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Micro-Housing Loans for Micro-Entrepreneurs:

A Needs Assessment

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Micro-Housing Loans for Micro-Entrepreneurs: A Needs Assessment

- Stuti Tripathi and Minakshi Ramji*

With the promulgation of micro-finance across the world, it has been posited that micro-finance can become an innovative and sustainable channel to provide low-income groups with access to finance for their housing needs.

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Introduction

Access to housing for the poor, whether urban or rural, is a world-wide challenge, which has a direct impact on the socio-economic status of every economy. With the promulgation of microfinance across the world, it has been posited that microfinance can become an innovative and sustainable channel to provide low-income groups with access to finance for their housing needs. High demand for shelter calls for the design of housing finance products and supply mechanisms that target the low-income groups which have traditionally been excluded from the housing market due to lack of land tenure and high investment requirements.

This study explores how best to design and provide a housing microfinance product through an MFI which is specifically targeted to new home construction by low-income communities. As such, the research agenda was determined by product details that the bank wished to iron out. Specifically, this study explored the following points:

- How do MFIs conduct credit evaluations to determine eligibility of clients who desire housing microfinance loans?
- How feasible is it to use land title as collateral, given the general lack of collateral, especially in rural areas?
- How do MFIs determine the size of HMF loans?
- Is it possible to determine loan size by using land valuation?
- What are client preferences for housing characteristics and loan terms?
- What are the levels of willingness and ability to repay?
- What is the demand for additional services?

We performed a demand assessment on a subset of potential clients of the final product. Interviews with various stakeholders in the sector were also conducted in order to refine product features for the pilot exercise.

While there are benefits to MFIs of offering housing products, they also face several challenges.[1] There is a strong case to be made for MFIs to introduce housing finance products. Such a product would enable them to diversify their portfolios, cross-subsidise their products, and develop business relationships with their clients. In spite of these potential rewards, MFIs face significant obstacles when they attempt to provide home loan products. Firstly, MFIs are usually unable to access adequate funding for housing finance. Secondly, lack of clear land titles amongst low-income households often makes it difficult for MFIs to lend to them. Thirdly, there is also a lack of understanding about the level of non-financial assistance that low-income households may need for housing. Finally, housing microfinance (HMF) loans are distinct enough from standard micro-credit loans that they represent a major shift away from typical microfinance mechanisms. HMF loans typically involve larger sums of money and longer terms. Joint liability lending, the cornerstone of microfinance, tends to be less effective as loan amounts grow larger. HMF is still in a nascent stage in India with just a few successful examples.

Our results indicate that demand for a housing product does exist. This demand is currently met by loans from both formal and informal sources. The demand for 'Repair and Renovation' products is much stronger than the demand for 'New Construction.' In our sample, clear land titles existed. Furthermore, housing in our sample was generally a productive asset, since many micro-entrepreneurs operated home-based businesses. However, housing finance is a priority only for those clients with slightly higher incomes. This is further reinforced by the fact that many MFIs which currently offered the product face lower repayment rates on this product than they do on the standard microfinance loan product.

This paper is organised in the following manner. Section 1 briefly examines the challenges and potential of offering HMF for MFIs. Section 2 enlists feedback from discussions with four MFIs which already offer the HMF product in India. The next section presents the methodological approach used in the study and analyses the empirical evidence thus collected. Section 4 provides a discussion of these results, and finally, a conclusion is offered.

2 Review of Literature

2.1. Housing Microfinance Defined

HMF is defined as the provision of small loans to low-income households for a wide range of housing activities, including but not limited to: repair, renovation, improvements to existing structures, purchase of land, new construction, and even improvement in infrastructure facilities, such as sewage. It has been posited that poor households build through a process referred to as 'progressive housing' or 'progressive build,' implying that poor households build gradually and incrementally, a few rooms at a time (Ferguson, 2003). Thus, microfinance loans would appear to be compatible with this form of housing finance since finance for 'progressive build' can be dispensed in the form of small loans of a shorter tenor.

However, there are noteworthy differences between HMF loans and standard microfinance loans. The table below provides a snapshot of some of the major differences between micro-enterprise loans and HMF loans.

Micro-Enterprise Loans versus Housing Microfinance Loans

Micro-Enterprise Loans	Housing Microfinance Loan
Affects borrower's income	Affects borrower's income and asset base
Offers short, small loan amounts	Loans are relatively longer and larger
May or may not be "fungible" e.g., a loan to buy livestock could be used for housing	Relatively harder to be "fungible" since housing loans are disbursed in a staggered manner
Repayment capacity based on ability to use the loan to generate future income	Repayment capacity is based on current income
Unsecured loan	Can be Secured or Unsecured. Typically requires either legal title or some para-legal document
Tend to be group loans; social collateral said to enforce repayment	Can be individual or group loans; social collateral not as effective higher loan sizes

From Krishnan, Taishi & Ramji (2007), Adapted from table in presentation "Housing Microfinance: An Overview" by Frank Daphnis and Bruce Ferguson at the Small Enterprise Education and Promotion (SEEP) Network Annual General Meeting, October 2004.

2.2. Challenges to Overcome

There is a strong case to be made for MFIs to introduce housing finance products (Escobar, Alejandro and Merrill (2004) in Krishnan, Ramji & Taishi (2007). Apart from the fact that 'progressive build' is compatible with microfinance loans, offering an HMF product allows MFIs to diversify their portfolios and cross-subsidise products. Offering new products also allows them to improve client satisfaction, maintain longer relationships with their existing clients, and attract newer clients. However, in spite of these advantages, there are important challenges that MFIs must overcome to be able to provide this product. Some of the major challenges they face include lack of access to funding, the absence of land titles and collateral for many poor households, lack of awareness amongst clientele, and the differences between design of traditional microfinance loan products and HMF products. These issues are explored in brief below.

Funding remains an important constraint for MFIs wishing to offer HMF (Young, 2007; Krishnan, Ramji & Taishi, 2007). Since HMF is a relatively new product, the absence of successful examples of HMF makes banks wary of offering finance to MFIs for this purpose. Furthermore, banks see housing loans as consumption loans, rather than productive loans. This situation is changing, however, with several agencies, such as the National Housing Bank, the apex body for housing companies, promoting HMF as an important delivery channel for housing finance for poor people. MFIs, however, are loath to lend for housing purposes, since longer term loans tend to be less profitable for them.

Low-income households, both in urban and rural areas, often do not have clear legal land titles, although they may be able to prove tenure in other ways such as through tax receipts, sale deeds, electricity bills, etc. (Young, 2007). Banks are often unable to accept anything less than a clear land title as collateral and are unable to lend to MFIs in the absence of clear titles, especially if the bank loan is meant specifically for housing. At the same time, it is important to note that when MFIs retain client land titles, it is typically meant only as a psychological curb against default. Foreclosure tends to be extremely time-consuming and burdensome for most MFIs. Further, since many MFIs, including for-profit ones, have social goals as well, it may be difficult for an MFI to justify evicting a low-income household from their house in the event of default.

Changes in lending methodology: MFIs are used to lending to groups and using joint liability as a means of ensuring 100% repayment. HMF involves larger and longer-term loans, and as such, tends to be more suited to individual lending methodology (Krishnan, Ramji & Taishi, 2007). Another difference between these loan types is the profile of target borrowers for each product. While microfinance has been criticised for reaching only the moderately poor, HMF, due to the larger loan size, is likely to cater to an even creamier layer amongst the moderate poor. Typically, when MFIs offer HMF, these loans are offered only to their star borrowers or graduated clients. Thus, MFIs may not be able to offer more than a repair product for their poorest members.

Additionally, MFIs lack a clear understanding about client preferences for housing loans and for construction. Uncertainty also exists regarding whether or not offering technical services would decrease the cost of construction and what kind of technical services would be most helpful for clients.

Another important issue includes a lack of awareness amongst clientele about repaying longer-term loans and about the construction process in general. MFIs tend to report repayment rates close to 100%. Given the larger and longer loan sizes and terms involved in HMF, it is possible that repayment rates may be lower.

Since HMF is an emerging area in microfinance, there are very few programmes which have shown evidence of successfully scaling up. It is thus difficult to draw lessons and generalise for the sector as a whole. This study seeks to elucidate some of these concerns.

3 Research Methodology

The research focuses on rural HMF, since urban microfinance would suffer from the immediate disadvantage of being prohibitively expensive and typically requires collaboration between several organisations like NGOs, financial institutions and others. Due consideration was given to the following points of action research:

i. **Practitioner Interviews:** CMF identified the following stakeholders, who are either involved or interested in providing HMF: Madura Microfinance, Evangelical Social Action Forum, Shalom, and RepCo Bank. Interviews were conducted with the management at these organisations, to understand any logistical and operational hurdles to providing housing microfinance.

ii. **Demand Assessment:** A short demand assessment was conducted on a subset of 53 potential clients of the final product with Madura Microfinance in Salem District, Tamil Nadu.

4 Practitioner Interviews

Housing Microfinance Product Details in Practitioner Interviews

	Micro-enterprise Loan				Housing Loan			
MFI	Model	Tenure	Amount	Rate	Tenure	Amount	Rate	Criteria
RepCo Bank	SHG	2-3yrs	Rs. 3,000 - 25,000	12-14%	Up to 7yrs	Up to Rs. 2 lakhs	11%	* At least 2yrs/2 loan cycles * Evidence of land ownership (without land ownership, loan only up to Rs. 50,000) * RepCo will fund only 80% of the cost * EMI should ideally not be more than 60% of income * Group guarantee is necessary, even though loan is individual * Most popular use of loan: using govt. sponsored scheme to convert kuccha houses to pucca
Madura Microfinance	SHG	3.5yrs	Rs. 12,500 - 25,000	12.50%	Up to 6yrs	New: Rs. 1lakh Repair: Rs. 60,000	17%	* At least 1 Activity Loan * Land title is must * Individual loans with no say for group * Must have salaried employer, govt. employee guarantor * Begun only in last 6mths
ESAF	JLG	1yr	Rs. 8,000	12% flat	Up to 7yrs	New: Rs. 50,000 Repair: Rs. 25,000	15%	* Original land title is essential; for repair, copy of land title is enough * Completion of one loan * Minimum 3 cents land required
Shalom	JLG	1yr	Rs. 8,000 - 20,000 and above	15% flat	3yrs	Repair: Rs. 15,000 - Rs. 25,000	15%	* Repair Loans: clear land title, individual loan * Save & Build: 2yr saving history with at least Rs. 50K in savings, * Shalom uses this money to buy land and build new construction * Shalom did first such project around Palakkad. Total cost was 2.6L where 1.85 is loan, 50K savings and 25K is Shalom subsidy

Note: Madura Microfinance is an NBFC and as such cannot collect savings. Their groups save with banks

Three MFIs and one cooperative bank were contacted for this study. Evangelical Social Action Forum and Shalom have been offering HMF for more than four years,while RepCo and Madura have offered a housing product for the last year only. A summary of the conversations on the major points of our research interest is offered below.

Credit evaluation: Our conversations confirmed the findings in our literature review: household income is an extremely important determinant of whether or not clients receive HMF. While loan officers are an important source of information regarding client suitability for these products, the groups that HMF clients belong to are also critical. Each organisation, except for Madura Microfinance, uses the group structure to approve and sanction loans. In these organisations, even though the loans are individual loans, the group must guarantee HMF loans. Along with these two points, repayment history is extremely important.

Land title and collateral: HMF loans fall into two major categories – loans for new construction and loans for repair and renovation. All four refused to give HMF loans for new construction without land title as collateral. Primarily, this has to do with loan size. All loans of Rs. 50,000 and above require a land title. However, those that request loans below this amount can apply without collateral.

Determining loan size: While organisations have policies to offer up to Rs.2 lakh per HMF loans, loan amounts for new construction typically range between Rs. 50,000 and Rs. 1,00,000. For repair and renovation, the loan amounts are between Rs.25,000 and Rs.50,000. Typical home sizes range between 350 to 450 square feet. However, the organisations, with the exception of Madura Microfinance, told us that the HMF loan amounts were insufficient to construct houses in their respective areas of operation. Other sources of funding are thus essential to complement these HMF loans.

Foreclosure: All organisations said that foreclosure was not possible in their areas of operation. The threat of foreclosure is merely meant as a strong psychological deterrent.

Using land valuation for determining loan size: All four organisations believed that this was impossible. Firstly, land prices may be quite depressed in rural and semi-rural areas. Secondly, it may not be connected to the actual repayment capacity of the client. Thirdly, determining loan size through land valuation is useful only when default entails foreclosure, since the value of the land is what the bank/financial institution will obtain by selling the asset. However, in this case, MFIs have never foreclosed on a defaulting loan and do not plan to do so in the future.

5 Demand Assessment

5.1. Background to Madura Microfinance's Microfinancing Activities

Microcredit Foundation of India (MCFI) is a not-for-profit Section 25 Company in Tamil Nadu. Working primarily with women, MCFI promotes Self-Help Groups (SHGs), trains them in sound financial practices, facilitates access to microcredit loans, and equips them with business skills. MCFI has about 500,000 women SHG members across 6,500 villages in 24 districts.

In MCFI's SHG Model, each group consists of 15 to 20 women from the same village. Before they can be deemed credit ready each group goes through a one year training program. After six months of training and saving, the groups are graded; if they are in good standing and hold a savings account with a commercial bank, they become eligible for a short-term group loan with a repayment period of six months. These short-term loans are personal consumption loans of Rs. 50,000 (US$1220) per SHG (up to a maximum of Rs. 2,500 per member). This loan is used to assess the ability of group members to make the monthly payments.

At the end of this six-month repayment period, the groups are graded once more to determine their eligibility for a larger, activity-term loan with a repayment period of four or five years. The activity-term loan is typically Rs.2.5 lakhs for the entire SHG group and provided for income generating activities, wherein each member is allowed a maximum of Rs. 12,500.

A significant number of MCFI clients are now eligible for a third loan. Unlike the first two loans, the third loan is fairly flexible in terms of amount and tenure and therefore more customised to the needs the client. In the third cycle, the clients are eligible for a loan amount ranging from Rs. 20,000 to Rs. 100,000 depending upon the purpose. MCFI gives a loan of Rs. 100,000 for construction of new houses, having an EMI of Rs. 2,300 spread over 72 months with a 6-month moratorium. For housing repair, the cap is Rs. 50,000 payable in 60 equated monthly installments of Rs. 1,300 at a diminishing interest rate of 18.5%. Clients applying for a housing loan have to submit a detailed application form which includes hypothecation of the land papers and guarantee by two people, one of which should be a fellow SHG member. The second is often the applicant's husband or the person in whose name the land is registered. Madura Microfinance Ltd. (MMFL), a non-banking finance company (NBFC), is the lending partner of MCFI. In 2006-07, MMFL disbursed loans to the tune of Rs. 140 crores through its network of 182 branches.

5.2. Area and Sampling

The research was conducted in Salem district in Tamil Nadu. In Salem District, MCFI has three project offices; one each in Salem, Idappadi, and Konganapuram. The respondents were spread across nine villages in the Konganapuram Block of Iddapadi Taluk.

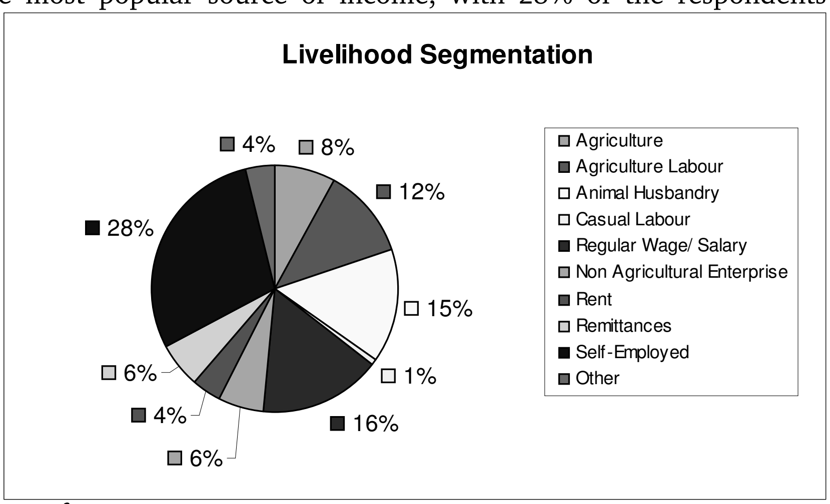
The questionnaire was administered to 53 clients that had been with MCFI for 3 to 4 years, had completed two loan cycles and were therefore eligible for bigger loan ticket size. Our respondents therefore were clients who had demonstrated themselves to be creditworthy over a significant period of time. Besides, given that MCFI already has a housing product in place, it helped clients to realistically respond to questions designed to assess their willingness to take loans for financing new housing construction or renovation.

5.3. Survey Observations

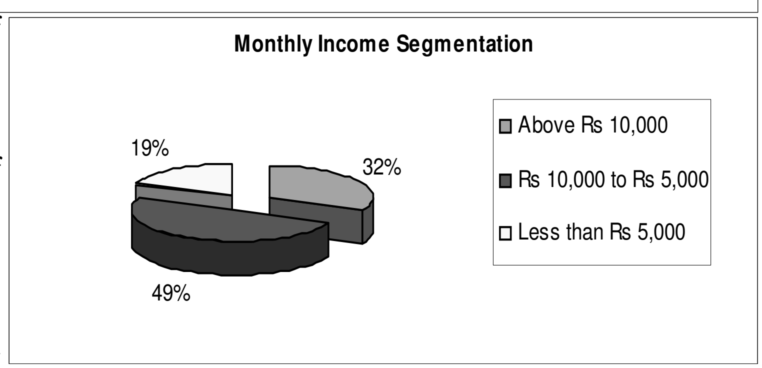
5.3.1. Profiling of the Respondents

The questionnaire was administered to 53 respondents, a majority of whom (68%) belonged to the Most Backward Caste. The remaining 32% belonged either to Backward Caste or Other Backward Caste. Further, none of the respondents reported having a Below Poverty Line (BPL) or Antodaya Anna Yojana card. Literacy levels were high with over 60% of the respondents said that they could both read and write. The average family size of the respondents stood at 4.3.

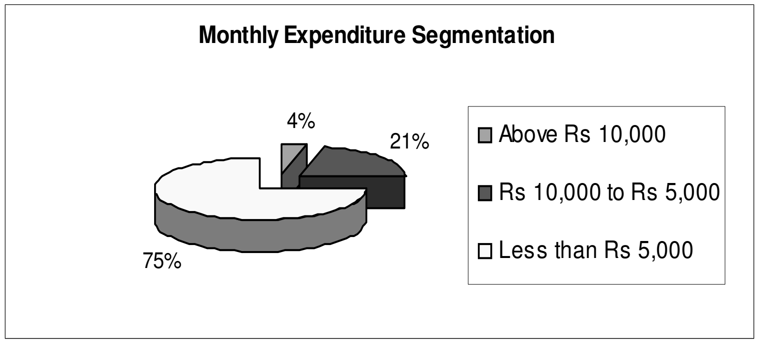
Segmentation of the respondents along livelihood patterns revealed self-employment as the most popular source of income, with 28% of the respondents reporting it as one of the sources contributing to their monthly income. 16% of the respondents earned a regular wage or a salary, with animal husbandry a close third, reported by 12% of the respondents. The pie chart below gives a more detailed picture of occupational distribution.



The pie chart shows three income brackets of the participating households.



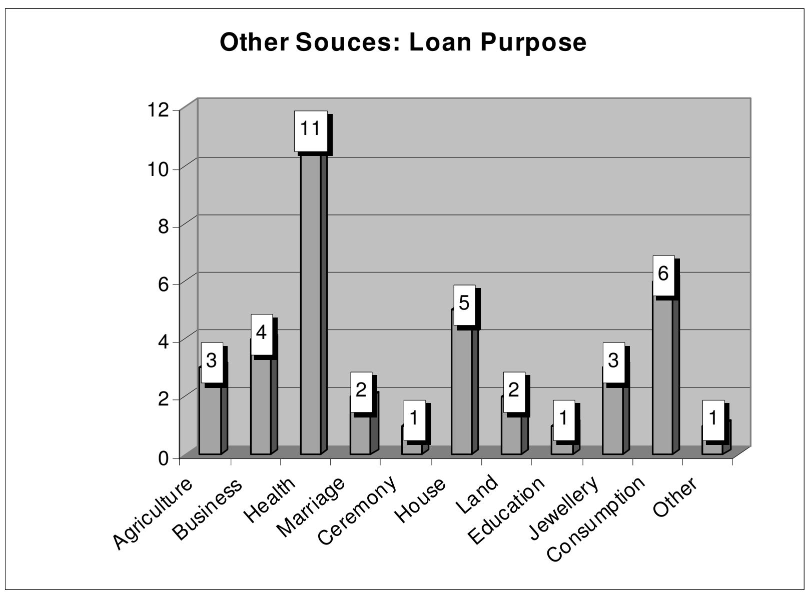
A majority of the households had an income of over Rs 5000 a month. The average income of the households stands at Rs. 1,00,000 per annum with a standard deviation of around Rs. 53,000.



As the pie chart below shows, there is opportunity for saving amongst the respondents. Though the study does not systematically capture information on how people save, chit funds do seem to be a popular informal saving instrument with the community, which became evident when many people reported raising money from chit funds to finance their house construction or renovation needs.

5.3.2. Credit History of the Respondents

As stated earlier, all respondents had a good credit history with MCFI and were eligible for the third loan. An analysis of loan usage showed that 43 respondents had used the loan from MCFI for productive purposes, and only 10 had used it for purposes like health, marriage, house repair, and purchase of land or jewellery.

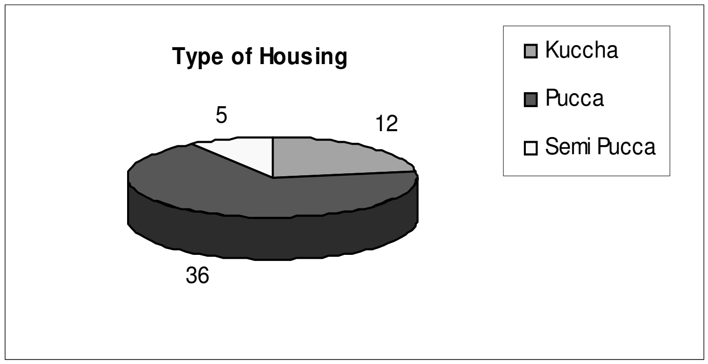


This, however, was not true for loans borrowed from informal sources. Also significant here is the fact that 75% of the SHG members interviewed confessed to taking loans from informal sources other than the SHG. Over 10% of our respondents had used this money for some housing activity. The most popular source of informal loans was the money-lender (44%).

5.3.3. Housing in the Area

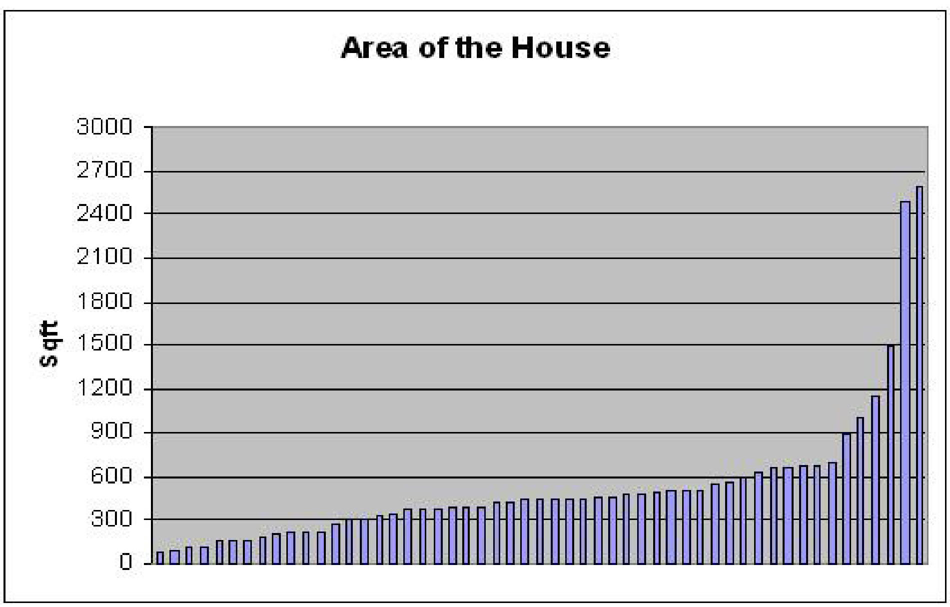
The survey tried to capture the housing situation among the respondents; focusing on the kind of houses they presently live in, how they came to own the house, kind of repair work undertaken from time to time, and amount needed spend on the upkeep of the house.

The physical verification of the houses by the surveyors revealed that a majority of them lived in in a "Pucca House". Only some 12 households, that is, a little over 20%, lived in Kuccha houses, whereas another 5 lived in a Semi Pucca house.



Those living in Kuccha houses had, except in two cases, only one room, which compared unfavourably with those owning pucca homes all of whom had at least two rooms, or more in some cases. Further, while 50% of the respondents had a separate kitchen, 80% did not have a toilet. These statistics seem to indicate that loans for housing may not necessarily be a product in any great demand, especially if one were to juxtapose this to the average family size of 4.3.

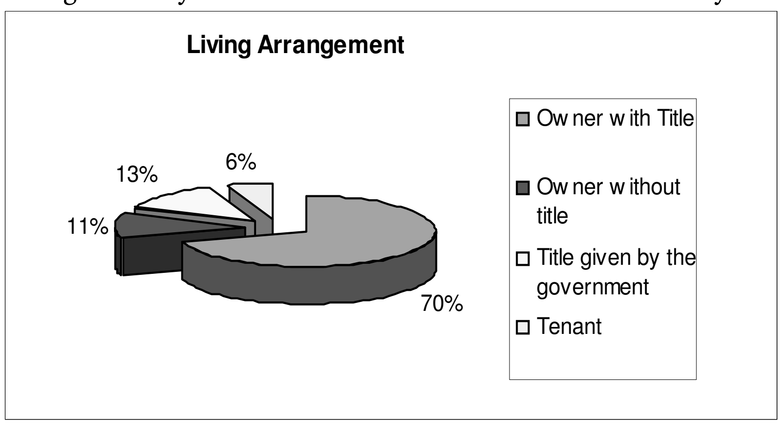
We further looked at the area of the house. The bar chart below states the findings:



As is evident from the above diagram, a significant majority of the people had houses ranging from 300 sq ft to 600 sq ft. The much quoted Gandhigram Model talks about only a 225 to 250 sq ft of a house.

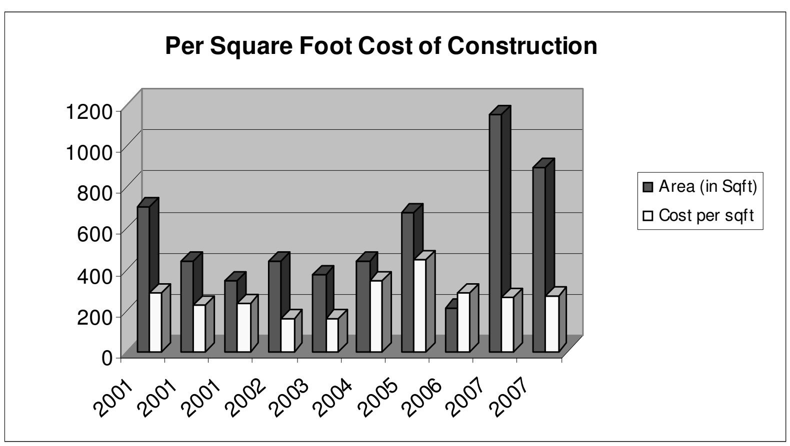
It may, however, be good to keep in mind that for many of the households, a significant area is used to house power looms. Presence of power looms was in fact also stated as one of the primary reasons for households investing year after year in roof repair (something that will become evident later) and preferring to own a pucca house.

Almost 70% of those interviewed were owners of the homes they lived in, holding legal titles in the names of their husbands, father-in-laws. or husband's grandfather for a majority of cases. In a sample of 53, only three respondents were tenants. Of the 50, 76% had inherited the house or the land, and only 6 had bought the house they were currently residing in. Only one of these six had taken a loan to buy the property.



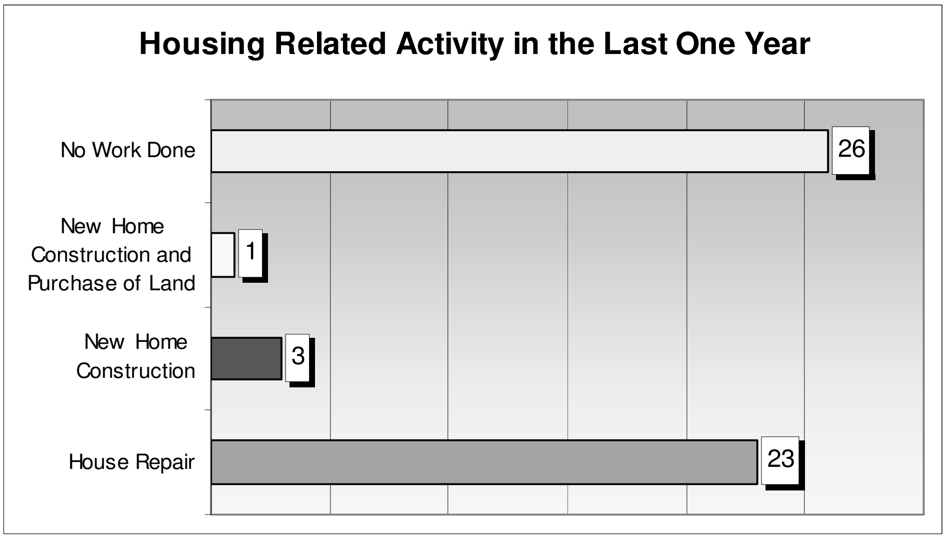
If we look at the per square foot cost of constructing a pucca structure for houses constructed after 2001, at least 8 of the 10 houses reported paying less than Rs 250 sq. ft.

If we increase this cost to Rs 300 per sq ft, then a 250 sq ft house can be constructed in Rs 75,000. However, one must also take into consideration the fact that the majority of respondents want houses in the range of 300 to 400 square feet rather than 250 square feet. This cost also does not factor in cost of land.

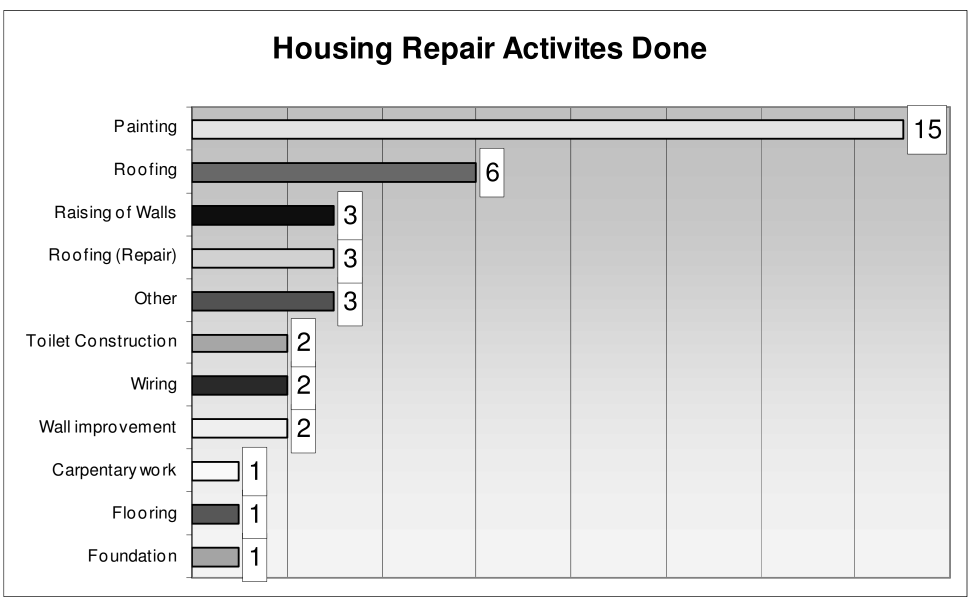


When asked about the availability of the construction material, 65 percent of the respondents said that none of the material had been available locally, that is within the village. A majority of the respondents reported sourcing material from the nearby town - in this case the block headquarters of Konganapuram.

The survey tried to specifically look at the construction or repair work that the respondent households had done in the last one year, involving an expenditure of over Rs. 500.



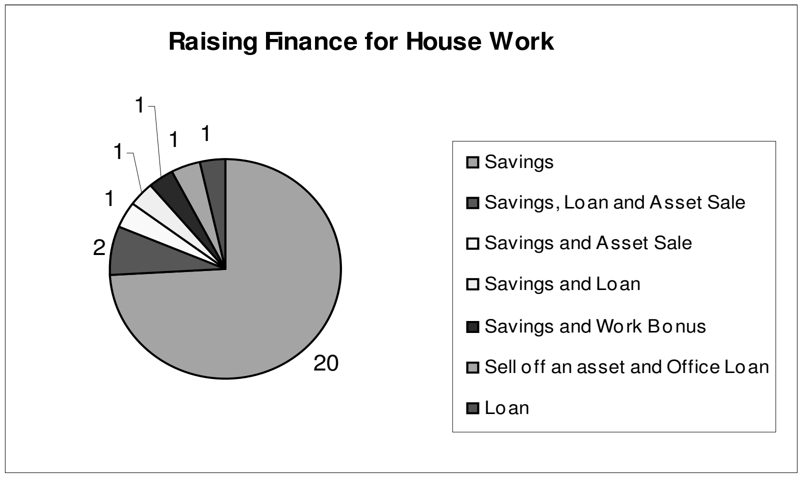
Twenty six respondents did not have any construction activity done. For those who did do some kind of construction work, not a single respondent reported getting any technical assistance, and almost all, except two cases, hired masons or labourers

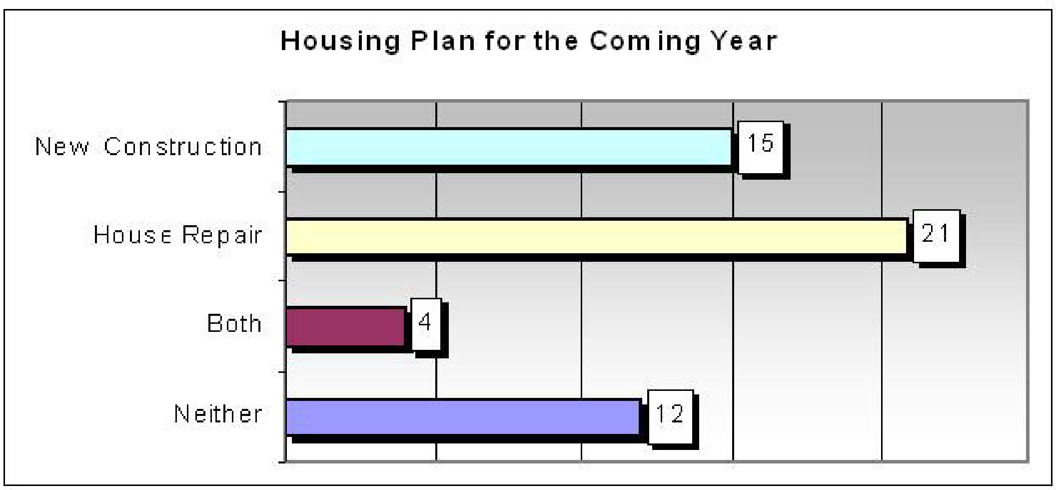


did the actual construction. The average amount spent on repair by respondents stands at Rs. 3020 (if we exclude one outlier) and Rs. 1994, if we exclude top 20% of the expenditure on repair. Painting and roof-related work were found to be the most recurring activity among the interviewed households. Twenty of the 27 respondents who reported doing construction activity used savings to finance their house work.

Regarding future housing plans, we asked all 53 respondents if they would be eager to own a house more suited to their needs than the one they were currently living in.

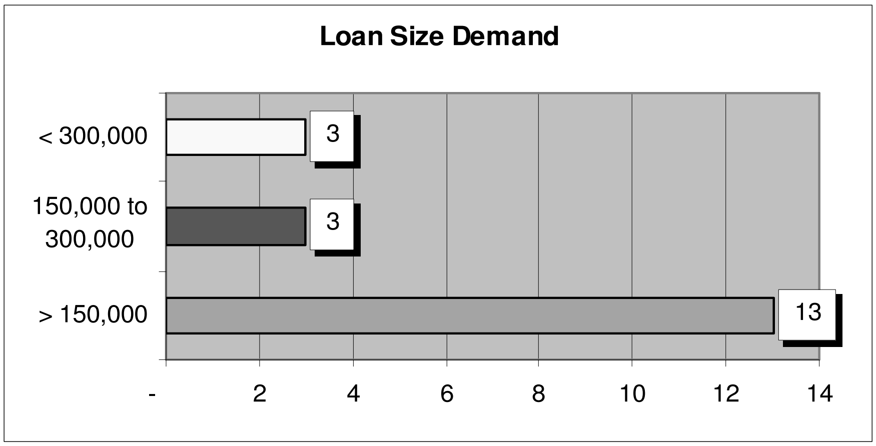
Close to 40% of the respondents said that they would, with 19 of them willing to undertake construction in the coming year, if finance was available. The figure below represents the amount that the respondents were willing to obtain in loans for the purpose of housing.

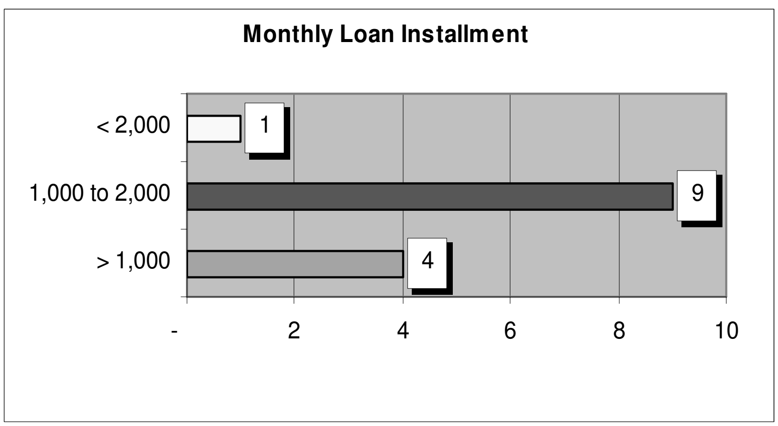




Of the 20 people interested in owning a better house, 19 expressed willingness to take a loan to finance construction, while only 14 were keen on taking a longer term loan for the purpose.

As for the amount that the respondents were willing to set aside every month towards payment of the loan, a majority of the respondents quoted an amount between Rs. 1,000 and Rs. 2,000. A housing loan for renovation from MCFI with a monthly instalment of Rs. 1,300 and of Rs. 2,300 for house construction seems close to the client's ability and willingness to pay.





5.3.4. Focus Group Discussions

5.3.4.1. Methodology

In total, six focus group discussions in three villages were conducted, choosing villages which differed significantly from each other in livelihood opportunities available to the people. All of the women that participated in a particular discussion were members of MCFI from the same village but not necessarily belonging to the same group.

This choice of sample was based on the fact that the housing needs of people vary depending upon the kind of house they were presently living in, which also was assumed to be an indicator of their financial position. As such, their current housing situation could be an accurate indicator of their ability to finance further constructions or new constructions of a house.[2] Based on this assumption, participation in different discussions was determined by whether the SHG member lived in a *Pucca* house or a *Kuccha* house.

The aim was to ascertain to what extent the socio-economic conditions of the village in general and the livelihood options available to people in particular impacted the choices people made while planning their finances. More specifically, it was to understand what people prioritise when it comes to investing money. Does this change if the money comes as a loan, and if it is given specifically for housing, what are the terms and conditions that would affect the take up?

5.3.4.2. Findings

In Vettuvapatti village, people are dependent largely on agriculture for livelihood. While most of the people have at least some land of their own, a significant number among them also work as agricultural labourers.

In this village, there was a general reluctance on part of the people to take a housing loan, irrespective of the kind of house they presently owned. A water scarce area, a majority of the participants across the groups expressed willingness to take a loan either for digging a bore well or for educating their children instead.

Thus, securing livelihood, in the present and for future, seemed to be the paramount concern for the women. While they did acknowledge housing as an important need, they expressed inability to repay the loan. There was categorical interest in taking loans only for income-generation activity.

Those who did own a pucca house reported taking loans from chit funds to get construct them. Important to note here is that those who did take loans for housing construction did so some 4-5 years back when the village was hit by a storm that destroyed most of the Kuccha houses in the area. Even at that time, the women settled for loans which allowed for six monthly repayments, and almost all expressed inability to pay monthly due to their livelihood.

In stark contrast to Vettuvapatti, Puliampatti, situated on the banks of river Kaveri, was an agriculturally prosperous village. For women who owned a Pucca house, many had husbands or sons working in jobs which ensured a regular stream of income to the households even in lean agricultural seasons. A majority of the women here were willing to take a loan for housing and expressed willingness to pay monthly instalments ranging from Rs 1,500 to Rs 3,000.

People living in Kuccha houses were largely agricultural labourers but reported a more secure stream of income, given higher overall returns from agriculture in this region. Here again, livelihood and education were among the most articulated needs of the people, but unlike Vettuvapatti, while women were open to the idea of taking a housing loan, it was not without some level of circumspection.

Women confessed to loan terms being an important determinant of their willingness to take a loan. Their own preference was for a loan with semi-annual repayments, for which monthly repayment would not exceed Rs. 1000 per month for most women or Rs. 1,500 for some. Thus, while the respondents were better off, their income flows were also governed by the seasonal character of agriculture.

In another village, women living in kuccha houses and dependent on labour showed greater willingness to take housing loans. They, however, quoted a much lower repayment amount, ranging from Rs. 700-1,000, as the amount they could set aside each month to pay the loan instalment. Though labourers, the women here were willing to pay the loan in monthly instalments. Proximity of this village to the block headquarter could be one reason that people in this area found some (non agricultural) work for a certain number of days in a month.

The last discussion had a mixed group of people living in houses that were either pucca or semi pucca. A majority of the discussants expressed interest in borrowing money for either repairing their house or extending the present unit. A significant number of households in this village were engaged in some kind of enterprise (generally cloth or saree weaving), and therefore a house was seen as an asset, investing in which would yield returns. Even respondents who did not wish to set up a power loom saw it as an opportunity to start a small shop at home and earn some extra income. Further, given that the economy of the village was not dependent entirely on agriculture, the women were willing to pay back the loan in monthly installments of up to Rs. 2,000.

Thus to summarise the findings from the FGDs, it may be said that:

• **Attending to livelihood needs is the first priority for the rural poor.**
• **Willingness for taking a housing loan exists only among people who view their house as an asset that would add to the household income.**
• **Where a house does not directly contribute to family income, peoples' decision would be governed more by the terms at which the loan is offered.**
• **Need of a house is pressing for people living in Kuccha houses but the challenge would be to design a product that takes into consideration their income flow and the frequency and the amount they can set aside for loan repayment, which typically appears to be less than Rs 1000 per month.**

6 Discussion of Results

This study explores how best to design and provide HMF specifically targeted for new house construction to low-income communities through an MFI. This study is merely a preliminary attempt to gauge interest in HMF and how best to offer such a product. In order to facilitate scale up, more intensive research on product design and impact evaluation is called for. The size of the study also constrains us from being able to generalise the results. However, certain broad trends appear which are helpful as we seek to refine our research in this emerging area of microfinance.

One of the most significant results from this study is that demand for housing finance is extremely dispersed, unlike demand for microfinance. As such, for MFIs which are used to providing a standard product, it may be difficult to sustain and develop the HMF product.

The focus group discussions indicate that household income and livelihoods are an important determinant of demand for housing. While there are people living in kuccha housing who may require loans for housing, these amounts are likely to be small. However, conversion from kuccha to pucca offers MFIs an opportunity to provide their clients with a much-needed service and also to innovatively combine their products with government subsidies. For instance, RepCo Bank in the Nilgiris has extended a small housing loan to convert kuccha houses to pucca. Here Rs. 2,500 is the government subsidy to BPL families, 500 is the family contribution and Rs. 7,000 is the loan from RepCo. Those families that use their homes as home-based businesses or that were a bit wealthier also expressed strong interest in improving their homes.

While most MFIs are able to offer up to Rs. 1 Lakh as a HMF loan, most people who can afford these loans appear to require a higher amount. While results from the study show that at the rate of Rs. 300 per square feet, a 300-400 square foot house (the average house size of our respondents) is about Rs. 90,000 to 1,20,000, this amount does not include cost of land. However, in rural areas, many people own some land, so this may not be as much of a concern.

Land titles were not an issue in our small sample size. Most people claimed they had land titles. However, there may be regional variations in the availability of land titles.

Client willingness to pay seemed difficult to pinpoint. As we pointed out earlier, demand is dispersed and depends on household income. Other needs like livelihood creation and education gain precedence over housing needs. While current expenditure on housing, measured by expenditure in the last one year, was small, with painting and roofing representing the most popular activities, respondents' plans for the future were far more optimistic. Close to half planned on some house repair and about a third claimed that they wanted to build a new house in the coming year. Similarly, about a third expressed interest in taking a long-term loan for financing housing activities. Of these 14, the majority quoted an amount between Rs. 1,000 and 2,000 as being the monthly instalment they would be willing to pay. Once again, the focus group discussion provided greater clarity. Respondents engaged in agricultural labour were not interested in housing loans. Respondents engaged in casual labour, living closer to bigger towns which had greater employment opportunities and respondents who were self-employed quoted an amount between Rs. 1,000 to Rs. 1,500 as being the monthly instalment as well.

7 Conclusion

Given that that HMF is an emerging area in the Indian microfinance sector, there are very few successful examples of scaleable HMF. As such, it is difficult to draw principles that can be generalised across the sector. However, this study is meant as a first step towards understanding HMF as a product and how to improve product design in order to be able to offer HMF in a more scaleable form to increase outreach and availability.

This study shows that demand for housing exists, although in an extremely dispersed manner. Demand for housing is also dependent upon household income and whether or not housing can be used as a productive asset for the household. Clients' desire for housing can often be much more optimistic than what MFIs are able to offer. For instance, while MFIs estimate that respondents will require about 200-250 square feet for a house, most respondents indicated that their current house is between 300 to 400 square feet. However, it appears that the amounts MFIs are able to offer is enough to build a house, if not to finance the purchase of the land on which the house is built. The demand for the repair and renovation product appears to be much stronger than the demand for new construction. We also learn that those excluded from housing finance are an extremely diverse group. There are those who require extremely small amounts to convert their kuccha houses into pucca houses and then those who claim to require up to Rs. 3 lakhs to build a house.

While this study is extremely context-specific owing to its small size, the themes that emerge direct us towards further areas of research. Firstly, there may be an opportunity for tie-ups between organisations interested in providing technical assistance or creating new technologies for building low-cost housing and MFIs. It may be worthwhile to research how houses can be built in a cheaper and more durable manner. Further, currently, respondents need to travel to the closest town to obtain materials, and there may be value in bringing the materials to the villages or finding alternative and locally available sources for construction. Secondly, since demand for housing is so diverse and segmented, it would be interesting to look more closely into variations in housing preferences of different income groups and whether or not this can be incorporated into the HMF product. Lastly, there is need for evaluation of the housing product and product design experiments to understand how important this product is to the lives of microfinance clients. This may lead to greater donor funding for this product.

This study explores the feasibility and the scalability of offering housing microfinance to low-income clients through an MFI. It would appear that housing demand is extremely dispersed and diverse. As such, scalability is difficult to attain. This study reveals that more in-depth and contextual studies regarding demand are necessary before launching a housing microfinance product.

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Notes

1 While this paper provides an overview of some of these issues, for a more in-depth analysis of these issues, please refer to the following publications: Young, Cheryl (2007), "Housing Microfinance: Designing a Product for the Rural Poor", Centre for Microfinance Working Paper Series No. 19, Krishnan, Ramji & Taishi (2007), A Report on Low Income Housing In India: Challenges and Opportunities for Microfinance , available here: http://www.habitat.org/housing_finance/pdf/low_income_housing_in_india.pdf, and The Center for Urban Development Studies, Harvard University (2000), "Housing Microfinance Initiatives." The literature review is paper is based primarily on Krishnan, Ramji & Taishi (2007).

2 In fact, CASHPOR House Index is used as a measure of poverty by many microfinance institutions and NGOs. The structure of the house and the materials used to construct it are appraised to determine the poverty levels of the inhabitants (Young, 2007).