collins, D. Ibid.

population with HMF.[21] It is in this very "base of the pyramid" that subsidies, rather than finance, for construction assistance and infrastructure may be required to supplement household savings and labor.

PHASES OF MARKET DEVELOPMENT AND THE REGULATORY ENVIRONMENT

Housing lending develops in a similar path as microenterprise lending, growing fastest in markets with strong regulation and supervision. As summarized in Annex A, the market follows conventional s-curve trajectories (adapted from CGAP research).[22] In early "pioneer markets", where the volume of formally defined housing loans is very low, even non-existent in places such as South Sudan, housing policy will also be under-developed. Over time, as economic conditions improve and more MFIs are established, loan volume increases rapidly and housing policy may become less fragmented. Improving incomes will also spur greater emphasis on housing finance and participation of the private sector in both the delivery of finance and housing development. Both Kenya and Morocco seem to be in a "take-off" stage. Loan volumes will continue to grow but more steadily during a "consolidation" stage, where the number of firms in HMF may begin to level off, such as what seems to be occurring in El Salvador. In mature markets, the number of MFIs may be fewer, but stronger and loan volume begins to increase again as is unfolding in Peru.

The regulatory environment impacts the housing microfinance market in different ways during these stages. A supportive framework levels the playing field for private sector financial services organizations to compete in the market, enables legal recourse, recognizes and monitors the costs and risks facing market participants and promotes consumer protection and confidence in the sector as a whole. In Vietnam, the lack of a formal regulatory framework for microfinance is stifling competition, growth and financial inclusion, as well as possibly undermining incentives to scale-up the housing impact of Habitat's program. In Morocco, the government's policies on microfinance as well as housing have been relatively supportive. Moroccan regulators enabled MFIs to lend for housing purposes and to take wholesale loans from banks they are still unable to take saving deposits. In Kenya, the passage of a new MFI law in 2007 will strengthen competition for NACHU and lead to widespread HMF adaptation by other savings and credit cooperatives.

A number of prerequisites must be in place in order for such high levels of market penetration to be possible. These prerequisites include: a large and profitable microfinance industry, a government that is engaged in developing social housing options, a potential for capital markets to finance the future growth of microfinance portfolios, a committed management and staff and a supportive regulatory environment. In countries where these conditions are currently met and where demand for incremental housing finance exists, it is reasonable to expect that as best practices spread, the examples of MiBanco and BancoSol have the potential of being emulated.

Second, the relatively small size of housing microfinance loans implies that even with a market penetration as deep as 10% of a country's households, HMF loans as a percentage of GDP or total bank assets is likely to remain relatively low (at least, in the short term.) In the long run, as microfinance grows to become a more prominent feature of the financial landscapes in developing countries, so will the size

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[21] See two examples: an analysis of borrower surveys conducted by ECI (2004) on commercial MFIs in South Africa, and an impact survey conducted by the JFK School, Harvard University (2001) on Bank Rakyat Indonesia.

[22] Porteous, D (2006a), "Competition and Microcredit Interest Rates," CGAP *Focus Note* No. 33.

of housing microfinance markets. At the present time, the projections for HMF in Peru (1% of GDP within five years) remain a goal that no other country has come close to fulfilling.

III. HOUSING MICROFINANCE DELIVERY

The research conducted through this series has identified four types of institutions that can successfully launch housing microfinance. These include MFIs with strong institutional capacity, regulated institutions with access to long-term financing and deposits, commercial banks, and housing finance specialists. In principle, many product methodology considerations like pricing, terms, and operational costs should be no different than pricing any other microfinance product. We have seen some minor differences in HMF offerings among MFIs in this regard, but this can also be explained by the fact that the HMF product is a reward for long-term, high-performing clients, rather than any characteristics or methodologies particular to the HMF, per se.

The key elements of each model will be discussed further in this section.

1. MFIs WITH STRONG INSTITUTIONAL CAPACITY

Microfinance institutions need to have strong internal controls, middle management, and information systems to roll out new products, particularly individual loan products such as housing microfinance. Typically, an institution should already have their basic organizational structure in place and report comfortable earnings before choosing to enter into HMF. For those that may not have these systems in place, introducing a new product can prove far more costly than anticipated and actually reduce the performance of the overall institution. Some institutional challenges associated with HMF products include aligning incentives for loan officers to achieve the desired product mix, investing in an adequate MIS system, and making the transition to individual loan products.

Research has shown that clients prefer individual housing loans rather than solidarity or group model loans. To retain these clients, MFIs that primarily use group lending models may respond by developing an individual loan product and adjusting the credit assessment and management information systems to accommodate these larger, individual loans.[23] The process of introducing individual loans is challenging for institutions using group loan methodologies, which can be exacerbated by the lower interest rates, longer tenors and larger loan amounts of HMF. MFIs must have effective risk assessment and management strategies, informed by more sophisticated data management and reporting, and supported by adequate liquidity and capital. In general, the risk of lending for housing is considered to be lower if land tenure is secure. The complexity of issues involving land rights increases the risk, and the perception of risk, in housing markets.

2. REGULATED MFIS

The benefits of entering the formal, regulated arena are compelling for the growth of HMF. Regulated, transformed MFIs are usually more efficient and have the capacity to diversify into housing microfinance. Savings provide a cheaper source of funds than commercial bank loans, and act as a source of collateral.

[23] Personal interviews with local and international staff at Opportunity International and other MFIs.

In addition, these MFIs must meet specific supervisory requirements for minimum capital adequacy, financial performance and reporting accuracy. As a result, these institutions experience increased internal discipline and can attract equity investors. Capital infusions from equity investments greatly leverage and lower the costs of debt funding and usually attract new skills and perspectives onto governing boards of the MFIs. All of these enhancements increase institutions' ability to successfully introduce and manage housing loan products.

Mibanco, Bancosol, and Banco Procredit in El Salvador are examples of this approach and have expanded their reach into HMF markets for profit and impact. Mibanco expects its housing microfinance portfolio to reach as high as 25% of its total portfolio by 2012. Other institutions are quickly following in the footsteps of Mibanco, introducing housing loans once they have converted into deposit-taking institutions.

3. COMMERCIAL BANK DOWNSCALING

As described in the prior two sections, capacity and access to financing are two of the most critical elements in successfully delivering housing microfinance. Commercial banks could be best suited to quickly roll out HMF because of their strong institutional capacity and access to longer-term and lower cost funding. However, their willingness to go downmarket and assume risk can limit their commitment to adopting HMF. As highlighted in the microREPORT on commercial banks, banks tend to focus on low risk products when entering low-income markets. The microREPORT shows that in mature microfinance markets such as Peru, the commercial banks follow paths carved by MFIs and learn from them. Banque Marocaine du Commerce Exterieur (BMCE) is another such example in Morocco, where the bank shifted their credit policies and procedures to target clients living in slums. However, critical to the development of the new product and the orientation of staff was technical assistance from Shorebank International. In other markets, commercial banks often commence with housing microfinance by "outsourcing" their microfinance portfolios to service companies or partner organizations. One new entrant to this market is HFC Bank in Ghana and their non-financial service company, Boafo. Launched with CHF International and assistance from USAID and UN Habitat's Slum Upgrading Facility (SUF), Boafo services the loans that are kept on the balance sheet of the bank. HFC acts as a joint venture managing partner and minority shareholder,

> **Jamii Bora Trust**
>
> Jamii Bora Trust is an un-regulated financial NGO in Kenya seeking to convert into a regulated financial institution in 2008 to protect its market niche and core savings-based loan product. Jamii Bora provides financial services to approximately 170,000 slumdwellers of Kenya, and has raised capital locally through a loan quarantee from social investor Unitus. It is now applying to register as a regulated MFI under Kenya's new microfinance legislation. Jamii Bora's financial products include loans for micro-enterprise, land, housing, education, and life and health insurance, including services for HIV-positive clients.
>
> Jamii Bora Trust is broadening its services by developing Kaputei, a dense new housing community where clients can buy homes with payments on par with rents paid in the slums (about $20 per month). A group of Jamii Bora clients is creating a new 'town' outside of the Nairobi slums where families can live in healthy environments. Work has almost been completed in the first of four phases under construction, and the first 250 houses will be ready for occupancy before the end of 2007.
>
> Sources: www.unitus.com; www.jamiibora.org

Some overall conclusions found in the commercial bank microREPORT are described below:

- Commercial banks are wary of HMF because of the overall complexity of housing issues in developing countries, and the subsequent perception of risk. As such, even if they do enter the microfinance sector, they tend to stick with the "traditional," well-tested microenterprise products before developing HMF products.

- Banks standardize products in order to scale them, so they prefer that HMF products adhere to traditional microenterprise product methodologies. They tend to avoid the provision of construction assistance, specialized loan officers, and other services that raise the costs and complexities of the business.
- When entering the MF market and developing HMF products, commercial banks often prefer to distance themselves from "boutique" products. This has led to experiments with several organizational structures and types, but it is too early to tell which works best and under which conditions.
- A strong commitment among bank management is critical to break traditional conceptions of both housing finance and microfinance, and the risk perception of both. An overview of current practice, however, suggests that the potential for HMF to become incorporated into the operations of non-microfinance banks is primarily a function of these banks' interest in developing an overall microfinance portfolio, rather than a specific interest in HMF.
- While results from the pioneering HMF products offered by commercial banks appear promising, they have yet to: 1) be adopted widely and globally; 2) be viewed as a key area of growth on a par with other traditional banking products for any but a handful of banks; and 3) significantly reduce any nation's unmet housing demands.

4. SPECIALIST HOUSING MICROFINANCE INSTITUTIONS (HMFIs)

Some of the most successful examples of housing microfinance have begun in institutions which specialize in housing micro-loans. They are usually quite innovative in offering various models of housing finance, but often have a slow trajectory to achieving financial sustainability and accessing capital markets. These specialists may be divided into several sub-categories with different business models:

- **International NGO housing providers:** These can be affiliates of Habitat for Humanity or CHF International. For HFH, their loan products were usually unsecured, 10–15 year promissory notes made on preferential interest rates. As reflected in the Vietnam microNOTE, Habitat is beginning to make a sea change in its approach to housing finance by collaborating with MFIs and developing a better understanding of progressive housing and technical assistance approaches to support low-income borrowers in their self-build efforts. In addition, HFH has established an internal social venture capital fund to offer mid-size MFIs structured loans, pilot loans, "patient equity" and open-source HMF toolkits to promote innovation in progressive housing.[24] CHF International also has a large housing portfolio of $15.2 million (end of September 2007), or about 20 percent of their total portfolio.[25]
- **National NGOs:** These organizations traditionally provide loans on preferential terms for houses subsidized by NGOs, savings cooperatives' projects, or the government. The microNOTE on Kenya described the National Cooperative Housing Union (NACHU) as an example of a "holistic" national NGO saddled with numerous identities --housing TA provider, financier and developer-- and

[24] Kelley (2007) "Accelerating Housing Microfinance for the Urban Poor", Concept Paper, HFHI.

[25] Interview with Richard Shumann, CHF International

continuously contemplating ways to grow its portfolio and access additional subsidized and commercial funding. Another example of a national NGO which may have found its footing by disaggregating its technical assistance and financing roles is FUNDASAL, described in the microNOTE on El Salvador. The Kuyasa Fund in South Africa is yet another national housing microfinance NGO.[26]

- **Community-Based Organizations (CBOs):** Less formal than NGOs, CBOs mobilize communities to provide a variety of social services such as housing, water, sanitation and education. Slum Dwellers International (SDI) is a prominent international membership-based network of CBOs that advocate on behalf of the urban poor for land rights and against slum eviction efforts, and support group-based savings mechanisms and revolving loans for members. They often work in conjunction with local governments to acquire land, build infrastructure, and generate demand for public subsidies. While both community mobilization around local development and the discipline of forced savings has been shown to have many benefits, these models have not proven to be financially sustainable.

- **Building material suppliers:** Building material suppliers offer clients building materials on credit, as part of their business strategy to increase sales. One prominent example is Patrimonio Hoy (PH) of Cemex, a supplier of cement and ready-mix concrete, in Mexico. PH is the largest HMF program in Mexico, which has served over 150,000 clients. PH offers a group-based savings to credit program to support the addition of a room, and has been widely hailed for its innovation. Usage of loan proceeds for building materials is checked by a third party procurement agent who links customers with building material supply stores. However, the program has proven expensive. Cemex is likely to move towards more individual credit lines offered by consumer lenders, such as the Lendcor model described below, for use at their building material stores.

- **Consumer credit companies:** These companies are responding to the growing demand for construction supplies. Lendcor is a profitable lender in South Africa that offers cell phones equipped with WIZZIT, a platform for mobile banking, to pensioners and micro-entrepreneurs seeking to buy building materials and cement. Usage is generally unchecked but building advice is offered by the building materials suppliers[27]. As noted earlier, clients often use their housing loans for the purchase of more expensive building materials, such as roofing materials and cement, as a final step in their plans for building, and this linkage between building materials suppliers and consumer credit companies bears more research as a potentially viable model of delivery.

- **State-sponsored housing micro-lenders:** These organizations are usually subsidized by governments and offer low interest loans or grants to qualifying individuals. In Honduras, FUNDEVI, capitalized with international bi-lateral funding, offers mortgage and housing micro-loans, as well as an in-house pre-loan disbursement and post-loan disbursement housing technical assistance. These models can be sustainable if paired with commercial financing options. But political risk and corruption will often reduce the effectiveness of such programs.

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[26] Interview with Willem van Emmenis, RHLF. Kuyasa focuses on women's groups who require financing for additions and improvements primarily on core housing developed under the government's housing subsidy program. With TA from PlanetFinance, Development Innovations Group and ING Holland and with working capital funded from donors, a labor union investment fund, a commercial bank overdraft facility and the Rural Housing Loan Fund, which wholesales funds on commercial terms, Kuyasa has achieved an outstanding loan portfolio of $1.6 million, 2,800 active clients and about 80% operational sustainability as of August 2007. It expects to break-even in three years, some ten years after its inception. It does not attempt to provide direct housing TA services to borrowers, but partners with other NGOs to support borrowers.

[27] Interview with Willem van Emmenis, CEO, RHLF.

OTHER KEY OPERATIONAL CHALLENGES

Regardless of the structure or business model, HMF can be a costly venture for institutions, given the need to upgrade systems, train staff, conduct market research, and market the product. A summary of the key operational requirements for successful introduction of housing microfinance products include:

- Skilled and committed management
- Sound accounting systems and MIS
- Thorough market research
- Strong middle management, comfortable with designing a new loan product
- Access to reliable, appropriate term funding
- Ability to offer individual loans at terms beyond 1 year
- Staff training programs and appropriate incentives for loan officers.

TABLE 2: PROFILE OF HMF PROVIDERS IN CASE STUDIES

Model	Construction TA	Housing MF Products	Outreach & Sustainability (Overall)	Est Housing Loans	Funding	Strengths/Weaknesses
Un-regulated financial NGOs						
Al Amana (Morocco)	Pre-loan	Individual unsecured	405,000 active clients; ROE 23.51%; Op. Sus. 126.6%	2,000	Grants, loans	Donor support to cover some costs, mission-focus;
Zakoura (Morocco)	Pre-loan	Individual unsecured	317,000 active clients; ROE 16.56%; Op. Sus. 120.63%	1,500	Grants, loans	Less transparent, governance issues, no access to capital markets, MIS issues?
Regulated MFIs						
Apoyo Integral (ACCION affiliates)	Pre-loan	Individual unsecured	23,000 active clients; ROE 14.35%; Op. Sus. 116.45%	7,000	Loans, fees, IPO, CDO?	Governance transparent, access to capital markets; diverse products; Mission drift?
Commercial Lenders ("Downscalers")						
Banco de Crédito (Peru)	None	Individual unsecured	Unknown	$198m HMF portfolio by 2011	Local capital markets	Access to capital markets, able to cover costs for product diversification; Credit assessment capacity, MIS issues, "champion"?
Specialist HMFIs						
Habitat for Humanity(Vietnam)	Pre-loan & post-loan	Retail promissory notes, wholesale	WU-KG: Unknown CEP: Unknown	2,901 ($496,000) 150	Grants, soft loan, TA	Flexibility, "holistic", mission-focused; Donor dependence, cost of TA, governance, staff incentives, role confusion
Savings/housing cooperatives						
NACHU (Kenya)	Pre-loan & post-loan	Secured individ. w/ group guarantee	330 active clients (coop & individ loans); ROE 2%?	304	Grants, loans	Regulatory environment, funding, costs of TA
ACCOVI (El Salvador)	None	mortgage	6,000 active clients; ROE 6.26%	1,200	Savings	

V. FUNDING AND SMART SUBSIDIES

As discussed in the prior section, housing microfinance requires access to longer-term financing and consistent sources of funding. While investment for microfinance has rapidly grown over the last few years, very few investors are actually interested in long-term financing. The majority of social investors in debt and equity are no more than 3–5 years. Because housing finance generally necessitates financing in the range of 5–10 years, institutions that hope to offer longer term loans face an asset/liability mismatch.

Currently the majority of HMF products are only slightly different from typical microenterprise loans, having a range of one to three years for housing loans versus microenterprise loans with terms of six months to two years. Many institutions would be interested in extending the tenor of loans if they were able to access financing that had longer terms. But debate on whether the poor can actually afford to pay loans over a period of more than two years remains an issue. Until the industry gains more experience in lending to the poor for longer periods of time, it will be difficult to attract significant foreign investment or commercial bank financing for long term loans.

ROLE OF DONORS AND "SMART SUBSIDIES"

Where do donors and governments fit into this dynamic HMF environment? As a product primarily targeting progressive home improvement, HMF is not a suitable solution for financing large scale, non-subsidized new home constructions. The CGAP consensus guidelines remain relevant to funding the growth of HMF.[29] More specifically, based on the evidence of the case studies and the trends in funding touched on briefly above, some strategic interventions by donors might be in the following areas:

Housing Microfinance LLC

More sophisticated instruments are now entering the HMF sector. The first collateralized debt obligation (CDO) of $100 million, backed by loans to MFIs to underwrite loans to buy, build and improve homes, is in the works by Housing Microfinance LLC. According to the servicer, Symbiotics, the deal aims to help meet the large demand for housing in Latin America and the Caribbean, while taking advantage of the lack of funding in the sector[28]. This 10 year CDO will also have the longest tenor of any structured microfinance financing product to date.

TECHNICAL ASSISTANCE (TA) FOR MFIS

Donors should support market research in national, regional and local markets to calculate the effective demand for housing finance, to understand how people are saving and building/improving their homes, and to develop marketing and promotion strategies. Combining technical expertise and market research from both the housing and microfinance sectors into one source will be useful in assisting MFIs develop and roll-out HMF products that can reach the working poor at a greater scale. Habitat for Humanity, for example, is putting together open source toolkits that contain tools for market research, client credit assessment, and loan product development.

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[28] See www.symbiotics.ch

[29] See "Good Practice Guidelines for Funders of Microfinance", CGAP Publication, October 2006.

TECHNICAL ASSISTANCE (TA) FOR NON-FINANCIAL SERVICE PROVIDERS

Donors should also consider supporting replicable models for the delivery of construction technical assistance for MFIs that choose to include this service. Currently, no suite of services has been applied at any scale for the delivery of construction assistance. Pre-disbursal consumer education and building advice are probably the least costly and most replicable, and useful for MFI branding, differentiation and promoting repeat business. Based on the microNOTEs and some of the other examples highlighted above, donors could play a very important role in promoting alliances between MFIs and other service providers, both NGO and private, to ensure that a suite of housing TA services is available.

POLICY DEVELOPMENT

Government's most important role is to safeguard macroeconomic conditions, invest in public infrastructure and strengthen the rule of law. Donor support for government policy pertaining to de-centralization efforts that include property rate revaluation and collection, infrastructure investment, land management and participatory planning would create policy environments conducive to housing microfinance. In addition, any support for the development of microfinance markets and supportive regulatory frameworks will pay off handsomely for the development of HMF in the long run. Support for the formation of public or private credit bureaus, streamlined and cheaper property registration processes and functioning commercial courts is also required in many developing countries with growing HMF markets. Finally, policies promoting more flexible building and financing standards are required to facilitate incremental home improvements that lead to a "bankable" house and development of re-sale markets.

FUNDING AND GUARANTEES

Guarantees are especially useful in the development of microfinance products, including HMF, because they enable local institutions to access domestic capital and create opportunities for mutual institutional learning among MFIs, investors and commercial banks. As the microREPORT on Morocco showed, guarantees can kickstart the formal financial sector to take notice of the vast opportunities in the low-income market.

V. SUMMARY OF KEY FINDINGS

The boundaries of housing microfinance are increasingly blurred as microfinance integrates into the mainstream, as it will inevitably continue to do so. Commercialization and access to capital markets are essential for the scaling up of microfinance generally and for housing microfinance more specifically. A review of the case studies and the other examples of HMF noted above leads to a number of key findings:

- Models for HMF delivery have proliferated in the last decade. The increasing demand for financing progressive building of homes has been met with a growing supply of financial options from the diversification of MFIs, “downscaling” of commercial banks, and supportive regulatory frameworks.
- Institutional capacity and commitment can be a major determinant of the success of a HMF product. Given the extensive costs and organizational changes that can be required to implement a new product such as housing, institutions must be committed and have the necessary institutional capacity to launch the product.
- Mortgage loans, consumer loans and HMF as distinct loan products may in fact be converging. Loan products are continuously adjusted to meet customer demand, promote profitability and attract domestic and international capital. The more successful MFIs and commercial banks are offering a range of HMF products, micro-mortgages and “lease purchase” consumer products that address consumer demand for housing. The asset/liability mismatch issue remains a limitation in issuing longer-term loans
- Construction assistance can strengthen the quality of progressive housing, but is not a necessary component to HMF. Including the question of construction assistance, particularly willingness to pay for TA, in product development market research can provide good guidance to institutions considering including TA in their product design, or partnering with TA providers. Models of post-loan disbursement construction assistance by the MFIs have not been proven to be cost effective and are therefore not widely available. Consumer education and building advice offered before loan disbursement is probably cost effective and useful for branding, marketing and promotion, but is also not widely available. More research and pilot experiments are required in this area, especially to promote greater alliances between MFIs and support NGOs and the private construction sector.
- Profitability of housing microfinance is not yet proven, though it appears to be higher among MFIs that have been able to reach substantial scale. With the growing proliferation of HMF, it would be valuable to collect data on the HMF product separately in donor reports and on reporting sites such as the MIX market.
- Donor funds are best targeted at technical assistance and policy development that reduce some of the perceived risks in progressive housing finance. Funds can also be used to build alliances with experienced community based organizations to diminish the complexity of land tenure issues and housing.

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ANNEX 1

TABLE: PHASES OF HMF MARKET DEVELOPMENT

Market characteristics	Market phases			
	1. Pioneer	**2. Take-off**	**3. Consolidation**	**4. Mature**
Growth in volume	May be slow	Rapid	Positive but slowing	Steady natural growth
Number of firms	One or a few	Increases rapidly	Reduces from peak because of consolidation	Depends on characteristics of product and market
Market structure	Concentrated	Fragmented, although market leader may emerge	Concentrating; clear market leaders emerge	Market leaders dominate
MF Regulatory environment	May be non-existent, fractured	Clearer, but may be "push back"	Supportive, but some rules unclear	Supportive
Housing policy environment	Underdeveloped, or non-existent	Policy focus on subsidies, government-led development	Promotion of private sector participation in housing & infrastructure	Emphasis on maximum options for public-private partnerships
Arenas of competition	Little competition except as to location of distribution points	Product characteristics and service levels	Price	Brand (including pricing)
Example country	Sudan	Uganda	Bangladesh	Bolivia
Case study countries	Vietnam	Kenya Morocco?	El Salvador	Peru
Indicative differential MF – bank average interest rates		28%	9%	12%

Source: Adapted D Porteous (2006), CGAP Focus Note No.33.