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MICROFINANCE WEEK 2017

MICROFINANCE FOR HOUSING

"An opportunity for vast Impact"

URBANIZATION (a challenge and opportunity)

- In 2015, close to 4 billion people — 54 per cent of the world's population — lived in cities;
- By 2030 it is estimated that at least 5 billion people will be living in cities;
- At least an estimated 880 million urban residents lived in slum conditions in 2014.

The markets where the rapid urbanization is happening are faced with:

- Lack of regulatory environments.
- Inadequate supply of affordable housing units.
- Exclusion from traditional mortgage markets for households with low and often unsteady incomes; whom usually lack tenure security or have limited land rights;
- Mortgage depth and housing loan penetration is very low
- Only between 2-3% (on average) of the global population can access formal financing.
- Has put housing finance as a “luxury” segment of the financial sector.

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THIS HOW APROXIMATELY
70% OF THE DEVELOPING
WORLD BUILD THEIR HOMES

IN THE ABSENCE OF AFFORDABLE HOUSING

WHAT ARE LOW INCOME BORROWERS ASKING FOR?

- **Housing** is often proclaimed to be one of the "big three" priorities for low-income households around the world.

- In developing countries one of the main motives for taking out a new loan is **housing**.

- Between 20-30% of traditional microfinance loans have been diverted into **housing**.

WHAT IS HOUSING MICROFINANCE

- Microfinance products that consist of small, consecutive loans offered for relatively shorter terms than a mortgage; to support the existing incremental building practices of low-income populations;
- Products that match both the income streams and affordability levels of low-earning clients and the construction costs of their incremental building steps.

"A critical feature of HMF is that loans are not typically secured with a mortgage lien, and in many cases, possession of a formal land title is not a requirement".

CURRENT STATE OF HOUSING MICROFINANCE

- **Housing microfinance sector is growing** in response to client demand, social impact and/or portfolio diversification;

- **Outperformance of housing microfinance portfolios** relative to traditional microfinance portfolios in both returns and lower delinquency

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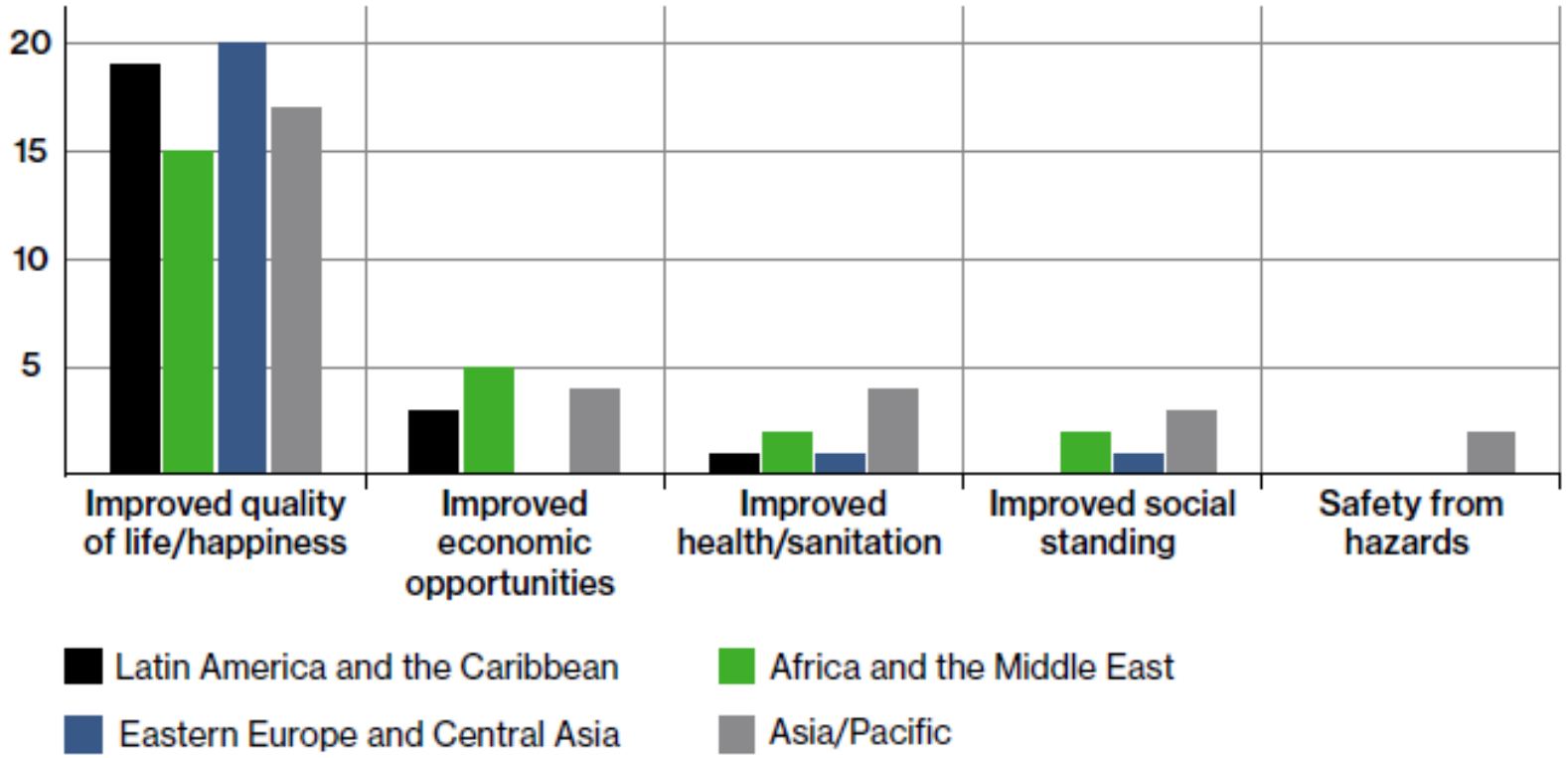
Alignment with
social mission

90% List as a key motive for launching housing microfinance product



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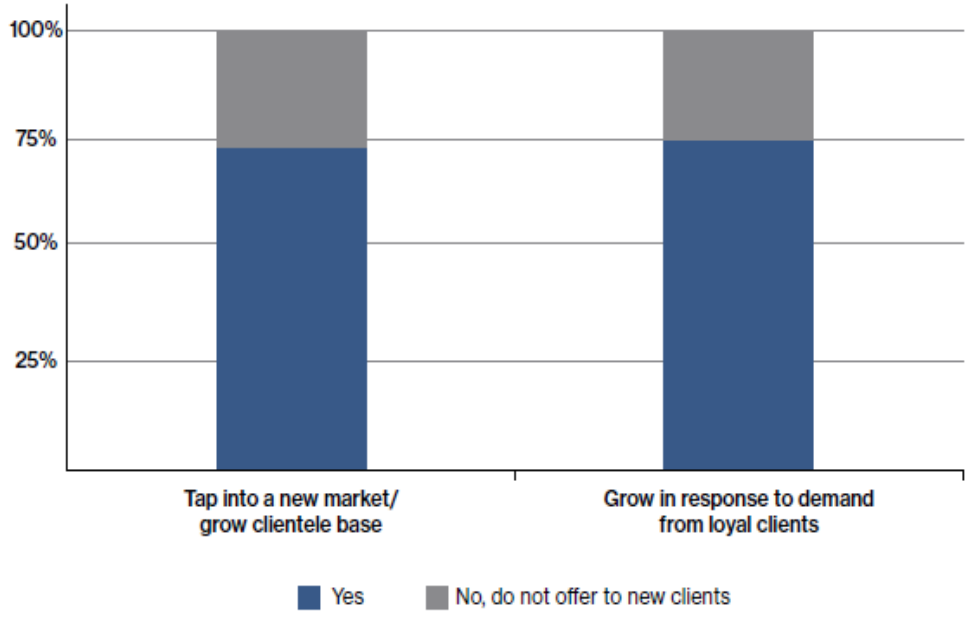
Alignment with business strategy



Respond to demand from loyal clients as a key motive — **56%**

Portfolio diversification as a key motive — **40%**

Driven by pursuit of **new market/ clientele base** — **39%**

Motivated by **attractive incentives** from funders — **8%**

75-73% **Offer** housing microfinance products **to new clients**

64% Attribute expected financial return to **interest rate margins**

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Still **the size of HMF portfolios is small** as a percentage of the overall portfolio of microfinance institutions remain small.

If we can move the microfinance market dedicated to housing from to at least 10% it would result in:

- $3.6 billion invested in housing
- 15 million household reached to improve their housing conditions
- 75 million people with improved housing conditions

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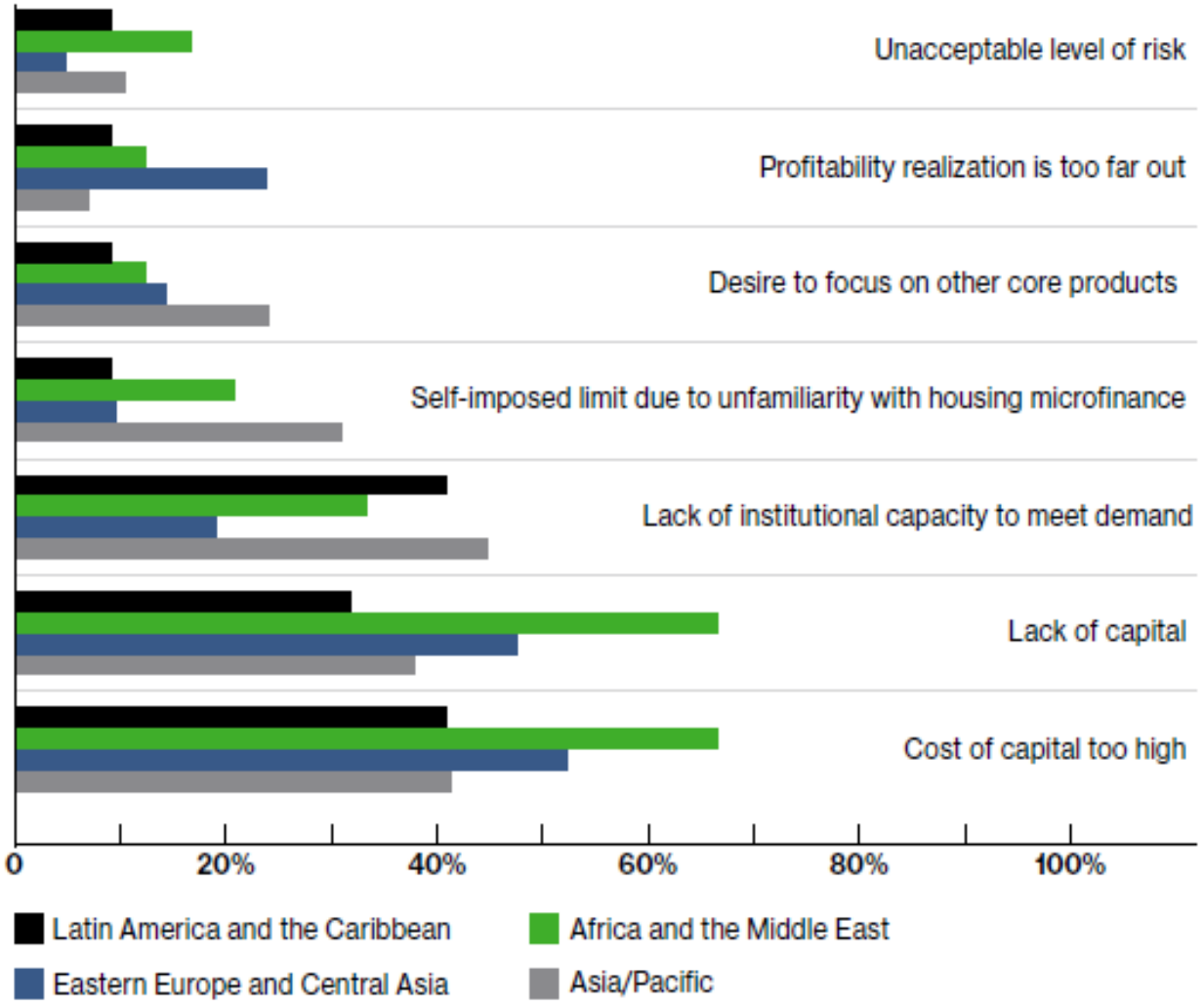
Operational constraints to scaling up housing microfinance



Technical capacity constraints prominent in Latin America and the Caribbean and Asia-Pacific

Capital constraints prohibitive in Africa, the Middle East, and Eastern Europe and Central Asia

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Conclusions

- Different sources of capital to finance different stages of housing microfinance: Grants (pilots and innovation), low-risk investment capital, investment capital, etc….

- Think out of the box: different products to serve different segments within low income groups; and different needs (mortgage for low income groups; rental market; alternative and environmental technologies for housing, etc.)

- Donors, investors; financial institutions; other housing market actors need to work together to support different stages of housing microfinance development.