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EUROPEAN MICROFINANCE AWARD 2017

Microfinance for Housing

Building New Foundations in Housing Microfinance

By Sam Mendelson
With Katarzyna Pawlak, Ewa Bańkowska, Gabriela Erice and Daniel Rozas

EUROPEAN MICROFINANCE PLATFORM
NETWORKING WITH THE SOUTH

FOREWORD

Microfinance has seen much innovation in recent years that has broadened client offerings beyond enterprise microcredit. Yet the one area with arguably the greatest potential – housing microfinance – has been around for nearly as long as microfinance itself. For decades it has remained niche – not seen as income-generating, or about enterprise, and so distinct from the traditional microfinance narrative.

This may finally be changing. This paper demonstrates in the clearest possible way both how much innovation is underway in housing microfinance, but also how much there remains to be done to have the high impact on low-income populations' lives that it can.

The 2017 European Microfinance Award, *Microfinance for Housing*, aimed the spotlight on what financial institutions serving the world's poor can do to address their housing needs. The semi-finalists, finalists and winner, profiles of which are interspersed throughout this report, demonstrate housing finance initiatives that showcase the best – and highly diverse – housing finance practices in the world. Many combine financial and non-financial services – helping households to build and improve their own homes through housing microfinance; some offer micro-mortgages; others provide dedicated savings or insurance products, facilitate access to government housing subsidies for the poor, and offer a range of other support mechanisms. Their experience is instructive for any institution seeking to develop or expand their housing finance programme.

The European Microfinance Award process is gruelling but rewarding. It takes months of preparation by the e-MFP team to put together the application forms and material. It takes months more for the Pre-Selection and Selection Committee adjudicators, to go through an intensive evaluation process that eventually leads to a list of semi-finalists and the finalists, from which the High Jury selects the winner.

We would like to express our admiration and thanks to the Award consultants Katarzyna Pawlak and Ewa Bańkowska, our colleagues at InFiNe.lu, all the members of the Pre-Selection and Selection Committees and the High Jury. Above all, thanks to the tireless work of the e-MFP team that oversees this entire process from start to finish. And finally, thanks to all 37 applicants for sharing their work, and from whom we have learned so much.

We at e-MFP are honoured to have the opportunity to co-organise the European Microfinance Award, and we are delighted to be able to present this picture of the trends, opportunities, challenges and some of the most interesting initiatives underway in the housing microfinance sector.

Christoph Pausch,
e-MFP Executive Secretary

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THE CHALLENGE OF HOUSING

Housing is something most of us are fortunate enough to take for granted. Whether as owners or renters; in city centres or suburbs or countryside, for the majority of people in developed economies, there is generally sufficient access to affordable housing and, where necessary, the financial services available to be able to borrow or save to buy, to build, to improve or expand our homes – the most significant asset in which anyone will invest over the course of their lives. Household finance in fact makes up the largest form of retail credit to middle and high-income segments. For poor households in low-income areas, this security is elusive. 1.6 billion of the world's population lives without adequate shelter[1] and one third of the population still have no access to adequate sanitation[2]. Decent shelter may be a basic human right[3] and a key part of the UN Sustainable Development Goals[4], but for a significant minority of humanity, this 'right' exists only on paper.

The challenge of improving this situation is immense. According to a report by Habitat for Humanity, by 2030 almost 60% of the global population will live in urban areas, and 95% of urban expansions will happen in the developing world[5]. Three billion people will need new housing and basic urban infrastructure and 95% of urban expansions will happen in the developing world, according to UN-Habitat. According to the McKinsey Global Institute, based on current trends in urban migration and income growth, by 2025, about 440 million urban households around the world— at least 1.6 billion people— would occupy crowded, inadequate, and unsafe housing or will be financially stretched[6].

According to the World Bank, demand for low-income housing accounts for as much as 90% of all demand for housing worldwide. Each year people living at the bottom of the pyramid spend US$700 billion on housing. According to the IFC, only 7% of adults in developing countries have an outstanding loan to purchase a home, and only 5% have a loan to build, expand, or renovate their home[7].

1 Habitat for Humanity International; *State of Housing Microfinance 2016-17*

2 International Finance Corporation, *Capturing Our Impact - Multiplying Impacts*

3 The right to adequate housing (as a component of the right to an adequate standard of living) is listed among other documents in the Universal Declaration of Human Rights (art. 25.1) and the International Covenant on Economic, Social and Cultural Rights (art. 11.1).

4 UN Sustainable Development Goal 11.1: "By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums."

5 Habitat for Humanity International; *State of Housing Microfinance 2016-17*

6 McKinsey Global Institute, *A blueprint for addressing the global affordable housing challenge*, October 2014.

7 International Finance Corporation, *Capturing Our Impact - Multiplying Impacts*

The Cost of Low-Quality Housing

Housing is not a standalone issue: it is closely intertwined with – and often the cause of – a whole host of developmental problems. Exposure to the elements, poor ventilation, and insufficient arrangements for basic hygiene are major causes of poor health. Improper building structures undermine safety and vastly increase vulnerability to disaster. Lack of lighting and sufficient space limits children's ability to study. Insufficient privacy and lack of toilet facilities contribute to sexual assault and constrain opportunities for women and girls. Low quality materials are combined with low-skill labour, resulting in low building durability, high disaster vulnerability, along with higher downstream costs for energy and maintenance. And lack of clear property rights are major contributors to crime and social injustice, while limiting families' ability to invest in better housing. Above all, lack of access to appropriate housing finance causes low-income families to live in lower quality housing than they could otherwise afford.

Meeting this increasing demand for urban housing from low-income households will cost US$2.3 trillion by 2025, according to Habitat for Humanity. Yet unlike health and education, where governments often play a major or even dominant role, housing markets are largely comprised of private actors and therefore, financial service providers will have to meet a lot of that need. In the low-income countries of the developing world, where the gap between demand and available supply of housing finance is highest, it is the microfinance sector that has a major role to play. Moreover, providing housing finance to low-income populations is closely tied to the sector's social mission: making access to affordable, quality housing a real, and not just a theoretical right, offers one of the highest returns in both social and economic development.

At the bottom of the pyramid, the bulk of housing investment is done by families, whether building on their own or with the help of small-scale, usually informal, construction enterprises. These families are often the financially excluded; lacking meaningful access to formal housing finance, such as mortgages or loans from commercial banks to purchase land, low-income families adapt to the restrictions of their context. For many, this involves building incrementally, scraping together small amounts of cash over time, which limits financial risk, but leads to long periods of living in partially-built structures, with the attendant health and safety consequences. Moreover, incremental building might mean a toilet or a new window can be added one at a time, but for some building components – a roof, for example – that cannot be constructed in part, this means saving and accumulating materials over long periods, risking deterioration, theft, and higher costs.

Access to affordable and appropriate financial services mitigates these risks, whether through access to credit to be able to borrow to buy, repair, or improve housing; savings products that help clients structure their finances and plan towards building milestones; or insurance to protect the home in which they have invested. Microfinance clients – the low-income segments typically excluded from the formal financial system – are the same people most in need of the affordable and quality housing that access to finance can facilitate.

Yet, despite three decades of expertise among MFIs in providing sustainable housing finance, the role of microfinance in housing within the sector at large remains small. There are several obstacles that have restrained the 'mainstreaming' of housing microfinance. Housing finance requires longer-term loans than microenterprise credit, which brings a host of challenges, including the need for longer-term funding for MFIs. Few clients can provide the hard collateral to mitigate risk to the MFI. Assessing clients' capacity to pay is difficult. Longer-term loans increase the actuarial likelihood that the client family's income-earner may die before loan maturity. Efficient, quality, and cost-effective construction requires

access to technical skills and materials that many clients do not have. And security of land title among low-income populations remains a challenge across the developing world.

It is no surprise then that for many microfinance institutions serving low-income families, housing is often relegated to a niche product targeting a small number of clients. Habitat for Humanity's 2015-16 survey[8] found housing microfinance portfolios on average represented 16% of institutions' overall portfolios, though 5% was the most frequently reported amount. In Habitat's following survey, housing microfinance portfolios account for 5% or less of gross loan portfolios in at least 30% of (reporting) institutions. Considering the sample, however, it's likely that Habitat's previously-cited figure, of housing loans accounting for only an estimated 2% of combined microfinance portfolios worldwide, remains accurate (even though a large proportion of traditional microfinance loans are undoubtedly in fact used for housing purposes).

So the opportunity for MFIs to respond to this obvious demand with housing products and support services is enormous. With their relationships with poor and vulnerable segments, outreach into remote areas and expertise in assessing the informal incomes of the poor, the microfinance sector can do a lot to address this need. MFIs have shown over and over that they can successfully adapt the traditional microfinance model to provide innovative financial and non-financial services. In the housing context, this can include improving housing conditions through home purchase or expansion of existing living space to meet the needs of growing families, providing access to clean water, sanitation, electricity, and other core housing needs, raising overall house quality by providing access to better quality materials and construction techniques, securing tenure and protection against eviction, and mitigating against natural disasters by using resilient construction design and materials and locating housing outside flood zones and other vulnerable sites.

At a community and regional level, a vibrant housing finance market can be a major economic engine, generating local employment and drawing mainly on local inputs. Meanwhile, communities enjoying secure property rights are also more likely to give rise to active citizens, less tolerant of corruption and more demanding of their political leaders.

Although the housing microfinance sector remains niche, there are many institutions that are genuine innovators and pioneers. To promote these, and distil the factors that drive success or failure in these initiatives, the European Microfinance Award 2017 on "Microfinance for Housing" was launched to highlight the role of microfinance in supporting access to better quality residential housing for low income, vulnerable and excluded groups, with no or limited access to housing finance in the mainstream sector. By recognising those that do it best, it sought to jumpstart a revolution in both micro- and housing finance to meet the enormous task of housing the world's poor.

8 Habital for Humanity, The 2015-16 State of Housing Microfinance

THE EUROPEAN MICROFINANCE AWARD AND HOUSING

The 2017 Award invited applications from institutions that respond to complex housing needs of their target clients by providing them with a variety of financial and non-financial services, directly and/or indirectly through a strategy that ensures long-term sustainability of the programme.

How Housing Finance Helps…

Access to quality and affordable finance for housing has many benefits. Most obviously, it improves housing conditions, including home purchase or expansion of existing living space to meet the needs of growing families; providing access to clean water, sanitation, electricity, and other core housing needs; raising overall house quality by providing access to better quality materials and construction techniques, mitigating against natural disasters by using resilient construction design and materials and locating housing outside flood zones and other vulnerable sites, as well as securing tenure and protection against eviction.

Award Eligibility

Eligible applicants were financial institutions active in the financial inclusion sector with activities that enable improvement of residential housing for the end beneficiaries: low income, vulnerable or otherwise financially excluded groups, with no or limited access to housing finance in the mainstream sector.

Various types of financial institutions were eligible, including NGOs, cooperatives, commercial banks, local development banks, leasing firms, insurance companies, and other institutions that directly serve retail clients. Non-financial institutions active in the housing sector were also eligible so long as they offer financial services as a core part of their housing programme (the majority of their housing clients use the offered financial services).

The housing financial services had to be well established: at least one housing product had to be fully operational for a minimum of two years (and if a pilot test was conducted by the financial institution, this period was not included within the two year requirement). Eligible institutions had to be able to provide audited financial statements, and be based in a Least Developed Country, Low Income Country, Lower Middle Income Country or an Upper Middle Income Country as defined by the Development Assistance Committee (DAC) for ODA Recipients. In addition, every applicant had to be supported in writing by an e-MFP member.

THE AWARD SELECTION PROCESS

The application process for the European Microfinance Award 2017 received applications from 37 organisations across 23 countries, each presenting their initiative to address the challenge of affordable and quality housing for the world's poor. More than the headline numbers, however, this response was particularly positive in its *diversity*: 14 non-banking financial institutions, 5 commercial banks, 3 NGOs, 3 specialised banks (rural and Small Finance), 2 cooperatives, 2 housing finance companies, and 8 others. 14 came from Central America, 5 from Central Asia, 5 from Africa, 5 from South East Asia, 5 from South Asia, 1 from MENA, 1 from South America, and 1 from Eastern Europe.

37 APPLICATIONS FROM 23 COUNTRIES

Preselection Phase

Committee composed of the e-MFP and InFiNe.lu Secretariats and the Award consultants

- Eligibility criteria
- Sound financial and social performance
- Meaningful and significant housing finance programmes

PRESELECTED APPLICANTS

Selection Phase

Committee composed of e-MFP and InFiNe.lu members

10 SEMI-FINALISTS

3 FINALISTS

Final Phase

High Jury

WINNER

The selection of applicants comprised three phases: A Preselection Phase in which applicants were preselected on the basis of the eligibility criteria, a sound financial and social performance and the project presented for the Award; a Selection Phase where the preselected applicants were evaluated by the Award Selection Committee to select the semi-finalists and the three finalists; and a Final Phase in which the High Jury selected the winner from the three finalists. A list of the members of the Selection Committee and High Jury can be found on page 37.

Table 1 provides the list of the 10 semi-finalists that emerged after the deliberations of the Award Selection Committee.

TABLE 1: SEMI-FINALISTS, FINALISTS AND WINNER OF THE EUROPEAN MICROFINANCE AWARD

Institution	Country	Award
Cooperative Tosepantomin	Mexico	Winner
The First MicroFinance Bank Afghanistan	Afghanistan	Finalist
Mibanco	Peru	Finalist
Amret	Cambodia	Semi-finalist
First Finance	Cambodia	Semi-finalist
First MicroFinance Bank Tajikistan	Tajikistan	Semi-finalist
Fundecoca	Costa Rica	Semi-finalist
Kenya Women Microfinance Bank	Kenya	Semi-finalist
Micro Housing Finance Corporation Ltd	India	Semi-finalist
Swarna Pragati	India	Semi-finalist

ADDRESSING LACK OF ACCESS TO QUALITY AND AFFORDABLE HOUSING

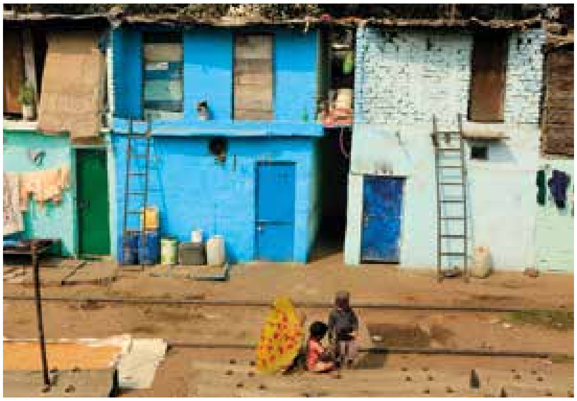
These semi-finalists represent a broad spectrum of housing finance initiatives that respond to the challenges of the world's poor. As financial institutions, naturally they all offered some form of **financial product** for housing, although there is a broad range of ways MFIs can do that, including: housing microfinance loans; micro mortgages, housing savings products (to meet large lump sums necessary for land or house purchase, or house renovation); microinsurance products (to cover house-related risks); or remittances for housing (so that family members working in distant regions or countries can remit funds housing purposes back home).

The impact of financial products can be leveraged when supplemented with non-financial support, especially in a sector that involves complex technical elements that may require expert input, such as from architects, engineers and builders. The self-building and incremental culture of home development among the target segments means that it will seldom be feasible for a client to retain the services of these experts – a 'hands on' approach will be necessary. Therefore, many of these MFIs also offer **non-financial support** linked to financial products as well, such as educational materials related to house construction or renovation; trainings on home improvement plans and budgets; professional advice on planned construction or renovation; recommendation and even training of masons or other contractors; and legal advice to acquire land title and secure tenure.

Finally, MFIs may seek to improve clients' **social environment** in the context of their homes, including health, sanitation and safety through Water, Sanitation and Hygiene (WASH) or Distributed Renewable Energy (DRE) products.

Together these products and services represent different and innovative ways to improve housing conditions, from home purchase or expansion of existing living space, to providing access to clean water, sanitation, electricity, and other core housing needs, to raising the quality of those homes being lived in, and to mitigate against the risks of natural disasters using resilient and cost-effective designs and materials.

1 PROVIDING FINANCE FOR HOUSING



All of the applicants, including all of the semi-finalists, offer some form of housing finance to clients. Housing finance may comprise:

- **Housing microfinance loans:** These are designed to finance house extension, renovation or construction. The funds can be used to buy land, building materials, pay for construction, obtain land ownership documents, and other uses directly pertaining to housing. These loans usually do not use the house as loan collateral, and soft title (not legally enforceable) is often accepted.
- **Micro mortgages:** These are typically used for purchase of fully constructed homes (often apartment units); these loans feature long durations (generally ten years or more) and require an official house title as legally enforceable collateral.
- **Housing savings or insurance products:** Savings are designed to meet large lump sum-related to land or house purchase, or house renovation. They are usually linked to housing loans. Insurance can be offered independently or linked to loan products or cover house related risks. These may be offered independently or through partnerships with insurance companies.

Housing Microfinance Loans

Home Improvement

A Home Improvement Loan (HIL) is offered by all the semi-finalists, and, in line with the incremental building culture in low-income (and especially rural) communities, is the 'bread and butter' housing finance product. While individual loans are the most common, there are exceptions: Tosepantomin, Kenya Women Microfinance Bank (KWFT) and Swarna Pragati all offer some form of group loan as well. HILs are typically characterised by a shorter loan tenor than a home building loan, or a mortgage, but at 1-4 years tenor are usually longer than a typical microloan.

Tosepantomin – the winner of the Award – is a strong example of a broad, flexible and holistic offering of financial products. Tosepantomin provides two housing products: a loan for home improvement with 12-18 months of maturity and a construction loan with 12-24 months of maturity.

Calculating Income

Mibanco – one of the two other finalists – also offers a wide range of products from its well-established program with considerable outreach. MiCasa is Mibanco's most popular product, and covers both home improvement and progressive construction, the latter with a target of reducing the time of progressive construction to less than eight years. Mibanco distinguishes itself by including all income sources into the calculation of the family's

Cooperativa Tosepantomin, Mexico

Cooperativa Tosepantomin is a Mexican savings and credit cooperative set up in 1999 that serves indigenous people living in rural mountainous and marginalised communities in the States of Puebla and Veracruz. It has 2,129 housing clients out of a total client base of 34,587 savers and 6,912 borrowers, served by 84 staff across 6 branches, as of 2016. Most of the cooperative members are housewives, peasants, drivers, construction workers, ranchers, carpenters, teachers and small traders. In a country with a housing deficit of 8.9 million homes,

5.33 million families are underserved, and 35 million people living in unsuitable housing, Tosepantomin introduced savings and loans for housing improvement in 1999. In 2007 it added the possibility for members to benefit from a housing federal subsidy (CONAVI, the Mexican National Housing Commission), assisting members in applying for this support, and lobbying the housing commission to introduce more flexible criteria in assessing savings and income.

Tosepantomin's housing program targets families of the most deprived members in the community – who live in substandard housing and are eligible for the CONAVI subsidies. The financial products, housing loans coupled with savings, are offered in combination with integrated construction technical assistance provided by a team of architects and masons, which includes support in the design of architectural plans, elaboration of housing project budgets, and oversight of the construction process. The Cooperative facilitates members in helping each other with their houses' construction or renovation, to reduce the costs and speed up the process of self-construction. The cooperative also partners with other cooperatives to offer quality construction materials at reduced prices and members also exchange unused construction materials between each other. The program promotes eco-friendly business techniques, use of resistant materials, conservation of water, energy efficiency, recycling, renewable energy, facilitating agricultural production in small, backyard plots, and promotion of efficient stoves.

Mibanco, Peru

Peruvian bank Mibanco was created in 1998 by Community Action of Peru (ACP), an NGO with 43 years of experience supporting micro and small businesses. In 2014, it merged its operations with Financiera Edyficar, a major microfinance institution owned by a commercial bank – Credit Bank of Peru. Mibanco targets microentrepreneurs and SMEs that together constitute 98 % of all Peruvian enterprises. Mibanco operates in a context of a national housing deficit, overcrowding and poor quality building, and lack of formal title for collateral among low-income families. The bank's housing program started in 2000 after realization that 60% of working capital loans were being partly diverted for housing. It has 182,414 housing clients among a total client base of 942,833, served by 10,202 staff across 318 branches in 2016.

The program has expanded to three housing products, including a long-term, collateralised mortgage, an incremental home improvement loan and a water and sanitation connection product – all bundled with credit life insurance. Loans are offered together with educational material to all clients (developed through cooperation with Habitat for Humanity) in the form of info-graphics and videos on basic construction/improvement aspects (regularly aired on TV and in branches). The bank also cooperates with Hatunsol - a network of material suppliers - through mutual referrals and providing clients' with access to technical assistance of Hatunsol engineers. In cooperation with water and sanitation NGOs, the bank organizes educational road shows to promote water and sanitary improvements.

repayment capacity - including those of adult children who reside in their parents' household and usually contribute to the household budget. This non-traditional calculation of income allows for an increased loan size, meaning larger and more beneficial improvement projects can be undertaken, and repaid in a shorter period of time.

Progressive Disbursement

In Afghanistan, **The First MicroFinance Bank-Afghanistan (FMFB-A)**'s 'Tameer' housing loan is offered to finance house renovation, finishing newly added rooms or other parts of the house and connection to basic utilities. The house must be the client's residence and the client must be able to prove ownership. The average maturity of the loan is 22 months, with a maximum of 24 months. The loan can be repaid monthly or based on seasonal income, in the case of clients working in agriculture. A grace period is available also for clients with regular income - clients pay only interest and not the principal during that period. Larger loans are disbursed in two tranches, to mitigate the risk of funds misuse by the clients. In such case, the remaining tranche is disbursed after the loan officer conducts a monitoring visit to the client's home.

Fundecoca in Costa Rica offers four loan products with terms of up to 24 or 60 months: for housing improvements and extensions; for accessing a housing subsidy; land purchase; and land formalization. Its home improvement program is notable for its loans offered in the form of a 'credit line'; once the client has repaid 35% of the credit amount, s/he can request a credit top-up, minimising portfolio risk to the institutions, and incentivising repayment and building progress among clients.

Swarna Pragati in India focuses on financing incremental, modular improvements or construction for its rural clients, and assists clients in dividing the household and agricultural property into modules, such as roof, flooring, kitchen, toilet, well, livestock sheds etc., helping clients plan for incremental improvement by financing one or a few of these modules at a time.

First MicroFinance Bank-Tajikistan (FMFB-T) offers a credit facility – in both USD and Tajikistani Somoni – via four different types of housing loan to assist microfinance clients improve house sanitation, ventilation, heating and isolation, lighting, repair and re-design of a house or an apartment, or building an extension to an existing house.

Kenya Women Microfinance Bank (KWFT)'s main housing loan is called Nyumba Smart, and is also notable for its flexibility compared to microenterprise credit products, with its individual or group lending model (and interest rates that vary depending on risk-mitigation models such as joint liability), applicable to construction of new homes or improvement to existing, terms ranging from 6 months to five years, and incremental disbursement based on performance rather than lump-sum disbursal – such as in a typical microloan or a mortgage.

Buying a New Home

In Cambodia, **Amret** offers a broad range of HILs, from as little as US$100 up to US$15,000, and are notable for a very broad range of loan terms (of 3-36 months, or 48 for loans over $5,000), providing a high level of flexibility for clients. In addition to the Home Improvement Loan, **Amret** has introduced a "Small Housing Loan (SHL)", designed for clients who need to build or buy a new house for their own or their family (but excluding land acquisition in order to avoid speculative purposes in a market with important growth). The loan sizes (up to US$20,000) and duration (up to 60 months) for this product are even higher than the Home Improvement Loan, and there is the possibility to disburse in different tranches following the pace of the construction and passing of key milestones.

Innovations in Collateral

Collateral – or more accurately, lack of collateral – is one of the great challenges in providing low-income housing finance, as MFIs struggle to calculate, mitigate and underwrite risk and lend against the security that most poor people lack. The Award semi-finalists take a range of innovative approaches to this challenge.

FMFB-A requires the original property title or proof of ownership and a guarantor. **Mibanco** acknowledges that very few clients have a title deed to their homes and therefore accepts any secure tenure document – a title document is not obligatory – and a personal sworn guarantee of assets.

Most of the institutions accept some form of 'soft title', and assist in legal support to verify or establish a threshold of title. **Amret** and **First Finance** in Cambodia

First MicroFinance Bank-Tajikistan, Tajikistan

First MicroFinance Bank-Tajikistan (FMFB-T) is a bank that, in the poorest country in Central Asia, dominated by overpopulated and low-quality houses, offers loans for house improvement, construction and purchase with simple technical advice delivered by loan staff. FMFB-T has 4,613 housing clients among its 74,253 total clients, serviced by 541 staff in 36 branches, as of 2016. Since 2007, the Bank has offered a house purchase loan, and has since added loans for home improvement

and home construction to the housing finance portfolio. These products are distinguished by their long maturity – from 3 years for renovation to 8 years for purchase.

Besides these loans, FMFB-T's program is notable for its Housing Energy Efficiency Loan, developed thanks to a ten-year partnership with KfW that commenced in 2014. KfW provides subsidized funding to be disbursed to rural populations for energy efficiency purposes, including

house insulation, energy efficiency (EE) equipment purchase and windows and door exchange, etc.

Technical Assistance under the housing program is supported by partnerships with Habitat Tajikistan and the Frankfurt School of Finance, and focuses on technical advice and a housing intervention budget review that is embedded into the product. It is offered by microfinance loan staff to all housing clients.

accept hard and soft land title as security. **KWFT** will provide a micro-mortgage against chattel. Unusually for housing loans, **Tosepantomin** offers a group-lending model, taking many of the risk-mitigation principles from traditional microfinance to leverage high social trust and cohesion to depend on group guarantees of loans.

Swarna Pragati in India takes a different approach to leveraging community cohesion in rural villages, using local Village Assemblies to generate 'para legal' documents: the community can collectively agree that the client is the de facto owner of the property and assist in producing soft title for the institution to use as collateral.

Micro-mortgages

Several organisations offer a credit product to buy or build a new home. It is a sad irony – in developed as well as developing markets alike – that those who need housing finance the most – the poor – are usually those most excluded from formal housing finance while the middle and upper income segments are able to secure the lowest interest rates against collateral or future income, perpetuating the income gap. Micro-mortgages respond to the challenge that, in dense, urban areas in particular, self-building is not always feasible, and commercially built, low cost apartments are the sole means for many poor families to have quality housing.

Mibanco's core MiCasa product is intended to cover needs for improvements, repairs and extensions that families make gradually to their homes but also for home *building*, while its Mihipoteca micro-mortgage product is aimed at clients with the financial capability to purchase or refurbish a dwelling *and provide collateral*. Mibanco – as well as Fundecoca in Costa Rica – both also offer finance for qualified clients to purchase land on which to build a home.

One of the earliest innovators of micro-mortgages, **Micro Housing Finance Corporation (MHFC)** in India works with property developers building large (300-500 unit) residential developments in urban or peri-urban areas, working with the developers to target clients in the low-income segment, and providing housing loans for these clients to buy units in these approved products. MHFC is also innovative in its branchless and paperless model (reducing operational costs) and long loan terms (of 90-138 months) that are more suitable for people trying to get on first rung of the housing ladder.

In Cambodia, **First Finance** offers a full suite of housing microfinance products. Its 'Stage 1' Home Loan has an impressive term of up to 15 years, and targets first-time homeowners who otherwise could not afford a house, especially urban dwellers who no longer have access to family land or housing. A 'Stage 2" Home Improvement Loan is designed to help 'Stage 1" Home Loan clients to expand their dwelling as their family grows or as their needs develop. First Finance has also offered since 2012 a Residential Land Purchasing Loan, to address demand in urban locations where housing was not yet built but small land parcels were being made available. Finally, First Finance is unique among the applicants in offering a Home Equity Loan, responding to demand from clients to release the value in their house to invest in revenue-generating ventures. These loans are only available to clients who have, or have had, one of the stage 1 or 2 loans with First Finance.

Housing Savings and Insurance

While housing credit is the dominant product offering for housing, several institutions provide savings and insurance products alongside credit.

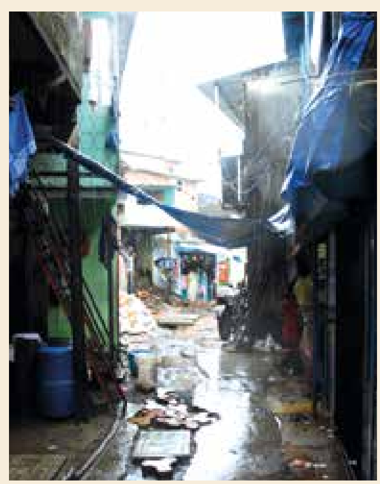
Both **Tosepantomin'**s loan products require savings: US$260 as a minimal saving balance in case of home improvement loans, and US$426 in case of construction loans. The savings are kept on a current account offering 4% annual interest.

Mibanco's Mejoramiento de vivienda [housing improvement] and Construcción de vivienda [housing construction] savings products are linked to MiCasa and Mihipoteca, and both require a minimum balance, and a typical savings-to-loan ratio of 30 and 35% respectively. **FMFB-T** offers a 'Diyor' deposit product linked to its established remittance program, suitable for migrants outside of the country to be able to save for housing in deposit accounts directly through FMFB-T's remittance systems. **Amret** in Cambodia conducted a market survey that showed that the clients taking a Small Housing Loan provide around 40% of the housing project amount from their own savings. Amret therefore promotes its non-housing specific 'Happy Account' as integral to its

Micro Housing Finance Corporation (MHFC), India

MHFC is a specialised lender in India providing micro-mortgages for families with informal incomes excluded by the banking sector, a response to the over 65 million Indians living in either slums or informal housing, and the enormous informal work sector, which is excluded from most housing finance due to a lack of personal documentation and a credit record. MHFC has built on the strong repayment culture in mainstream housing finance companies and microfinance institutions, seeking to combine elements of both as an early mover in offering of micro-mortgages. MHFC has only housing clients – 7,077 in 2016 – and one branch, with 106 staff. Its 14,000 micro-mortgage clients since inception are microenterprise owners and low-income salaried workers in roughly equal proportions.

MHFC's primary home purchase loan has an average tenor of 11 years, and life insurance is included. MHFC operates a branchless operating model with a paperless application process to lower operating costs. Loan officers use smart phones for submission of applications, and are mobile themselves – visiting clients at home or work. MHFC has innovated in its partnerships with local developers (including providing construction finance to select developers), local government housing boards, NGOs that work with slum-dwellers, as well as insurance companies and banks. After over seven years, MHFC's model is growing across India, with several other housing finance companies being set up, adopting MHFC's methodology and proof of concept to reach low-income clients through mortgages.



First Finance, Cambodia

First Finance is a Cambodian Non-Bank Financial Institution that specialises in providing micro-mortgages for families with informal incomes excluded by the banking sector In Cambodia. As of 2016, it served 1,595 housing clients, across four branches supported by 101 staff.

76% of its target families live in temporary housing constructed from foliage, bamboo, dirt and metal sheeting, and lacking verifiable land title. Growing urbanisation has increased the cost of land and construction materials, and there is a need for improved knowledge on building standards and materials in the residential construction sector. First Finance launched its initiative with three objectives: increasing access to home ownership; family and equity growth by assisting target clients in improving security and quality of dwellings; and a sustainable program that can provide sufficient returns to investors.

To achieve this, First Finance offers two main products: a home loan/micro-mortgage of up to 15 years, targeted at first-time homeowners, and a Home Improvement Loan, targeted at clients living on family land and who need to build, renovate or expand an existing dwelling, including addition of toilets, more space, and connection of water and utilities. First Finance partners with local developers building in lower-cost areas and has designed the loans to allow prepayment and rescheduling, to accommodate changing incomes, as well as grace periods for short-term financial shocks. First Finance also provides mandatory fire insurance and optional health microinsurance for its clients.

housing program, and encourages savings as part of the housing development process for clients. **KWFT** also has compulsory savings within its housing finance program, with the client required to provide 10 or 20% of the loan, similar to the deposit paid on a mortgage.

Likewise, MFIs often offer insurance – either themselves or in partnership – as part of risk mitigation for the institution and the client alike. **Tosepantomin** bundles life insurance into its home loans; insurance is linked with the loan but is not mandatory for members. The cost of the premium is covered by Tosepantomin so as to reduce recovery risks. **Mibanco**'s *Seguro Multiriesgo* ["Multi-risk Insurance"] is a compulsory property insurance bundled with the Mihipoteca mortgage product. **KWFT** includes mandatory funeral insurance with the loan, protecting clients' families from the shock of funeral costs in the case of the policy-owner's death. **First Finance** provides mandatory fire insurance in partnership with Campu Lonpac, as well as property insurance – as is typical for traditional mortgage providers. **MHFC** takes out the insurance on clients' behalf; a group policy that covers mortgagees for property loss and life insurance, which pays out to redeem the mortgage in case of death.

AMRET, Cambodia

Amret of Cambodia was established as a rural bank in 1991, and was the first MFI to receive a MFI license from the National Bank of Cambodia in 2001. It has 31,841 housing clients out of a total client base of 526,358 in 2016, across 149 branches, with 4,109 staff. Amret's housing program targets farmers, traders and low-income salaried workers in government or construction, who suffer from flooding, inadequate sanitation and water, and poor quality housing, circumstances exacerbated by their exclusion from mainstream housing finance and lack of hard land title.

Amret introduced its Home Improvement Loan in 2008 so clients can refurbish or expand their existing homes. In 2016, and in response to market research showing HILs were being used for new home construction, Amret launched a pilot Small Housing Loan, with a larger loan amount, longer tenor, and flexible disbursement, for building or buying a new home.

2

PROVIDING SUPPORT FOR HOUSING

While it is possible to offer housing finance without any non-financial support, in practice any housing microfinance program that serves its clients well will provide one or more of a range of support services – either in-house or in partnership with local or international NGOs, training bodies, contractors, engineers, or public sector bodies. The non-financial services offered can be linked to or embedded within the financial products, or offered as stand-alone services. There is a full spectrum of ways MFIs can provide support, including:

- **Client Training and Counselling**, by facilitating or overseeing the provision of advice of professional specialists on planned construction or renovation; legal advice on land title; or teaching clients how to develop clear home improvement plans and budgets;
- **(Construction) Technical Assistance (CTA)**, by providing the capacities to renovate or construct the house (engineers, technical work force, etc.), introduction to masons, or providing educational materials related to house construction or renovation, especially when typically done by clients themselves or with the support of unskilled workforce such as village neighbours (e.g. fact sheets on renovation of the roof);
- **Training of Builders**, including on choice of materials and project management; and
- **Staff Trainings**, especially training staff on how to help clients in budgeting or project planning.

The services may be also delivered to various stakeholders, not just to clients, indirectly influencing clients' access to improved housing. For example, the financial institution may provide skills enhancement training to local builders, either directly or in partnership with an outside organisation. They can also work within the construction value chains, for example, ensuring that local building suppliers sell disaster-resistant building products – especially in contexts where poor building quality exacerbates the risk from natural disasters.

The low-income segments that such housing programs target typically exhibit low financial capability – the main driver behind so many MFIs in the sector investing in financial education for clients. Even more so in the provision of housing finance, there can be a huge information gap between the institution or construction partners on the one hand, and the client on the other. Working with clients to **develop and understand a realistic budget** for home improvement works is important. This can be done in different ways. **Tosepantomin** runs Cooperative and Financial Education workshops in members' communities, covering principles and values of cooperatives; family budgeting; and overindebtedness. Housing program clients receive additional support through Technical Assistance. Beyond the design and preparation of architectural and structural drawings and schematics for electrical and plumbing installations at the homes to be built, Tosepantomin works closely with clients to develop cost estimates for the works. In the process of appraising a potential loan, a simple study is conducted in which the incomes and expenses of the household are checked to determine their ability to pay, the intervals at which they can make loan repayments, and the availability of unpaid, reciprocal community labour (the mano-vuelta model), a process which informs the development of the budget.

FMFB-A partnered with Aga Khan Planning and Building Service, Pakistan (AKPBS-P), to develop a Construction Advisory Services (CAS) Manual to advise clients on selecting better building materials, applying safe construction techniques, and adopting innovative housing

The First MicroFinance Bank-Afghanistan, Afghanistan

The First MicroFinance Bank-Afghanistan (FMFB-A) was established in 2003 with a mission to contribute to poverty alleviation and economic development through creating access to finance for unbanked, self-employed, farmers and agro value chain actors. It has 9,031 housing clients among its 137,961 total clients, and 1,029 staff across 28 branches. Decades of conflict has left a housing deficit of 1.5 million units, exacerbated by high birth rates, natural disasters including earthquakes, lack of building codes, low quality materials and lack of skilled craftspeople. This has increased informal settlements with no access to basic services or clear land title.

To address these challenges, FMFB-A offers since 2008 a flexible-term 'Tameer' home improvement loan to finance house renovation, finishing newly added rooms or other parts of the house and connection to basic utilities. The loan can be repaid monthly or based on seasonal income, in the case of clients working in agriculture, and a grace period is offered to clients with regular income. Although only 40% of branches currently offer construction advisory services alongside the loans, 74% of total housing loan clients in 2016 received CTA, including engineers providing clients with technical advice on house structure intervention projects. Since 2009, the support is provided alongside a free Construction Advisory Services Manual, which provides advice on selecting better quality materials, applying safe construction techniques, and adopting innovative housing upgrades for sanitation, ventilation and energy efficiency.

Fundecoca, Costa Rica

Fundecoca is an NGO in Costa Rica that responds to low access to clean water, poor sanitation infrastructure and a housing deficit by providing four housing loan products alongside educational brochures, advice from engineers, and trainings for clients and masons. Fundecoca's program is designed to support housing improvements and extensions, facilitating access to housing subsidies, land purchase, and land formalization. All the program clients are from very poor rural households in the Huetar Norte region but with at least one household member with salary income. As of 2016, Fundecoca's 66 staff across 15 branches served 455 housing clients out of a client base of 3,398.

Fundecoca's loans are offered in a form of a 'credit line'; once the client has repaid 35% of the credit amount, s/he can request a credit top-up. The loans are accompanied with technical assistance that covers budgeting, assistance in prioritization of improvements, and implementation of home improvements or construction. The TA is offered through educational materials as well as support from a professional entity contracted through REDCOM, the national microfinance network. Additionally, Fundecoca organises workshops every three months for masons and every six months for clients in cooperation with a materials suppliers Association. This partnership also benefits clients through increasing access to quality materials, discounts and free transportation of materials.

upgrades for sanitation, ventilation, and energy efficiency. This Manual – provided to all housing clients, includes advice on budgeting and planning.

Other semi-finalists, including **Fundecoca** and **FMFB-T** also incorporate budget planning into the TA provided to clients, and **Swarna Pragati** prioritises the provision of general financial education.

Construction Technical Assistance (CTA) is arguably the lynchpin of a successful housing microfinance program. There is a spectrum of interventions that can be offered to assist clients in building or expanding their homes. They range from a 'light touch' approach – introductions to or recommendation of masons or other contractors, or providing some printed materials with Dos and Don'ts – to involving experts closely in all aspects of the planning and implementation process. **Tosepantomin** provides a team of experienced architects and builders in the design and preparation of architectural and structural drawings and schematics for electrical and plumbing installations at the homes to be built. The TA is provided by a group of licensed architects and a group of community supervisors who act as a support team for the architects.

FMFB-A also uses experts to support clients, with the CAS Manual supplemented by design, budgeting and construction support from 11 qualified civil engineer Technical Officers. FMFB-A has struggled to hire skilled engineers in remote rural areas in particular, so adapted to this challenge by training Deputy Branch Managers on basic construction advice in case of loans disbursed for less sophisticated projects, for example: maintenance, plastering, or painting. The Deputy Branch Managers consult the Senior Technical Officer in case of outstanding issues with clients' renovations. Another way FMFB-A sought to deal with the limited availability of qualified Technical Officers was through Demonstration Houses, offering an alternative means of conveying basic information to the clients easily. Borrowers and masons are shown the techniques and the construction guidelines through examples in the houses.

In case of loans for structural improvements (larger amounts for more sophisticated housing interventions), in addition to the typical loan officer tasks, the Technical Officers advise clients on construction techniques to mitigate seismic risk; reduce overcrowding; and improve energy efficiency, sanitation and proper ventilation. They assist also in selection of materials and masons.

FMFB-T focuses on training of Loan Officers in providing the support to clients. The customers receiving the housing loans are assisted by the Loan Officers depending on the product they have received: for construction or home improvement loans, the Loan Officer assists the customer in preparation of the budget with the details of the construction materials to be used; for the energy efficiency (EE) loans, the Loan Officer assists the customer in choosing the appropriate EE products and shares best practices with the customer on construction and energy efficiency of the products relevant to their housing needs. The assistance is provided during the initial interviews with customers as well as during field visits and upon the request of the customer.

At **Mibanco**, a broad range of support is offered, from references to vendors for materials, introduction to construction partners, written materials and brochures, and plumbing workshops for clients.

Training is a key element of best practice in supporting clients though TA, and can be provided to staff, to clients, or to local builders or masons. **FMFB-T** trains its loan officers in partnership with Frankfurt School of Finance and Management for Technical Assistance provision, and with Habitat for Humanity and GiZ for the energy efficiency loans. **MHFC**'s staff training is provided both internally and with external support from the National Housing Bank. **Mibanco** employs an extensive network of loan officers, who go through standardized training (including the use of an e-learning platform). Loan officers are trained to recognize the housing needs of potential clients as well as liaise throughout the building process with other partners - community workers, materials suppliers, and masons. **Mibanco** and **Fundecoca** also focus on client-side training, through educational materials, workshops for materials suppliers, and financial capability.

Partnerships

No MFI is capable of providing all the products and services needed by clients, and so partnership with specialist organizations is crucial, as is collaboration with other stakeholders, aimed at broader housing market development. This might include advocacy for enabling government policies for low-income housing, creating access to better quality suppliers and work force. The right partnerships are likely to bring significant results for improving living conditions of applicant's target clients.

Swarna Pragati Housing Microfinance Private Limited, India

Swarna Pragati is an Indian housing finance company established in 2009 that responds to substandard housing and lack of toilet facilities by providing group-based housing loans since 2013 to rural households via partnerships with well- known and established MFIs and NGOs. It serves 16,811 of these partner MFIs' clients via 42 branches and 226 staff as of 2016. The group loans are used for one or more home construction modules (such as roofs, walls, flooring, kitchens, toilets, wells work sheds or livestock buildings, etc.).

Swarna Pragati has introduced community acceptance of residency rights that are established in a Village Assembly, which serves to create non-formal, 'para-legal' documents for use as workable collateral for the loans, without a formal mortgage. It closely monitors the construction process by collecting photos that are uploaded to a dedicated Management Information System. Through the partnership with MFIs, Swarna Pragati also offers, in addition to home improvement, loans for WASH products – which comprise 18% of loans – as well as coordinating awareness campaigns for safe sanitation, including training on building basic toilets. Credit life insurance accompanies all housing loans.

While focusing on low-income rural households excluded from the existing home lending market, Swarna Pragati targets clients who are able to show at least two sources of income per family from different sectors, a robust history of repayment (at least 2-3 completed loan cycles with the partner MFI) and have a bank account.

Partnership with local materials suppliers can be valuable. In order to extend the outreach to its target clients, **Mibanco** builds awareness on the solutions available to clients and adopts partnership models. Mibanco works with Hatunsol – a network of material suppliers – as a means of providing clients with access to technical assistance from the Hatunsol engineers, as well as the building materials themselves. In cooperation with water and sanitation NGOs, the bank organises educational road shows to promote water and sanitary improvements. **Mibanco** also partners with managers of homeowners' associations, who help identify the needs of residents and facilitate meetings with homeowners and Mibanco staff. **Fundecoca** and **Tosepantomin** also have partnerships with local material suppliers, supporting local businesses, helping clients control costs, and ensuring the MFI can support and oversee the building project across the supply chain.

Many **international organisations** are involved in low-income housing, from international housing charities such as Habitat for Humanity, to Financial Institution foundations, national Development Finance Institutions and multilateral funders. The most successful housing programs leverage these partnerships where possible, and recognize that an MFI's core expertise is loan appraisal and client relationships, not construction techniques or energy efficiency. **FMFB-A** has Aga Khan Building and Planning Services, Pakistan as an implementing partner, and Aga Khan-USA and USAID as funding partners for its housing program. Habitat for Humanity is a significant player in housing microfinance, and works with many organisations, including **Mibanco**, **FMFB-T** and **KWFT**, especially in the provision of CTA, staff and housing support services training for clients respectively. **FMFB-T** partners with international government entities to promote energy efficiency; through an agreement between the German and Tajik governments, German development bank KfW introduced a housing finance program to provide subsidized financing to partner MFIs for housing energy efficiency. **FMFB-T** was one of four MFIs chosen, and has since introduced a Housing Energy Efficiency loan. For its part, **Mibanco** also offers plumbing workshops for families in partnership with Aguilimpia, water.org and Rotoplas.

First Finance is an example of an MFI partnering with a **local developer** to share both risk and reward. Urban Village developed property to target first time homeowners and First Finance financed the purchase of the property. Based on its policy, First Finance could only extend a loan of up to 75% of the property value. For this partnership, First Finance has extended this up to 90% of the property values with the difference guaranteed by Urban Village. For home loans, the funds are disbursed directly to the property developer on behalf of the clients. In this partnership, First Finance only disbursed up to the maximum loan-to-value ratio (LVR) limit (75% of the property value) and retained the balance until the clients made repayment and then the outstanding loan balance is disbursed.

Some of the semi-finalists work closely with **government partners**, including lobbying for policy change. **MHFC** works closely with the National Housing Bank to access subsidised funding and has MoUs with the state housing board to target clients and increase efficiencies.

Tosepantomin's housing program is inextricably related to the national housing program – CONAVI, from which it obtained its certificate as a subsidy manager in 2007. Tosepantomin works with communities to triage clients by need: those with land but without homes are directed towards the CONAVI program and Tosepantomin assists clients in accessing those subsidies, including meeting CONAVI requirements via in-kind savings, such as the reciprocal support *mano-vuelta* system for those that don't have the possibility to provide cash savings. But because CONAVI subsidies are only available for families above a certain income threshold or who own land, as outlined earlier, Tosepantomin joined other Mexican

Tosepantomin and subsidies

Subsidies granted by CONAVI are central to **Tosepantomin**'s housing model. Tosepantomin manages the subsidies granted by CONAVI, the Housing Commission, to all members who have received housing loans, as they fall within the segment considered by the latter as eligible for support. Poorer clients also have the option of meeting their obligatory savings *in kind* (in construction material) or through offering work support to other members in their housing projects – an innovation made possible by Tosepantomin's lobbying of the CONAVI to accept in-kind savings and including in-kind savings as subsidy-qualifying.

organisations in setting up the *Red de Productores Sociales de Vivienda* - a Network of Social Housing Producers - to lobby CONAVI to recognise labour and construction materials provided by families as in-kind savings. This proposal was accepted in 2010 and, along with Tosepantomin's lobbying of Municipal authorities since then, Tosepantomin's lower-income families who had materials or labour and land for building were able to join. Tosepantomin's engagement with government bodies in fact goes beyond the recognition of in-kind savings, and also included successfully lobbying to change certain eligibility requirements, such as accepting bamboo as a building material, further widening the pool of eligible very low-income households.

A different approach is taken by **Swarna Pragati**'s housing program, which partners with other microfinance institutions. To help source the right financial institution partners, Swarna Pragati used a Business Associate Selection tool, which helps to identify the desirability of the potential partner and gathers feedback on a number of factors, including the number of years the MFI has been operating in the communities, organisational structure, historical portfolio and feedback from other partners. Once partners are selected, **Swarna Pragati** develops a partnership agreement and revenue-sharing model. The partners then begin assessing the needs of rural communities they work with and identify candidates who they think would qualify for housing finance. The partner MFI then works to manage loan repayment in association with Swarna Pragati.

3

PROVIDING SOCIAL BENEFITS THROUGH HOUSING

The third and final category in which MFIs can support access to affordable quality housing is by improving clients' security, health, safety and environment, through the vehicle of housing finance. Billions of people lack access to clean air and adequate sanitation, burning toxic fumes in enclosed spaces for cooking or heating, risking fire, respiratory and eye disease, or lacking access to indoor toilets, which leads to pollution of drinking water and food supplies, and sexual safety risks for women and girls. A key rationale for improving the quality of housing for low-income populations, therefore, is improving access to sanitation, hygiene, and alternative, cleaner, energy sources.

Several of the semi-finalists made concerted efforts to minimise environmental impact, increase access to clean energy through Distributed Renewable Energy (DRE) product finance, or other Water, Sanitation and Hygiene (WASH) solutions.

FMFB-A has built demonstration houses that emphasize energy efficiency and sustainable building methods, and uses the houses to demonstrate environmentally friendly building techniques to clients and builders or masons.

Swarna Pragati provides standalone Sanitation Loans to those families without toilets, in partnership with local NGOs. Credit life insurance is bundled into the Sanitation loans as with its housing products, alongside awareness building on the use of toilets, providing technical assistance through its partners to build and maintain toilets.

Amret promotes and increases access for improved cookstoves (ICS) and solar portable lighting products via two partnerships with external partners, for which Amret provides specific loans to access the partner's products. KWFT takes advantage of working in arguably the world's most developed Distributed Renewable Energy market to also offer finance for clean, energy efficient cookstoves, water tanks, water purifiers, and sanitation facilities.

Mibanco offers a product to improve sanitation conditions called Crediagua, a sub product of MiCasa, to finance sanitation and sewerage connection. As part of this, Mibanco finances the installation of raised tanks in remote areas where there is no clean mains water supply, or where supplies are intermittent. Safe water storage is critical to prevent the spread of diseases such as dengue fever and chikungunya virus.

This Crediagua loan is complemented with awareness-building events such as fairs, involving local leaders, community campaigns, and partnership with health centres, schools and community kitchens, and with water and drainage utility companies. Mibanco also offers plumbing workshops for families in partnership with Aguilimpia, water.org and Rotoplas.

FMFB-T offers Energy Efficiency loans that can be used to finance a wide range of interventions including: window replacement, installing insulation, heating system replacement, entrance door replacement and the purchase and installation of certified EE equipment.

Finally, 'Sustainable Homes' are a key element of **Tosepantomin**'s holistic approach to low-income housing. Promoting eco-friendly building techniques, the program promotes the use of durable building materials that will not need early replacement, water conservation, energy efficiency, recycling of solid waste, renewable energy product uptake, facilitating agricultural production in household allotments, and promotion of efficient stoves. In this sense, Tosepantomin considers sustainability broadly, beyond the quality of the dwelling being built, but quality of life – including health and safety – of the household members, and protection of the environment at large.

Kenya Women Microfinance Bank (KWFT), Kenya

KWFT is a Kenyan Microfinance Bank, established in 2008, which offers housing and WASH credit products to low-income clients – particularly women. KWFT has 29,662 housing clients among its 403,631 total clients, with 2,720 staff working in 241 branches across the country. Supply of housing finance is very limited, with over 30,000 mortgages provided nationwide in five decades. This lack of finance for housing is driven by four major constraints: stringent requirements for collateral; the high cost of land and property; lack of incremental building flexibility in mortgages; and high cost of quality materials.

Under KWFT's home improvement loan programme, a qualified artisan works with the client upon expression of interest to generate a cost estimate for the home improvement works, and this estimate is used by the credit officers to assess the proposed loan. Compulsory savings and life insurance are integrated into the loan product, and the credit products are combined with non-financial support included advice to clients on budgeting and training for loan officers on providing quality feedback to clients on housing costs. KWFT also places a strong focus on locally sourced materials, and the housing improvement loans are supplemented by specialised loans including for rainwater harvesting roofs, solar lighting products, and improved cookstoves.

FACTORS FOR SUCCESS

The ten semi-finalists (and the 27 other applicants who did not make it to that stage) represent a fascinating, diverse and encouraging array of responses to an extremely complex problem, a problem that varies according to environmental and economic context, availability of materials and other financial channels, client income and capacity, remoteness, house-building culture, and the resources available to the institutions.

Nevertheless, what ties the outstanding organisations and their housing microfinance initiatives together are several common factors. They include:

1. **Recognising the value of partnerships.** MFIs' core expertise is in appraisal and disbursement of microenterprise credit. Housing sits within an extensive supply and value chain that involves materials suppliers, architects, masons, carpenters, government officials and lawyers. The outstanding housing finance programs recognise this, and partner with NGOs, government bodies, local suppliers, housing associations and networks, and even other MFIs, to ensure that the housing finance is complemented by adequate support and mentoring, to help clients identify their goals and then plan, budget, and manage the works in line with those goals, while being able to comfortably repay the loan.

2. **A genuine commitment to Technical Assistance.** Every single semi-finalist has recognised that helping low-income clients expand their homes, improve their water or sanitation facilities, build new facilities, increase the income-generating opportunities of their home or purchase land all require the commitment of human and financial resources. There is a full spectrum of ways in which this can be done, from providing written brochures all the way to budgeting support, working with materials suppliers, providing legal advice on land title, and even delegating engineers to work with clients. Key is helping clients understand what they are undertaking, and ensuring they can plan and align their goals with the means available.

3. The loans themselves are very different from standing enterprise microcredit. Housing finance needs **Flexibility**: longer loan terms, and a range of products that are responsive to the client's context: shorter home improvement loans for minor or incremental works; housing finance loans for purchases; micro-mortgages for clients able to offer some collateral; and tailored loans for energy or WASH products that further improve clients' health and wellbeing. Progressive disbursement too – releasing further loan tranches upon completion of certain project milestones – is a way to motivate clients while mitigating risk to the institution, allowing larger loan sizes that can finance more worthwhile projects. This flexibility recognises too that for most low-income households, incremental building is the norm, and while this can have negative consequences – millions of unsafe, half-built structures – it is also cultural. Housing finance products can and must reflect this, and include project planning, TA and disbursement and repayment schedules appropriate for this type of home building.

4. Successful initiatives are built too on recognition of a long-standing orthodoxy within microfinance at large – that for hundreds of millions of households around the world, the home is **income generating**, a place of work as well as a residence. For many low-income households, the home is a place where products can be made and for sale, or services offered. The best housing initiatives are able to reflect this in forecasting income,

5. The absence of collateral available to low-income households has long been a factor restraining housing microfinance. **New approaches to collateral**, such as community endorsement of land title, acceptable of other soft title, or use of chattel, can facilitate lending to financially excluded segments without hard title.

6. **New approaches to calculating income**, including looking beyond the main 'bread-winner' to adult children and spouses' earnings to calculate current and future household income, can all open the door to housing finance to new segments.

7. Finally, the very best initiatives are genuinely **holistic** in their vision, reflecting the complexity of the challenge and the varied needs of the clients. Tosepantomin, the Award winner, is an example of how a small cooperative was able to combine all the above factors, lobbying a government body to change rules to accept new, very low-income clients who are supported by their community with free labour and materials, partnering with suppliers and other cooperatives, and working with government to facilitate access to subsidies. While this initiative's method of response is as context-dependent as any other, it nevertheless illustrates a **demand-driven** institutional mentality that starts with the needs of clients and proceeds from there.

ABOUT THE EUROPEAN MICROFINANCE AWARD

The European Microfinance Award is a prestigious annual €100,000 award, which attracts applications from financial institutions around the world that are innovating in a particular area of financial inclusion. The Award was launched in 2005 by the Luxembourg Ministry of Foreign and European Affairs – Directorate for Development Cooperation and Humanitarian Affairs, and is jointly organised by the Luxembourg Ministry of Foreign and European Affairs, the European Microfinance Platform (e-MFP) and the Inclusive Finance Network Luxembourg, in cooperation with the European Investment Bank. It serves two parallel goals: rewarding excellence, and collecting and disseminating the most relevant practices for replication by others.

Previous editions addressed the following subjects:

- **2017, Microfinance for Housing**
  Can MFIs respond to the complex housing needs of low income and vulnerable populations, helping them access better quality residential housing?
  Winner: Cooperativa Tosepantomin, for its holistic housing programme serving rural communities and promoting environmental responsibility.
- **2016, Microfinance and Access to Education**
  How can MFIs increase access to education for children, or provide skills training for youth and adults to enhance their employment and self-employment opportunities?
  Winner: Kashf Foundation (Pakistan), for its programme to serve low-cost private schools.
- **2015, Microfinance in Post-disaster, Post-conflict Areas & Fragile States**
  What can MFIs do in order operate in exceptionally difficult environments and circumstances, helping increase the resilience of the affected communities?
  Winner: Crédit Rural de Guinée S.A (Guinea), for its innovative response to the Ebola outbreak in Guinea

- **2014, Microfinance and the Environment**
  Is it possible to integrate environmental governance into the DNA of MFIs and promote initiatives to improve environmental sustainability?
  Winner: Kompanion (Kyrgyzstan), for its Pasture Land Management Training Initiative
- **2012, Microfinance for Food Security**
  Which microfinance initiatives contribute to improving food production and distribution conditions in developing countries?
  Winner: ASKI (The Philippines), for serving smallholder farmers and fostering effective market linkages
- **2010, Value Chain Finance**
  What are the outstanding microfinance initiatives in productive value chain schemes?
  Winner: Harbu (Ethiopia), for an initiative financing a soybean value chain
- **2008, Socially Responsible Microfinance**
  What innovative initiatives can MFIs undertake to promote, measure and increase the social performance of their activities?
  Winner: Buusaa Gonofaa (Ethiopia), for the development of its client assessment system
- **2006, Innovation for Outreach**
  What are breakthrough initiatives within microfinance that deepen or broaden rural outreach?
  Winner: The Zakoura Foundation (Morocco), for its programme on rural tourism

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Luxembourg Ministry of Foreign and European Affairs

Directorate for Development Cooperation and Humanitarian Affairs

https://cooperation.gouvernement.lu

The inclusive finance sector has been actively supported by Luxembourg's Directorate for Development Cooperation and Humanitarian Affairs of the Ministry of Foreign and European Affairs over the last 20 years. The Ministry works closely with civil society stakeholders and networks specialised in microfinance to fund conceptual innovation, research and the development of new tools as well as political action in national and international fora, by focussing particularly on integrating the most vulnerable into the financial inclusion sector. Long term commitment and strategic support have led to Luxembourg being globally recognised as a centre for financial inclusion.

THE GOVERNMENT
OF THE GRAND DUCHY OF LUXEMBOURG
Ministry of Foreign and European Affairs

Directorate for Development Cooperation
and Humanitarian Affairs

The European Microfinance Platform

www.e-mfp.eu

The European Microfinance Platform (e-MFP) is the leading network of European organisations and individuals active in the microfinance/ financial inclusion sector in developing countries. It numbers over 130 members from all geographic regions and specialisations of the microfinance community, including consultants & support service providers, investors, FSPs, multilateral & national development agencies, NGOs and researchers. Up to two billion people remain financially excluded. To address this, the Platform seeks to promote co-operation, dialogue and innovation among these diverse stakeholders working in developing countries. e-MFP fosters activities which increase global access to affordable, quality sustainable and inclusive financial services for the un(der) banked by driving knowledge-sharing, partnership development and innovation.

EUROPEAN
MICROFINANCE
PLATFORM

NETWORKING WITH THE SOUTH

Inclusive Finance Network Luxembourg

www.InFiNe.lu

The Inclusive Finance Network Luxembourg Asbl (InFiNe.lu) was created in March 2014 and is supported by the Luxembourg Ministry of Foreign and European Affairs – Directorate for Development Cooperation and Humanitarian Affairs. The uniqueness of InFiNe.lu is to bring together key stakeholders from the public, private and civil society sector in Luxembourg around the common objective of promoting financial inclusion. The network includes 30 members. InFiNe.lu aims to develop knowledge and expertise by stimulating exchange and collaboration amongst its members and capitalises on Luxembourg's leading position in the financial and development sectors.

InFiNe
Inclusive Finance Network
Luxembourg

European Microfinance Platform (e-MFP)

39 rue Glesener
L-1631 Luxembourg
contact@e-mfp.eu
www.e-mfp.eu

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THE GOVERNMENT
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Ministry of Finance