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Habitat for Humanity Vietnam Partnering with MFIs to Improve Housing for the Poor

This case study is a part of a series of microNOTES addressing current issues in housing microfinance. This study explores the strategic considerations important for MFIs and housing NGOs entering the housing finance market. The findings from Vietnam demonstrate the role of technical assistance from a housing NGO for planning, design and construction along with housing microfinance products offered by two microfinance institutions. The institutions, WU-KG and CEP, took two different approaches to incorporating technical assistance from Habitat for Humanity, and this study assesses the outcomes of each approach.

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INTRODUCTION

Over the last twenty-five years, Vietnam has transformed from an isolationist communist society to an open and internationally integrated economy governed by socialist principles, with an increasing orientation towards a market economy. It is one of the fastest growing economies in the world, and this trend is expected to continue.[1] However, the gap between non-poor and the extreme poor is widening with almost 25 percent of Vietnam's population living at or below the international poverty line of US $1 per day.[2]

Of the 83 million people living in Vietnam, only 20 percent live in permanent housing, 60 percent live in semi-permanent housing and 20 percent live in simple shelter. Many of the rural poor in Vietnam live in terrible conditions: their homes are often wooden shacks precariously perched over gray-green canals that flow into nearby rice paddies. The floor is packed dirt, which turns to mud during the monsoon rains. The walls are large palm fronds, dried out and overlapping to withstand the elements, and the ceiling is thatched hay, replaced every year before the rain season arrives. The urban poor may find themselves in worse squalor due to overcrowding and lack of sanitation or utilities, condemned to be renters with little recourse when repairs are needed. Only 25 percent of urban households live in

[1] Recent economic growth has been remarkable. From 2001-2005, it averaged over 7.5 percent per annum, reaching a peak of 8.4 percent in 2006. The growth rate is expected to reach 8 percent in 2007.

[2] Exchange rate used for this microNOTE is US $1 = 16,000 Vietnamese dong

permanent housing types, while 19 percent live in temporary structures made of unsuitable materials, including garbage.

Habitat for Humanity International (HFHI), an international Faith Based NGO focused on improving housing conditions for the poor, established Habitat for Humanity-Vietnam (HFH-VN) to address this challenge. In some countries, HFHI has shifted its focus from delivering whole house solutions with community participation and long-term zero percent interest loans, to developing sustainable financing and technical assistance solutions that meet the needs of clients upgrading their housing through progressive building. Whole house solutions were shown to be less effective with the poor in many countries, so HFHI now forms partnerships with international and local institutions, such as microfinance providers, to increase outreach in an efficient and effective manner.

> "HFHI is about housing—decent housing for all—and if partnerships with MFIs can facilitate more people living in better houses, then we want to pursue those types of relationships and learn how best to support the development of appropriate services—both financial and non-financial—with MFIs in Vietnam, and beyond." *Mark Estes, CD/HFH-VN*

In 2005, Habitat For Humanity Vietnam (HFH-VN) created a five-year strategic plan aimed at serving 18,000 families with an integrated program of housing microfinance, vocational and technical training in low cost building techniques and technology, technical support in shelter, water and sanitation improvement and transformational community development. HFH-VN uses private subsidies to incentivize microfinance institutions (MFIs) to innovate with housing microfinance products that reach poor communities. By providing families with manageable savings and loan services for home improvements, HFH-VN's goal is to accelerate the rate at which poor families can achieve complete, safe and healthy housing. To implement its strategy, HFH-VN established partnerships with two different types of Vietnamese microfinance providers—the Women's Union of Kien Giang Province (WU-KG), one of four mass organizations (MO) operating under the Kieng Giang Province People's Committee to provide a variety of community development services; and the Capital Fund for the Employment of the Poor (CEP), the largest microfinance institution (MFI) in Vietnam serving 70,000 clients in Ho Chi Minh City.

> "The existing housing solutions for the poor in Vietnam lack sustainability and promote dependency rather than development. The poor are not given opportunities to participate in the design of their financial plan or housing intervention and in the case where houses are built for them; they are of low quality and durability. HFH-VN is attempting to address these weaknesses, beginning with a client-focused approach in designing both the financial and technical solutions to inadequate housing for the poor." *Mark Estes, CD/HFH/VN*

This case study examines the housing finance and microfinance sectors in Vietnam. It looks at how, by partnering with two distinct types of organizations, HFH-VN experimented with different delivery models and learned which structures and mechanisms work best. HFH-VN's experiences with WU-KG and CEP highlight strategic considerations for MFIs and housing oriented NGOs entering the housing finance market.

Table I: Estimates of Low Income Household Loans in Vietnam*

Provider	Total Accounts to Hhs/Individuals Reported	Adjustment for Non-LIH and Duplicate Accounts	Total Estimated LIH Loans
VBARD	9,000,000	6,123,600 (68%)	2,876,400 (32%)
VBSP	4,125,000	2,062,500 (50%)	2,062,500 (50%)
PCFs	1,000,000	750,000 (75%)	250,000 (25%)
MFWG members **	284,400	142,200 (50%)	142,200 (50%)
Total	**14,409,400**	**9,078,3 0**	**5,331,100**

* Low-Income Household (LIH) as defined as those living under $1 per day, or approximately 20 million people, or 24 percent of the Vietnamese population, living in 4.6 million households.

** The Microfinance Working Group (MFWG) is an informal network made up of mostly INGO supported MFIs to advance the microfinance sector in Vietnam by promoting best practices.

THE HOUSING FINANCE SECTOR IN VIETNAM

Despite a significant increase in total housing stock in Vietnam over the past 15 years, the housing shortage is still serious and is projected to escalate in urban areas. The housing finance sector, like the microfinance sector, is relatively undeveloped in Vietnam. Less than 20 percent of housing finance credit is provided through the formal banking or government sectors. The main source of housing finance is household savings or loans from family and friends. The mortgage instrument and mortgage market are undeveloped and are used for less than 10 percent of housing credit finance. Land use certificates are not widely available, which limits the use of mortgage collateral. Government housing initiatives have been limited to directing subsidized housing credit, at below-market interest rates, to poor and low-income households, through government owned banks.[3] Since less than 10 percent of their funding is long term, most housing loans originating from these institutions have a relatively short duration (no longer than five years) and are only available to wealthy members of society.

[3] State owned banks dominate the financial sector in Vietnam.

THE MICROFINANCE SECTOR IN VIETNAM

Three regulated financial institutions dominate Vietnam's microfinance market, namely the Vietnam Bank for Agricultural and Rural Development (VBARD), the Vietnam Bank for Social Policy (VBSP) and the network of 926 People's Credit Funds (PCFs). There is also a vibrant informal market of moneylenders. The poorest Vietnamese are served by the semi-formal MFIs, primarily funded by international NGOs, such as Save the Children, Oxfam and Grameen, or bi-lateral donor programs. Most international NGO-supported programs use a solidarity group methodology, while a few, including CEP, also provide individual loans and housing loans. Interest rates range between 0.8–2 percent per month, calculated either on a flat, or a declining balance with an overall average loan size of VND 1.5 million (US$ 95).[4] In order to do business in Vietnam, the INGOs must work in partnership with socio-political mass organizations (MO).[5] Vietnam's MOs, with a combined membership of about 20 million, play a key role in microfinance by managing a variety of GOV group loan and savings schemes, implementing INGO-supported microfinance projects, and linking clients to the larger formal financial institutions run by the State.[6]

The Government of Vietnam still perceives the need for subsidized credit for the poor, which undercuts MFI sustainability strategies and limits growth. Major subsidies for the state-owned banks allow them to dominate the MF market with interest rates ranging between .5 percent and 1.5 percent/month. The microfinance sector in Vietnam has stagnated due to: a) ongoing ambiguity about upcoming microfinance legislation and regulation; b) government intervention and ownership; c) inadequate capital; and d) continued government subsidy to the larger state owned banks for both micro-enterprise and housing loans for poor and low-income populations. The market for financial services in Vietnam is not well diversified, and the majority of providers

[4] *Vietnam: Developing a Comprehensive Strategy to Expand Access [for the Poor] to Microfinance Services. Promoting Outreach, Efficiency and Sustainability—Volume I: The Microfinance Landscape in Vietnam.* By DFC S.A., commissioned by The World Bank. 6 February 2007. p. 58

[5] Vietnam's Mass Organizations (which are party organizations) are established pursuant to their own legislation. They are deemed "part of the political system of the Socialist Republic of Vietnam".

[6] *Vietnam: Developing a Comprehensive Strategy,* p. 55.

offer similar and standardized credit and savings products.[7]

HFH-VN'S MICROFINANCE PARTNERS

HFH-VN selected two types of microfinance providers as partners and provided different levels of support to the institutions, resulting in varying degrees of programmatic success. Both institutions received below market interest loans and technical assistance to encourage the risk taking associated with piloting a housing program. The Women's Union received assistance with new product development, staff selection, lending methodology implementation, and technical support in housing construction. CEP received only construction assistance delivered directly to clients.

Vietnam Women's Union (WU-V) and Women's Union of Kien Giang Province (WU-KG)

The Women's Union of Vietnam (WU-V**)** is the mass organization responsible for promoting the rights and empowerment of women, particularly poor, rural women. It has a nationwide network of 12 million members and intervenes in a broad range of social and economic development activities. All activities of INGO funded or implemented projects targeting women must interface with the WU-V.

In terms of economic development activities, the Vietnam Central Women's Union has a quasi separate microfinance unit called the TYM Fund which is the second largest MFI in the country. WU-V also mobilizes savings and credit groups and offers access to basic training in group management, financial skills and non-financial Business Development Services (BDS). They are co-executors of a number of other savings and credit schemes sponsored by INGOs.

The Women's Union of Kien Giang (WU-KG**)** is the Provincial branch of WU-V, and pursues a number of community development programs to improve the well-being of women. The population of Kien Giang Province is 1.6 million (310,000 families), 7.2 percent of whom live on less than US $1.00 per day[8]. According to provincial officials, there are over 64,000 families in need of housing, water and sanitation.

At the invitation of the national level People's Aid Coordinating Committee and the Kien Giang Provincial Government, HFH-VN initiated a partnership with the WU-KG in 2005 and began a pilot program to provide revolving loan funds for housing improvement credit, household financial management, and technical support in building sustainable shelter, water and sanitation improvements. HFH-VN brought its financial resources and technical expertise in housing, and WU-KG offered its knowledge of the local environment and culture and expertise providing services to the community. HFH-VN provides supervision, technical assistance and training to WU-KG, which is responsible for the ongoing management of the loan fund. Despite some modest attempts to facilitate savings and loan groups, WU-KG had neither the financial service experience nor the systems necessary to manage a credit program.

Table II: Estimates of Low Income Household Savings Accounts in Vietnam

Provider	Total accounts to HHs/individuals reported	Adjustment for non-BOP and duplicate accounts	Total estimated BOP savings accounts
VBARD	7,000,000	4,900,000 (70%)	2,100,000 (30%)
VPSC	501,900	401,520 (80%)	100,380 (20%)
VBSP	167,285	83,640 (50%)	83,645 (50%)
PCFs	1,000,000	600,000 (60%)	400,000 (40%)
MFWG members	335,400	0	335,400 (100%)
Total	**9,004,585**	**5,985,160**	**3,019,425**

[7] Ibid. p. 7

[8] The poverty line in Vietnam is defined as with per capita income of 300,000 VND per month, or USD $18.75 USD per month per capita.

HFH-VN provided zero interest loan capital of $155,000 for on-lending and an additional subsidy for WU-KG operating expenses and computers. HFH-VN provided technical assistance to WU-KG staff in designing the product and managing the loan program. HFH-VN also provided borrowers with technical assistance in housing solutions, design, materials and construction. HFH-VN staff provided the technical assistance directly, and also trained a group of Local Construction Supervisors. HFH-VN believes that this type of service provider could become a permanently viable business, supported by either the WU-KG as part of the housing lending program, or by individual clients.

The initial WU-KG pilot project ran from November 2005 to June 2006. 801 families from four communes were issued housing improvement loans from the fund. The loans disbursed had a total value of US $155,814 and the average loan size was US $195. The loans were used for physical improvements in existing housing, water and sanitation systems. The funds disbursed were sourced from HFHI, the People's Committee of Kien Giang, and to a lesser extent from clients' savings.

The loan size and term is based on the household's capital requirements and repayment capacity. The maximum loan size is VND 6 million ($375) over a repayment period of six to thirty-six months. The loans are repaid on a monthly, quarterly, or semi-annual basis over a period of 19 to 36 months. Semi-annual loan repayments are the most common. Loan repayment amounts depend on the client's income-generating activity, and repayments (including other existing debt repayments) cannot exceed 25 percent of total household income. No collateral is required for loans. However, compulsory savings of VND 20,000 ($1.25) per month is collected and acts as a form of collateral. In 2007, the monthly interest rate was increased from 0.5 percent/month flat to 0.65 percent on the declining balance, to contribute towards the WU-KG operating expenses.

Habitat for Humanity's Product: Technical Assistance

- HFH-VN supports, either independently or in partnership with the institution's staff, the following types of technical assistance:
- Visiting the actual homes/families/ communities;
- Conducting a housing needs assessment at the individual household level; i.e., the adequacy/existence of current physical structure, utilities, etc;
- Assessing a household's interest in creating a long-term plan for home improvements;
- Assisting the household in prioritizing the most essential solutions and phasing in subsequent improvements;
- Providing expertise in construction design, types, amounts and costs of building materials and labor needs;
- Supporting the household in creating budgets and plans for construction;
- Assessing household income and expenditures and the client's ability to repay a loan; and
- Conducting periodic site visits once loans have been disbursed to support and monitor home improvement plans.

Housing loans can be used for housing, water or sanitation improvements, and may contribute to income generation for the family as well. Common uses in Vietnam include:

- Constructing new or improving foundations and flooring
- Replacement of palm leaf walls with brick and cement walls;
- Replacement of thatched roof with aluminum or tin panels;
- Drilling of wells for potable water;
- Construction of latrines or installation of toilets;
- Financing connection to clean water sources;
- Financing connection to electricity;
- Construction of cement drying pads for the rice crop; and
- Construction of animal stalls.

After what was deemed a successful pilot project, based on high repayment rates and ongoing demand in the province, HFH-VN and WU-KG agreed to expand the program to 2,100 new clients, economically active poor families in 12 new communes within Kien Giang by September 2009. The total loan capital for this second phase is $340,955.

The WU-KG and The People's Committee, with significant support from the HFH-VN staff, work as the promoters of the housing loan program. Over the last two years, the WU-KG has increased its capacity to provide housing microfinance products. However, it is clear that the HFH-VN staff are essential to the credit management, monitoring and reporting systems. The advantage to working with The Women's Union is the fact that it has a strong community network and an existing workforce with sufficient local knowledge. The project has been successful in improving the housing of a significant number of families in a short period of time. That being said, it is still too early to draw a conclusion on the success of the loan fund or the long term viability of the product. WU-KG is dependent financially and technically on HFH-VN. WU-KG has not adopted sustainable strategies for the long-term provision of housing microfinance once the pilot ends.

Capital Aid Fund for Employment of the Poor (CEP)

Based on the Grameen model, CEP–the largest MFI in Vietnam– was established in November 1991 by the Ho Chi Minh City Labour Confederation as an MO responsible for the provision of financial services to the poor to facilitate income generation and employment creation. In terms of expansion, depth of outreach and operational viability, CEP has performed strongly over the past decade and places a high priority on financial sustainability. As of December 2006, CEP had 190 staff, 17 branches, and 72,750 clients with an outstanding loan portfolio of $9,947,450 and savings of $3,471,231. CEP intends to transform to a deposit taking institution upon passage of Vietnam's enabling legislation for microfinance.

In 2006, HFH-VN selected CEP as a strategic partner in order to offer technical and financial resources for housing solutions, and also to gain experience with sustainable microfinance operations and learn how best to structure effective partnerships providing financial products and non-financial services for housing solutions for the poor.

HFH-VN and CEP agreed to pilot test a housing loan product with 300 CEP clients who fit shared criteria of vulnerable households living under the poverty line. The target population was the very poor living in HCMC, as defined by those who earn less than VND 500,000 (US$ 31.25) per capita per month, which is just 17 percent of the poverty line income. HFH-VN provided loan capital of $38,000, matched by $38,000 from CEP, for the revolving loan fund. HFH-VN charged a .8% fee on the funds, and options at the conclusion of the pilot included renewing the loan or donating the capital outright. Technical assistance was provided directly by HFH-VN staff to the clients, with very little overlap with the CEP lending and repayment activities. CEP had no prior experience providing non-financial services, and preferred that these activities remained separate from the credit activity. HFH-VN's technical assistance to borrowers included household budget and cash flow management, housing design, cost estimates, and quality control.

The HFH-VN partnership with CEP lacked a vibrant and comprehensive strategy to promote the HFH-VN housing loan product and, after reaching 50 percent of the target 300 loans, disbursement has stalled. While CEP Loan Officers acknowledge that their housing portfolio is included in their present incentive calculations, it is such a minute percentage at this stage that performance is a relatively ineffective incentive. Loan officers, who were not involved in the new product development process, reported that the housing loan is a burden due to the expectation of additional work and site visits to monitor loan use.

The relatively small amount of funding relative to CEP's portfolio, the disengagement of CEP from the housing improvement technical assistance, and the insufficient loan officer incentives offered by CEP to promote housing loans have not proven sufficient to meet the objectives of the pilot.

LESSONS LEARNED FROM WU-KG AND CEP'S EXPERIENCE

WU-KG, though they have managed small credit groups, would probably not have been able to provide housing loans on their own due to: a) a lack of loan capital; b) a lack of expertise in housing finance; c) lack of experience or systems for providing financial services; and d) the design of appropriate and affordable housing improvements. HFH-VN has provided ongoing assistance in designing housing microfinance products and managing the portfolio, and developed local capacity to advise and monitor quality of construction through the Local Construction Supervisors. HFH-VN and WU-KG anticipate that when the current phase of intensive intervention ends in September 2009, the WU-KG should be able to manage the current revolving loan portfolio. However, to date the income has not surpassed the costs and the operations are co-mingled with GOV funds for the Women's Union and People's Committees in the province. WU-KG also lacks a robust back office to support the lending program, which severely constrains their ability to scale up. They are specifically lacking an internal audit function, which will be necessary to reduce risk of fraud in the future.

CEP, as a well-established and well-supported MFI, has received and managed very large low cost loans to support housing finance, from both the World Bank and the Asian Development Bank. While HFH-VN's funding pales in comparison, the zero interest terms are advantageous. However, CEP has been clear that they prefer not to offer non-financial TA without HFH-VN funding and staff involvement. For the time being, HFH-VN is subsidizing 100 percent of TA costs for the duration of the pilot and is considering organizing a mid-term evaluation to address the constraints to expanding the pilot for the poor. This may be an opportunity to alter CEP's position towards collaborating to provide technical assistance to borrowers, or for HFH-VN to incubate private sector service providers.

The Role of Subsidies

It is clear from HFH-VN's experience that partnerships with the objective of providing housing microfinance and technical assistance for construction require significant donor resources. In this case, HFH was willing to cover the cost of product development, support to loan officers, and borrower technical assistance for WU-KG, which resulted in a sizeable number of successful housing improvements. Although HFH-VN was available to provide technical assistance to CEP clients, the CEP received little institutional support for promoting and managing the loan product, and the level of outreach was limited. In both cases, it is uncertain how the lending plus construction assistance model could be sustainable without HFH-VN resources.

Intended Benefits of HFH-VN Technical Assistance for Clients

- Client participation and ownership of the housing solution
- Guidance in prioritizing types of home improvements
- Training in household budget planning and management
- Opportunity to incrementally complete improvements with subsequent loans and guidance
- Accurate assessment of costs of selected home improvement (materials, labor, time)
- Appropriate construction design for locality and affordability
- Guidance in selection and pricing of materials and skilled labor (if needed)
- Organization of clients by housing solution for purchase of materials leads to economies of scale, plus development of negotiation skills
- Direct provision of construction supervision by HFH (using architectural or engineering skills)
- Training of Local Construction Supervisors (LCS) to supply localized expertise, resulting in higher quality and durability of intervention
- Increased capacity of households and communities to navigate and negotiate more effectively for future initiatives
- More appropriate loan products for housing due to input from HFH
  —Establishment of client criteria and election
  —Longer-term loans
  —Lower interest rates
  —Assessment of costs of loan and ability of client to repay overtime
  —Adjusting loan terms to income streams/cashflow

Subsidized construction technical assistance is an example of an NGO providing a public good. In most developed countries, building codes, government permitting, mandatory inspections and professional standards in the construction industry ensure quality housing. While technical assistance may decrease the risk of default, it is also important for the safety and soundness of the improvements paid for through housing microfinance loans. While some would argue that simple housing improvements should not require complicated, subsidized assistance, HFH-VN would respond that the poorest are most in need of ensuring the best quality results for their money.

Benefits of Technical Assistance

By initially subsidizing the TA package for borrowers, HFH-VN hoped to demonstrate a valuable model of service provision to both clients and MFI staff. HFH-VN hoped to create a commercially viable Local Construction Supervisor position in the communities, whereby the MFI, or the clients directly, would be willing to pay a portion of interest earned or a fee for such a service. If the value of this service is clear and can be effectively marketed to clients, an increased willingness to pay for the service can contribute to the viability of the product.

During the initial stages of both the WU-KG and CEP projects, about 50 clients did *not* receive the HFH-VN TA package. Though not intentional, this provided an opportunity to demonstrate the contribution of TA to delivery and outcomes for clients. Additional study is needed, but there are a few good examples of why the TA package can be beneficial, especially for poorer clients (see text box). In focus group discussions with clients who *did not* receive TA, participants showed a clear willingness to pay for this type of assistance, having encountered problems that could have been foreseen, and perhaps prevented by the inclusion of TA before, during and after loan disbursement. Clients found that the loans cost them a lot more, both financially and emotionally, in the long run when they did not have sound advice. Housing oriented NGOs should further analyze the difference between products with TA and without TA in terms of process, efficiency, cost, quality, and client satisfaction. The importance of technical assistance will vary in different contexts, and the demand and pricing for this assistance should be included in the market research phase of product development.

MFIs may recognize the value of technical assistance, but prefer not to pay for the cost directly. The increased operational expense of providing technical assistance with housing loans will reduce the profitability of the entire institution, not just the housing product. As a result, few MFIs will be willing to cover this cost directly unless there is a strong social mission to improving living conditions for the poor, beyond providing savings and loan services. Some institutions may be willing to cover this cost if there is adequate positive impact on uptake and repayment rates. Taking this into account, it is important that the TA component is properly costed and includes strong quality control. Poor technical assistance could be a primary source of delinquency. A bad cost assessment or poor

Problems Encountered by Clients Who Did NOT Receive HFH TA

Miscalculation of Costs and Amounts of Materials needed to complete housing solution resulting in:

- Under-borrowing and needing to borrow elsewhere at high rate of interest
- Under-borrowing and not completing construction
- Under-borrowing and compromising quality of construction
- Over-borrowing and paying interest on funds that were not needed
- Over-borrowing and using those funds for other purposes
- Borrowing and never beginning construction

Inexperience in managing construction activities and assessing quality of work and materials resulting in:

- Being overcharged for materials and labor
- Long, drawn-out construction period due to unreliable workers
- Damage to (or theft) to materials (i.e., cement left in rain or damaged by flooding)
- Cracks in foundations or tile work due to poor quality materials/labor
- Ignorance of cash management issues resulting in delinquency

construction results could discourage loan repayment and limit the marketability of the program.[9]

KEY CONSIDERATIONS: FORMING PARTNERSHIPS BETWEEN MFIS AND HOUSING NGOS

Strategic Considerations for MFIs

Access to Low Cost Funds: MFIs are almost always looking for additional funds, preferably cheap funds, to support both operations and loan capital, despite their levels of operational or financial sustainability. For the pilots, HFH-VN provided additional access to loan capital, through no interest loans, with the option of donating those funds to the institution to continue on-lending at the end of the project period. HFH-VN also committed their own staff resources to provide technical assistance in appropriate construction techniques and processes for housing improvements. Finally, when additional gaps in local capacity and resources were identified, HFH-VN began funding staff training and computer hardware to strengthen operations in the field. However, low cost funds are limited and products designed with them may not be sustainable. When using low cost funds during a pilot, longer term projections must be made during product design to establish appropriate pricing. HFH-VN views this support as "start-up" capital to entice MFIs to consider housing as a viable product, as well as to reduce the risks involved in piloting new products. If long term subsidies are not available from the housing NGO or other partners, financial projections that include the market cost of capital and the costs of technical assistance must be made and monitored in order to assess the sustainability of the venture. These costs must be covered, either by long-term funding commitment from the housing NGO, or through the price of the housing microfinance product.

Risk Sharing: MFI's will consider how the risk of the program will be shared between the two partners. MFI's will want to push as much risk as possible onto the housing NGO. Starting with a pilot program can help both partners to evaluate risk. During the pilot period, HFH-VN has been willing to contribute or match loan capital at no interest and to conduct most of the due diligence on the housing construction and materials, in addition to preparing and monitoring the clients, thus significantly reducing risk for the MFIs. Housing NGOS must insist on shared risk, however, despite any initial resistance. In Vietnam, the small amount of capital offered by HFH-VN, in relation to the institutions' total funding (e.g., 4 percent of CEP's total portfolio), has limited the housing NGO's bargaining power. It is important, however, for the MFI to share the risk in order to ensure that the product is well designed for long term sustainability and that there is strategic commitment from the institution.

Product Diversification: Many established MFIs are now looking for new products and services in order to either a) respond to their current clients' demands, b) increase growth in a stalled or saturated market or c) increase revenue with higher yield products. One potential HFH-VN MFI partner stated the need to diversify their product offering as growth had stalled and the client dropout rate was high. Another was looking to the future of their current clients' needs to improve the quality of their homes, given that almost 65 percent of their target population fell into the "inadequate housing" segment in recent assessment surveys. However, institutions that have only offered standardized solidarity group microenterprise loans are not well-prepared to manage the implementation of new products with different loan terms to different target groups. MFIs with individual lending experience may have greater capacity. Most importantly, MFIs must have a well-developed market research and product development process. New

[9] Responses included in Draft Report from IDEAS' market research contract work for HFH El Salvador, May 2007.

organizational policies and procedures may be required for successful new product development and roll-out. MFIs can benefit from the expertise of a housing NGO that brings international experience with housing microfinance.

Service Diversification: An MFI must be strategic when evaluating an offer from a housing-focused NGO to develop a loan product with a technical assistance component. The MFI must consider the costs and capacity to provide a similar level of TA after the pilot project has ended, particularly as the product scales up. The MFI and NGO should be willing to negotiate and experiment with different models of service provision, taking advantage of their core competencies and drawing on other local resources as appropriate.

Institutional Capacity: Any time an institution adapts/modifies/or adds to its product line, the institution must evaluate its capacity to deliver this new or modified product. Entering housing microfinance is no different. MFIs must pay close attention to their human resources capacity, need for new delivery systems, processes for defining and targeting clients, the flexibility of their management information systems (MIS), availability and flow of cash, collections procedures, and alternative guarantee mechanisms.

Staff Incentives to Market Housing Loans: Front line staff, such as loan officers, may not be comfortable with new methodologies and calculations, or with marketing a new product with different characteristics. Staff incentives, such as involvement in the product development process and financial compensation for successfully placed housing loans are key to creating a successful product. New product launch incentives may be needed to ensure that potentially successful products get the attention they need to grow into a core business. Loan officer buy-in and training is essential when launching a new product to overcome potential resistance by sales force.

Strategic Considerations for Housing NGOs In Microfinance

Long-Term Viability of Partnerships: Vietnam has not established a stable enabling environment for microfinance. Housing organizations that partner with and invest in Vietnamese MFIs are taking a risk that, when microfinance legislation is passed, those MFIs may not be well-prepared or able to continue to do business in Vietnam. It is estimated that only a dozen MFIs will be ready to transform once the laws are finally passed and implemented. All others are expected to cease microfinance operations, and existing investments in these entities may not pay off in the long run.

Support for Best Practice Microfinance: The GOV continues to view microfinance as a welfare program and to subsidize the large state-run financial institutions. It is difficult for profit-oriented organizations to compete and survive in the current market, and yet the viability of a long term improvement in access to housing microfinance is dependent on well-managed sustainable institutions. Housing NGOs should be well-versed in microfinance practice and focus on implementing sound business practices to ensure the expansion and growth of housing microfinance products.

Ensure That Potential Partners Are Like-Minded: Housing microfinance has a very specific objective--to provide and improve housing. Housing NGOs must create clear memorandums of understanding with MFIs to ensure that all stakeholders share the same objectives for the use of invested capital. Many MFIs in Vietnam are unprepared to adjust their practices in order to target loan capital for a specific use.

Potential Conflicts Between Housing NGOs and MFIs

Resistance to Providing Non-Financial Services: MFI management and staff who are totally focused on the provision of financial services can easily discount the potential value, and contribution to the double bottom line, of non-financial services. A long standing emphasis on operational and financial sustainability may create barriers to considering products that have a different cost structure, or that provide more services to clients.

Lack of Clear Definition Surrounding Poverty Focus: When considering partnerships with MFIs, HFH-VN intends to focus on their poorest clients and/or redirect services to poorer and underserved segments. However, currently, HFH-VN housing clients in Vietnam, receiving either whole house or home improvement loans, may not be the poorest in the community because of the repayment requirements. For example, an existing client of a partner MFI may be poorer, while still able to repay a microenterprise loan, than an HFH-VN housing client. Definitions of the target population for housing must be clear and the introduction of new target markets must be well researched and agreed upon before moving forward.

CONCLUSIONS

Housing microfinance is still an emerging practice, and housing NGOs can promote several lines of action. The model or approach selected by the housing NGO will depend upon the type and amount of resources available. The partnership model highlighted in this case study might only be appropriate in those situations where substantial donor or government support is available.

Housing NGOs can encourage MFIs to incorporate housing microfinance as a principal line of business and promote the design of housing microfinance strategies that are suited to the lowest income sectors. If resources are available, this can include technical assistance for the construction process and well as for the MFI's development and management of the loan product. Housing NGOs can bring technical expertise in housing finance and housing construction, while the MFI may have greater expertise in loan underwriting and portfolio management.

It is important to understand the MFI's incentive to offer a new product. Some MFIs may be primarily seeking new sources of revenue and profitability, while others may be focused on fulfilling a social mission, or diversifying products to meet client demand. Each of these incentives will carry a different set of criteria for success, and a different level of institutional commitment to the product. Planning for long term success includes appropriate costing and an "exit strategy" for subsidies, as well as an internal MFI strategy to ensure buy-in throughout the organization.

Introducing a housing product requires additional market knowledge, new policies and procedures and potentially the provision of non-financial services. An MFI must have the institutional capacity to meet these requirements, or the housing NGO must be able to provide the resources to build that capacity. For a mature MFI, however, offering home improvement or land tenure loans may be a relatively simple opportunity to diversify risk and contribute to long-term client satisfaction.

Finally, housing NGOs can play a role in the global effort to improve housing for the poor. They can educate national governments, local communities and service providers about high quality progressive building techniques. They can also facilitate peer-learning networks among institutions engaging in housing microfinance.