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Housing Microfinance for the Self-Employed in Ghana: The Case of Three Lenders

1. Executive Summary

CONTENTS

Against the backdrop of an economic slowdown over the past five years, Ghana's housing microfinance (HMF) sector stagnated. Persistent increases in consumer prices, an extensive energy crisis affecting the operations of small and medium sized enterprises (SMEs) and the depreciation of the Ghanaian Cedi (GHc) had detrimental effects on the viability and scalability of housing loans. The objective of financial sustainability proved difficult to combine with the social goal of providing finance for affordable and adequate dwellings for the low income segment. Apart from the economic pressure, the complex Ghanaian land security system and the inherent challenges of incremental building practices, such as poor construction quality, also affected the HMF sector in Ghana.

Despite the challenging environment, a number of financial institutions currently offer HMF loans in Ghana. The objective of this study was to identify and document the experiences of Global Access, HFC Boafo and Sinapi Aba, three selected microfinance institutions (MFIs) that provide housing finance to self-employed clients.

One of the key findings of the study is a shift from the construction of private dwellings to income-generating assets. Construction entrepreneurs use housing microfinance loans to invest in productive assets, such as rental units, schools, churches, shop fronts and public sanitation facilities, often built on their own residential property. This trend is suggested to be a consequence of the current economic pressure on low and middle income households, but is generally welcomed by the three MFIs, due to its positive effect on portfolio diversification and mitigation of concentration risk.

Across Africa, practitioners are grappling with the challenge of creating an enabled housing finance environment. While these challenges may seem insurmountable, there is a growing track record of novel solutions and initiatives, pioneered by policy makers, financiers, developers and households themselves, suggesting that there are new opportunities for making the housing finance sector work for the poor in Africa. This case study is part of a broader series that CAHF has commissioned in order to support professional development and inform a broader research and dialogue process. The case studies vary, addressing themes as diverse as housing microfinance, mortgage liquidity facilities, cement block-banking, home loan guarantees for the informally employed, and infrastructure financing, highlighting experiences from countries across the continent. We hope this series contributes to more precise and successful endeavours that realise the opportunities in this market.

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF's mission is to make Africa's housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a market-based approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor.

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Another outcome of the study is a general concern regarding the affordability of HMF loans in Ghana, which is strongly affected by limited access to long-term capital. Two of the three selected MFIs rely on short-term commercial funding to extend HMF loans, which is offered at interest rates between 30 and 38 percent an annum. Moreover, opportunity costs for HMF lending are high, due to a yet unsatisfied demand for SME loans, which offer a faster turn-over and higher interest revenues. The lower profitability of HMF loans, as well as their burden on the liquidity of the MFIs, currently limit the number of available housing loans in the market.

In order to stimulate the development and growth of the Ghanaian HMF sector these two key findings need to be addressed by public as well as private sector stakeholders. The report offers an initial set of recommendations.

The shift of loan utilisation to the construction of productive assets requires MFIs to develop a new loan offering to account for larger loan amounts and longer terms, as well as to ensure safety and quality of the buildings. Construction quality, especially for commercially used buildings, need to be addressed and enforced by policy makers and sector stakeholders. This report finds MFIs to be well positioned to offer points of intervention to improve construction quality along the housing and construction value chain. In order to improve the affordability of HMF loans and to promote its original purpose of providing affordable housing to low income earners, the provision of subsidised capital is required until an improvement of the macroeconomic environment allows the viable use of commercial funds for financial intermediaries. The establishment of a dedicated national housing trust fund (NHTF)— pooling capital of international and national investors—could improve access to longer term capital at lower interest rates for HMF loans.

An additional, more general recommendation concerns the competitiveness of MFIs offering HMF products in Ghana. The high-touch business model, intensive loan appraisal and monitoring procedures and the need for non-financial services, such as housing support services (HSS) and business development skills training drive costs of operations of the MFIs. Reducing related expenses through adequate use of technology and a better integration of HMF loans into the core business could increase the competitiveness of the institutions. Technical advisory services focused on cost based and risk related pricing of HMF loans, as well as a client-centric approaches to product and process design could promote the growth of the sector. This could be facilitated through the development of platforms to share best-practice case studies among sector stakeholders and to test innovative technology applications using technical and financial support of international organisations.

2. Affordable Housing and Housing Microfinance in Ghana

The size and depth of the affordable housing sector in Ghana is determined by a number of country-specific factors outlined in this report. The recognition of endemic characteristics of the sector promotes a better understanding of the clients' demand and utilisation patterns of housing finance. Affordable housing finance in Ghana is defined according to the following threshold: households that cannot afford a twenty-year mortgage of US$ 22 000[1] or more are considered prospective affordable housing clients. They would hence need to resort to other financing mechanisms such as micro-mortgages, savings and housing microfinance to meet their housing requirements. Based on the Housing Finance in Africa Yearbook, 96.6 percent of the Ghanaian population have to rely on affordable housing finance mechanisms to attain home ownership[2].

2.1 Macroeconomic Determinants

The total population of Ghana is approximately 26.5 million, with an annual population growth of 2.1 percent in 2015. The urbanisation rate reflects the general African trend of a gradual increase in the proportion of people living in urban areas. Currently 53 percent of Ghana's population live in cities, but this rate is suggested to rise to 60 percent by 2030[3]. Rural to urban migration bears consequences for the price of land in urban areas and the quality and pace of municipal infrastructure delivery, both of which are essential for housing supply.

Figure 1: GDP growth (annual percentage) and consumer price inflation in Ghana

Source: WDI, the World Bank Group

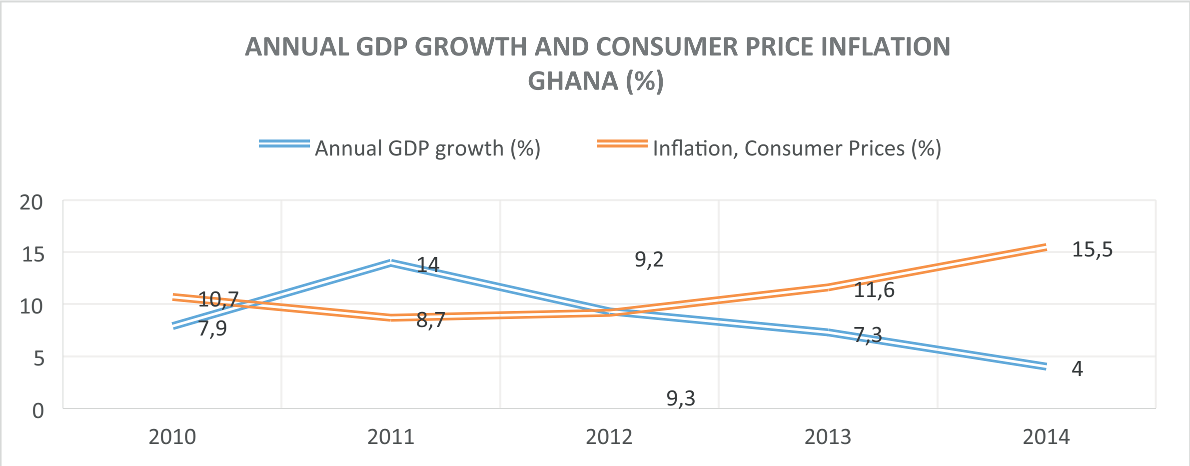


Figure 1 depicts the general slow-down of economic growth in Ghana, as well as the inflation in consumer prices from 2010 to 2014. GDP per capita growth has come under pressure in the past years, falling from 5.2 percent (2010) and 11.3 percent (2011) to 1.6 percent (2014)[4]. This indicator does not take into account the rapid devaluation of the Ghanaian currency. Since 2012 the Ghanaian Cedi (GHc) has lost 60 percent of its value against the US Dollar[5]. The slowdown of economic growth and the change in real income coincided with an extensive energy crisis. High costs of fuel products constrained the use of generators that ensure stable power supply and thus specifically affected small and medium-sized enterprises (SMEs).

With the stagnating real income of Ghanaian households, inflation rates have gradually increased over the past six years, leading to a steep increase in living expenses. According to the Bank of Ghana, general price increases between 2012 and 2014, specifically affected housing and utilities. This trend is confirmed by the monthly CPI bulletins of the Statistical Service Ghana. Consumer prices for the sub-group of housing, water, electricity, gas and other fuels increased by 45.5 percent between January 2015 and January 2016. Furnishing, household equipment and routine maintenance prices increased by 24.5 percent from 2015 to 2016[6].

From 2012 to 2015, the water tariffs for household consumption increased by 37 percent[7]. Prices for available housing are strongly influenced by the prices of cement and sand. Even though most of the local demand for cement is met by local production plants, inputs for the production are imported and are thus affected by the depreciation of the local currency. Many other imported building materials, such as corrugated iron for roofing, increase the total cost of building projects further[8].

1 Price of the cheapest, newly built house by a formal developer or contractor, Housing Finance Year Book 2015.
2 CAHF, 2015.
3 Ibid.
4 World Bank Development Indicators.
5 Bank of Ghana.
6 Statistical Services Ghana, 2015 and 2016.
7 Ghana Water Company Limited, 2016.
8 CAHF, 2015.

Bank of Ghana relies on a tight monetary policy to curb inflation, with a steadily increasing monetary policy rate (MPR), the prime rate for the financial sector. The MPR is a signalling rate, which serves as a reference cap for all other consumer lending and loan products in the financial markets. It reflects the increasing cost of funding for financial institutions in Ghana. The current MPR is 26 percent, while the current interbank rate is 25.4 percent per annum. This high rate emerged over the past few years, following a steady increase from 15 percent (2012), 16 percent (2013) and 21 percent (2014).

Due to increased uncertainty and higher perceived risks in the microfinance sector, as well as increasing operational costs, effective interest rates for unsecured loans are much higher. The three case study microfinance institutions (MFIs) offer enterprise and housing finance for between 25 to 48 percent per annum, dependent on the term and purpose of the loans[9]. Due to the depreciation of the local currency, cost of the foreign funding also increased substantially over the past years.

2.2 Incremental Building

According to the Ministry of Water Resources Works and Housing, the housing deficit in Ghana was estimated at 1.7 million units in 2013. Due to the shortage of housing, a vast number of Ghanaians (33 percent) have resorted to arrangements that do not require any kind of rent or housing payments such as living with relatives, resorting to improvised informal housing on undeveloped land or living in tents, kiosks, containers or shops[10]. The IMF country report for Ghana, for 2012 suggests, “At a projected average urban growth rate of around three percent between 2000 and 2030, Ghana’s urban population is expected to increase from about 52 percent of the total population in 2010 to around 65 percent by 2030”[11]. This could lead to the formation and expansion of slums in urban areas and negatively affect living standards of low and moderate income households.

The National Shelter Policy, adopted in 2015, defines affordability as being relative to gross annual income. The document states that affordable housing requires a household to spend no more than 30 percent of its gross annual income on the rental or purchase of housing. Currently, both rural and urban average household incomes are insufficient to purchase the cheapest newly built house, constructed by a formal developer within this policy limit[12]. Only 3.4 percent of the population could theoretically purchase the house built by a formal developer[13].

However, both rural and urban households are able to afford the 35-40 bags of cement required to build a 40 m2 house, if they spend no more than 30 percent of their annual income on these costs. The Ghanaian housing market thus favours of self-built solutions. Roofing, doors and windows, electricity and water and sanitation are financed at a later stage of construction. Kwofie et al. indicate that as much as 90 percent of housing in Ghana is self-built[14]. This is commonly financed through accumulated savings, access to home-loans from non-governmental organisations (NGOs), microfinance institutions and support from relatives. It is estimated that the average Ghanaian household takes between 5 and 15 years to save enough to build up to the roof level[15]. This, however, does not prevent people from moving into the unfinished house, once it provides sufficient shelter.

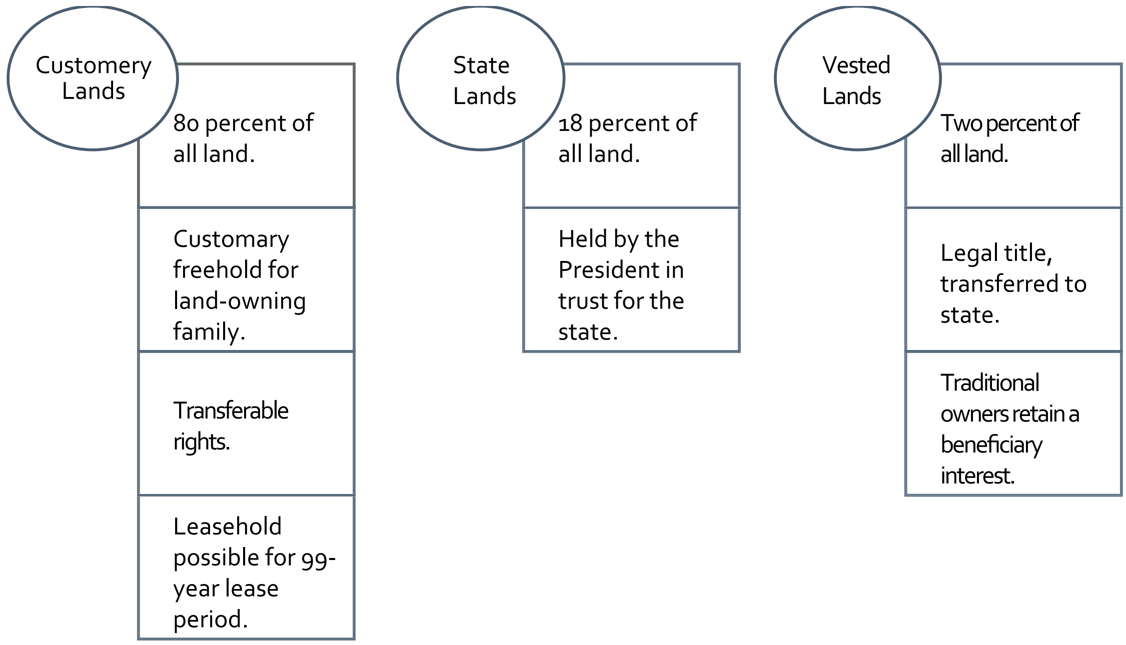
2.3 Land Security System

“Ghana is characterised by a peculiar, complex land tenure system that reflects the unique indigenous political organisations and socio-cultural differences of its ethnic groups, clans and families as well as differences in the natural environment”[16]. According to the UN-Habitat report on land tenure security, most land in Ghana is communally owned by indigenous tribal groups, which operate through their traditional social structures. Customary tenure is the common form of land ownership and makes up an estimated 80 percent of all land in Ghana. Traditional rulers and ruling families, land priests, and groups of elders use customary approaches and often unwritten negotiations to land governance.

[9] Bank of Ghana, MPC Press Release, 03-2016.
[10] CAHF, 2015.
[11] IMF, 2012, 67.
[12] CAHF, 2015.
[13] Ibid.
[14] Kwofie et al., 2011.
[15] Awuvafoge, 2013.
[16] UN Habitat, 2014, 9.

Figure 2: Land ownership forms in Ghana

Source: UN Habitat, 2014



According to a report by the Institute of Economic Affairs (IEA), the communal ownership of land requires agreement among various families for a land deal to be consummated. A family must be consulted and a consensus forged before a plot of land can be sold. This results in high transaction costs for the builder. It is not uncommon to find land disputes due to multiple sales and undetermined boundaries of customary land[17]. To avoid land disputes, once land is purchased, buyers are quick to build a foundation, as this serves as a mechanism to mitigate the risk of encroaching[18].

The Ghana Lands Commission is responsible for the registration of title deeds and immovable property. Land registration can take up to a year, as the sourcing of required documents involves multiple processes. Doing Business rates the quality of land administration in Ghana at eight points out of a total of 30 points. The majority of title deeds are recorded on paper and no electronic database exists, which prohibits effective land administration. The Geographic Coverage Index scores Ghana zero out of eight total points, as only a very limited share of privately held land is mapped or formally registered, even in the three urban centres. Land disputes over tenure rights of properties can take between two and three years to reach resolution and are resolved by the Land Court Division of the High Court[19].

A number of the shortcomings in the land tenure system in Ghana are currently being addressed by the Land Administration Project, which aims to reform the institutional context in Ghana. Additionally, the Ascertainment of Customary Laws Project (ACLP) promotes the coding of customary rules and practices to reduce abuse of power and to enhance transparency and accountability of customary land ownership[20].

2.4 Housing Microfinance Sector in Ghana

The Ghanaian financial sector has 31 commercial banks, 138 rural community banks, 60 non-bank financial institutions (NBFI), 503 microfinance institutions (of which 166 are licensed by the Bank of Ghana) and three credit bureaus (XDS Data, Hudson Price, and Dun and Bradstreet). Only nine of Ghana's 31 banks officially offer mortgage loans as a product. These banks offer conventional mortgage services, home improvement and home completion loans, as well as water sanitation and hygiene (WASH) credit facilities. Home finance in form of conventional mortgages and home improvement loans is also offered by Ghana Home Loans (GHL), the country's only residential mortgage lender. GHL is a non-bank financial institution and mainly sources capital from development finance institutions. To down-scale their mortgage portfolio, HFC Bank has introduced a home finance product, tailored to the self-building practices in Ghana. The loan finances both land acquisition and construction and is capped at US$ 15 000 and US$ 35 000 respectively.

[17] UN Habitat, 2014.
[18] Awuvafoge, 2013.
[19] Doing Business, 2015.
[20] UN Habitat, 2014.

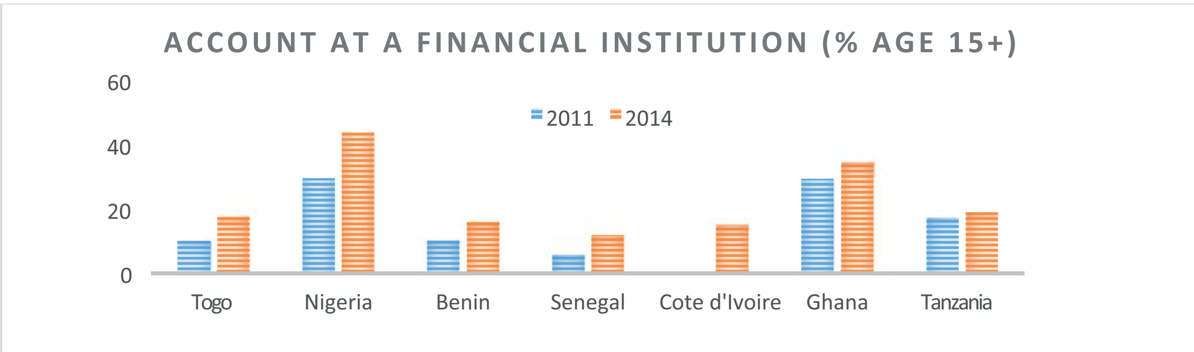
The microfinance sector is defined by Bank of Ghana (BoG) in the Non-bank Financial Institution Act 2008 and the Banking Act 2004. Due to the multitude of sector players, BoG licenses and supervises microfinance institutions in a four-tier approach. There are 27 licensed savings and loans (S&L) companies, the largest type of microfinance institution, defined by Bank of Ghana as deposit-taking, non-bank financial institutions. S&L companies conduct tier 1 activities, similar to commercial banks and have to comply with rigorous capital requirements and pre-operating conditions[21]. Smaller microfinance institutions are required to comply with the rules and guidelines for microfinance institutions, issued by BoG in 2011. They conduct tier 2 activities, which do not include the issuing of cheque accounts, engaging in foreign exchange trades and trading activities.

Out of a total of 27 licensed S&L companies in Ghana, only four have ventured into housing microfinance: Procredit S&L, which was acquired by Fidelity Bank in 2015; Sinapi Aba S&L (Sinapi Aba); Opportunity International S&L; and Global Access S&L (Global Access). Boafo Microfinance Services Limited (HFC Boafo) is the only non-deposit taking microfinance institution that offers housing finance. Informal housing loans can also be accessed through informal lenders, such as "susu" collectors, informal traders and rotating savings and credit associations (ROSCAs)[22].

Approximately 35 percent of Ghanaian adults over 15 years of age have accounts at formal financial institutions, a common measure to proxy financial inclusion levels. Ghana outpaces numerous other West African countries, such as Benin, Togo and Cote d'Ivoire, with respect to common financial inclusion indicators, but has yet to reach the financial sector development levels of Nigeria[23]. It is important to note that banking with a formal financial institution is no more than one of many dimensions of financial inclusion.

Figure 3: A selected financial inclusion indicator for Ghana in comparison to West African neighbour countries and Tanzania

Source: Global Findex, World Bank Group



According to the Global Findex database, 18.6 percent of Ghanaians older than 15 years save money at formal financial institutions, whereas 8.1 per cent of the same group borrows at formal financial institutions[24]. All of these figures might be understated as the Ghanaian financial sector is complex and it is not clear whether respondents of the survey understand microfinance institutions as formal financial institutions.

The penetration of home loans seems to be weak, with only 1.6 percent of the top 60 percent of income earners having an outstanding home loan. This figure is slightly higher for the bottom 40 percent income earners, recorded at 3.9 percent. These are respondents of the survey, who report servicing a loan to purchase their home; an additional 6 percent report servicing a loan to construct their home[25]. This figure is unlikely to capture the full picture, since a number of microfinance institutions acknowledge their customers' tendency to divert enterprise finance to housing and renovation purposes.

21 Bank of Ghana, 2015.
22 Awuvafoge, 2013.
23 Global Findex, 2014.
24 Ibid.
25 Global Findex, 2011.

3. The Case Studies

To understand the implications of the macroeconomic and institutional environment on the business model and the performance of housing microfinance in Ghana, this section provides three case studies of selected MFIs operating in the sector. The MFIs were chosen based on their experience in the housing finance sector as well as their target market segment: self-employed individuals. All three MFIs have been exposed to technical assistance and capacity building programmes by international partners to varying degrees.

Table 1: Characteristics of the three microfinance institutions

	HFC Boafo	Global Access	Sinapi Aba
Date of establishment	April, 2007	June, 2000	May, 1994
Tier	2	1	1
Shareholding	51% HFC Bank Ghana 49% Global Communities	Company limited by shares	Company limited by shares
Products	Micro enterprise loans and SME loans, individual lending and group lending, housing microfinance	Savings, international and domestic money transfers, micro enterprise loans, SME loans, housing microfinance	Savings, micro enterprise loans, SME loans, consumer loans, asset financing, agricultural loans, school loans, construction loans and micro housing loans, insurance
Introduction of HMF	2007	2000	2013
Number of active borrowers (2015)	3 447	Not available	137 487
Number of depositors (2015)	No depositors; depositors bank with HFC Bank	Not available	165 611
Geographical presence	All regions in Ghana, except upper east and west	Accra and Kumasi	All regions in Ghana
Legal status	MFI (non-deposit taking)	Non-bank financial institution, S&L company, licensed and supervised by Bank of Ghana	Non-bank financial institution, S&L company, licensed and supervised by Bank of Ghana
Staff numbers	305	216	456

3.2 Methodology

The case studies are based on qualitative interviews with management and employees of the three MFIs, as well as clients who completed, or are in the process of completing a HMF loan cycle.

Table 2: Numbers of interviewees per MFI and sector stakeholder organisation

<table>
<tr><th>Category</th><th></th><th>HFC Boafo</th><th>Global Access</th><th>Sinapi Aba</th><th>Total</th></tr>
<tr><td rowspan="2">Management</td><td>General manager</td><td>1</td><td>1</td><td>1</td><td>3</td></tr>
<tr><td>Portfolio manager</td><td>1</td><td>1</td><td>1</td><td>3</td></tr>
<tr><td rowspan="2">Staff</td><td>Marketing sales</td><td>1</td><td>1</td><td>1</td><td>3</td></tr>
<tr><td>Loan officers</td><td>6</td><td>1</td><td>3</td><td>10</td></tr>
<tr><td>Clients</td><td>Existing and new clients</td><td>9</td><td>10</td><td>4 (+4)</td><td>27</td></tr>
<tr><td>Total</td><td></td><td>18</td><td>14</td><td>14</td><td>46</td></tr>
<tr><td rowspan="2">Stakeholders</td><td>Housing the Masses Ghana</td><td colspan="4">1 Executive director</td></tr>
<tr><td>Habitat for Humanity International</td><td colspan="4">2</td></tr>
</table>

While some of the clients are repeat borrowers, in their second to seventh housing loan cycle, some were entirely new clients and some were existing enterprise loan clients. Interviews were conducted in Accra and Kumasi, across a number of urban and peri-urban branches. This was to understand whether the needs for clients in Accra differ considerably from those in the periphery of Kumasi.

Due to considerable distances between the local MFI branches and the construction sites of the clients, the number of interviews of HMF clients per institution were limited to ten. Business sites and construction sites were often located in different areas. To gain an understanding of the income sources and business operations of interviewees, most HMF clients were met at their business location, followed by a visit of the construction site. Sinapi Aba diversified the housing portfolio into incremental finance and home improvement for personal purposes, micro-school construction and church-construction. Four conventional housing microfinance borrowers were interviewed, as well as four micro-school loan clients, indicated as (+4) in Table 2.

To verify information and prepare for client interviews, credit histories and current loan profiles were extracted from client files. The information which was gathered consisted of the loan purpose and cycle, loan size, term, interest rate, fee structure and collateral requirements, as well as repayment schedules, delays and defaults, and loan appraisal documents. The appraisal document requirements vary slightly among the MFIs, but generally consists of cash-flow analyses and stock inventories, site plans and sketches of the geographical location of the plot, copies of indentures, work plans for the construction project, calculations of required building material, photos of the site and existing structures, income statements of guarantors and various other documents. The records allowed for an understanding of the depth of the clients' relationship with the respective MFI and could thus support decisions around relaxed credit requirements, for example, reduced cash collateral rates for some of the interviewees.

The sample size of 27 clients is small and its composition might not be representative of the general clientele for HMF in Ghana. Selection bias could be a limitation of this study, as either portfolio managers or loan officers chose the interviewees. Two months after the field research was conducted a workshop was held in Accra which served to confirm and discuss the preliminary findings of the study with the housing portfolio managers of the three MFIs. During this workshop, the financial institutions expressed their concern that this could have led to an over representation of clients that utilise housing loans for income generating assets.

Within the three MFIs, general management, portfolio managers, marketing and sales representatives and loan officers were interviewed. To facilitate comparison between the three MFIs, interview guides were used for senior and middle-level management discussions. Loan officer and client interviews were aided by detailed questionnaires. Additionally, sector stakeholders, such as 'Housing the Masses' Ghana[26] and Habitat for Humanity International provided comments on research findings and views on sector trends and risks.

[26] Housing the Masses is a non-profit organisation and partner of UN-HABITAT, working on sustainable housing solutions in Ghana.

3.3 Background

Among the three MFIs, Sinapi Aba, former Sinapi Aba Trust (SAT), is the oldest financial institution. SAT started operations in 1994 as a financial non-governmental organisation (NGO), providing microloans to low-income households. In 2013, the institution transformed into a fully-fledged licensed and supervised savings and loans company. SAT was a member of the Opportunity International Network (OIN) and accessed donor funding from USAID to the value of more than US$ 1.86 million between 1995 and 2004. Donor funding was often coupled with extensive technical support programmes, one of the main reasons for SAT to transform into a deposit-taking savings and loans company.

In 2010, Sinapi Aba received donor funding from USAID to implement the "Housing Finance and Land Title for Ghana's Poor" project. This was the beginning of Sinapi Aba's involvement in the HMF sector and funds were used for product development, capacity building and on-lending during the pilot testing of the product. In 2012, with support of the Habitat for Humanity International's Center for Innovation in Shelter and Finance (CISF), Sinapi Aba reviewed their HMF product, followed by technical assistance to enhance the product features, which mainly consisted of capacity building within Sinapi Aba and developing sustainable strategic partnerships for housing support services (HSS)[27]. The support from CISF ended in 2014.

The centrepiece of this project was the development of the "property folio", a non-financial service bundled with the housing microfinance loan to support clients in obtaining all required documentation to register their property and obtain a land title. In an interim report published by Bankable Frontier Associates (BFA) in 2011, the project appeared to have struggled to reach economic viability and sustainability for the piloted HMF loans. A major concern was in sufficient funding sources, after the USAID capital was fully disbursed to borrowers[28].

Sinapi Aba was further part of the "Building Assets, Unlocking Access" programme, a cooperation between Habitat for Humanity International and MasterCard Foundation. The multi-country capacity building programme commenced in 2012 and targeted nine financial services providers, offering technical support to promote scalability and viability of HMF loans[29]. This programme was terminated at an early stage in Ghana, due to the macroeconomic conditions outlined in the first section of this report that made an introduction of a HMF loan infeasible[30].

The second institution that formed part of this enquiry, HFC Boafo, is a subsidiary of HFC Bank, as a result of a partnership between HFC Bank, a commercial bank known for their strong mortgages and housing finance focus, and Global Communities. HFC Boafo was the first microfinance institution to implement HMF products in Ghana in 2007. The development of the HI-5 loan (a housing loan that finances five stages of the incremental building process) was a result of the cooperation between the two institutions and available funding from donor agencies, such as USAID. HFC Boafo's mandate was to offer housing finance to those clients that were not served by the HFC Bank, due to low income levels and self-employment. However, once HFC Boafo introduced enterprise finance, its loan portfolio quickly shifted towards SME and micro-enterprise loans, away from housing finance.

Due to the engagement of international sector stakeholders, such as Opportunity International and Habitat for Humanity International's CISF, HFC Boafo and Sinapi Aba benefitted from capacity building and institutional technical assistance for the development and implementation of their HMF loans. Until 2014, Sinapi Aba was able to offer support for land title applications in the form of surveyors, paid by the MFI. To date, both MFIs offer referrals for building material suppliers. The referrals however seem to be biased in favour of their SME clients operating in the construction industry and not based on quality of artisanal skills or costs. Both institutions remain connected to international organisations to benefit from potential capacity building or funding programmes. HFC Boafo is currently implementing sanitation loans as part of their home improvement loan range in partnership with Global Communities.

In contrast, the third institution in this research, Global Access, received little technical assistance and no donor funding in the process of developing and implementing its HMF product. The only consultation and coaching Global Access benefitted from was in 2011, when Habitat for Humanity (HfH) Ghana changed its organisational focus from mortgage finance to the HMF sector. As part of this initiative, HfH Ghana identified Global Access as eligible partner for the development and disbursement of HMF loans. Global Access committed its own funds to the implementation of the housing microfinance product.

Currently, all three MFIs focus on enterprise lending as their core business. In volume, Sinapi Aba's HMF portfolio makes up a mere 2.45 percent of the total portfolio, while HFC Boafo's HMF portfolio contributed 11 percent to the portfolio of the institution in 2015.

27 Housing support services (HSS) describe a wide range of non-financial services that are bundled with housing microfinance loans to support clients. These services can comprise of technical support to access land, secure tenure and register property or refer to construction technical assistance services, such as developing, planning and supervising the construction project.
28 BFA, 2011.
29 Habitat for Humanity, 2015c
30 Habitat for Humanity, 2016.

Table 3: Characteristics of housing microfinance portfolios of the three MFIs

Housing Microfinance	HFC Boafo	Global Access	Sinapi Aba
Year of introduction	2007	2013	2010
Volume of HMF portfolio, 2015 (Percentage of total portfolio, 2015)	GHc 4 794 750 (11%) US$ 1 213 860[31]	GHc 505 855 (not available) US$ 128 064	GHc 2 010 693 (2.45%) US$ 509 036
Number of active HMF clients	245	60	560
Average loan size	GHc 19 570 US$ 4 954	GHc 8 430 US$ 2 134	GHc 3 590 US$ 909

3.4 Product Overview

Housing microfinance is a subset of microfinance. It encompasses initiatives that target the housing needs of the poor, or very poor, and involves extending relatively small loan amounts based on the financial capacity of the client. Housing microfinance carries a relatively short repayment period and is commonly not secured by collateral. Housing finance loans are priced to ensure viability and sustainability of the provider and incorporate due-diligence and follow-up procedures . These characteristics are met in by the sample of MFIs and their HMF products, as outlined below. Arguable features, such as loan volume and clientele, will be discussed in section four of the report.

Table 4: Product characteristics of the three HMF products.

Feature	HFC Baofo: **HI-5**	Global Access Savings and Loans: **Housing Micro Loan**	Sinapi Aba: **EFIPA (Micro Housing) Loan**
Clientele	• Existing and new clients • Self-employed, informal or semi-formal businesses • Salaried workers with side-businesses	• Existing and new clients • Self-employed, informal or semi-formal businesses	• Existing and new clients • Self-employed, informal or semi-formal businesses • Salaried workers with side-businesses
Maximum Loan Size	GHc 100 000 (US$ 25 316)	GHc 50 000 (US$ 12 658)	GHc 20 000 (US$ 5 063)
	All three MFIs have increased their maximum loan amounts in the past years		
Term	12-36 months	12-24 months	12-36 months
Purpose	• Home improvement • Incremental housing finance in structure five steps: 1. Land purchase 2. Structure construction 3. Roofing 4. Fittings and fixtures 5. Finishing	• Home improvement • Incremental housing finance	• Home improvement, • Incremental housing finance
Housing Technical Support Services	• Check land purchase with Ghana Land Commission through HFC bank's mortgage finance structures before loan granted	• Referrals to building material/ artisans that are SME clients of the institution	• Property folio development: assistance in land title application • Surveyors • Trainings
Interest	36% p.a. (flat rate)	42% p.a. (flat rate) Changed to 60% p.a. in March, 2016	42% p.a. (flat rate) 32% p.a. in 2013
Fee Structure	• Processing: 2% • Insurance: 1% • Application: GHc 10 (US$ 2.5)	• Processing: 3% • Insurance: 1% • Application: GHc 20 (US$ 5)	• Processing: 3.5% • Insurance: 1% • Application: GHc 5 (US$ 1.5)

[31] Exchange rate used throughout the paper: 1 US$ = 3.95 GHc, as per coinmill in July, 2016
[32] Daphnis and Ferguson, 2004.

Table 4: Product characteristics of the three HMF products.

Feature	HFC Baofo: **HI-5**	Global Access Savings and Loans: **Housing Micro Loan**	Sinapi Aba: **EFIPA (Micro Housing) Loan**
Collateral	• 15% cash collateral[33], but dependent on credit history, savings patterns and strength of guarantors • Guarantors: 2	• 10% cash collateral, but dependent on credit history, savings patterns and strength of guarantors • Guarantors: 1-2	• 10% cash collateral, but dependent on credit history, savings patterns and strength of guarantors • Guarantors: 1-2
Requirements	• Land security: Indenture/ Lease Agreement • Savings account with HFC bank	• Land security: Indenture/ Lease Agreement • Savings account and history	• Land security: Indenture/Lease Agreement for Land • Savings account
Services	• Financial education • Consultation • Business skills development	• Financial education	• Financial education • Strong focus on training for clients • Business skills development for specific businesses, e.g. micro-schools

HFC Boafo offers the cheapest HMF product in terms of interest rate and fee structure. One reason for this is that the MFI is able to borrow capital from HFC Bank at favourable rates compared to commercial funding, which will be discussed in section 4. At the same time, HFC Boafo applies the most stringent requirements to secure the HMF loans, with 15 percent cash collateral and two guarantors as a standard set of conditions to access the loan—another potential reason for lower interest rates, as stricter conditions support lower rates of non-performing loans.

Sinapi Aba and Global Access both distinguish between home improvement and incremental housing finance loans. The latter is commonly used for foundations and structure, whereas the home improvement loans are channelled into fixtures and furnishing. Sinapi Aba's loans differ only in their label and therefore purpose of the loan. The ceiling for Sinapi Aba's housing loans is at GHc 20 000 (US$ 5 063). Key characteristics such as term or loan size are equal for both housing finance products[34]. The institutions' loan officers motivate for the importance of differentiating between incremental building and home improvement loans as psychological lever to reduce the diversion of funds during the interviews.

In contrast, Global Access' two housing loan products differ in terms of the loan amount and loan maturity. Loan amounts range from GHc 2 000 (US$ 506) to GHc 20 000 (US$ 5 063) for the incremental building loan and GHc 1 000 (US$ 253) to GHc 10 000 (US$ 2 532) for home improvement loans. For both loans, the ceiling was increased to GHc 50 000 (US$ 12 658) in August 2015.

HFC Boafo's Hi-5 loan has also undergone a revision of the maximum amount and interest rates, but has otherwise remained the same since 2006. Currently, HFC Boafo is looking to extend the maximum term of 36 months of the loan, as the institution wants to facilitate easier access to the larger amounts of up to GHc 100 000 (US$ 25 316). Some of the key reasons for the increase of loan volume and term will be discussed in section 4.

[33] Cash collateral refers to a deposit, a pre-defined share of the total loan amount that has to be made by the client prior to disbursement of the loan. This is a requirement used to assess the character of the loan.
BFA, 2011.

3.5 Operational Processes

Operational processes are similar across the three MFIs, as their business models are based on a conventional loan officer approach, characterised by a strong relationship between the MFI and customer, promoting frequent interactions. Yet while Sinapi Aba and HFC Boafo employ the same structure and staff for selling, processing, assessing and managing their housing finance portfolio as the SME loan portfolio, Global Access relies on dedicated housing finance officers. These dedicated officers receive all HMF applications, independent of the branch where they are submitted and are responsible for the assessment, appraisal and management of housing finance loans only.

As depicted in Figure 4, a loan appraisal process entails multiple face-to-face interaction points with the client. Dependent on the MFI, as well as the loan officers' judgement, the number of contact points with clients can be increased through training sessions or additional assessment steps, before the disbursement of the loan. If crucial credit requirements such as the possession of an indenture document or a savings track record are missing, the client does not qualify for a loan, until these preconditions are met.

Client relationship: Loan officers seem to adapt their face-to-face interaction frequency and the depth of their client relationship to accommodate the preferences of clients individually. The loan officers comply with mandatory processes, but any additional interaction is left to their own discretion. The minimum number of face-to-face meetings in a loan cycle is three for existing clients with multiple completed loan cycles, while the average number of face-to-face meetings amounts to eight among all interviewed loan officers across institutions. Most loan officers establish their own systems for following up with customers. They commonly remind clients of repayment dates and obligations with phone calls or text messages, or visit construction sites on a regular basis. Based on the observations during field visits and at the local branches, it became evident that relationships between loan officers and customers are amicable and loan officers are informed not only about business activities but also about household affairs.

The customer-centric focus of the HMF lending model is also reflected in the follow-up procedures in the event of delay or default. "We try to understand what caused the default. (…) [S]ometimes there is a need to give the clients additional money to resolve the situation. Since we visit them often, we know in advance", said a HFC Boafo loan officer. Most loan officers cite the general economic slowdown as the main reason for delayed repayments and appear sympathetic with clients.

Out of a sample of 27 housing microfinance clients, two are currently defaulting. The owner of a transportation company had to allocate disposable funds to car repairs after an accident and could not meet the monthly repayment. The other client states: "My pharmacy shop was closed by the council and the food and transport authority. I negotiated with them and we have resolved the problem, so I have reopened my shop. I informed Sinapi Aba about what was going on. My shop was closed for three months and I had to feed my family and service the loan. There were a lot of problems". Despite the client's sound credit history and his prospective follow-up loans to build a hotel, Sinapi Aba was reluctant to find a short-term solution to respond to the customer's situation. He had to service the loan over a period of three months in which his main source of income fell away.

These client testimonials suggest that, despite a general concern for the well-being of customers, the MFIs' active engagement in responding to customers in arrears is based on the loan officers' available capacity. A Sinapi Aba loan officer, who has two defaulting HMF clients in his portfolio, accounts for his approach: "Maybe the business is not doing well, so we will break down the payments and do special arrangements for (them)". He recommended increasing the term for both clients, to decrease the size of their monthly instalments.

Prolonging the overall loan term is a key strategy for responding to delays in repayments for Sinapi Aba and HFC Boafo. Global Access offers a grace period of up to three months for clients in financial distress. A number of loan officers across institutions state that they had to increase the size of the loan to allow the client to buffer the economic shock. Top-up amounts are recommended by the loan officers and approved or rejected by the credit committee. There is no consent around the correct utilisation of top-up amounts. Often the housing loan top-up is used for income generating activities of the client and thus channelled into the client's enterprise. To avoid the diversion of housing funds, in some instances loan officers recommend an enterprise loan in addition to the housing loan to stabilise and secure the source of income of the client without diversion.

During the interviews it became evident that customers value the personal relationship with their financial institution: "HFC has been my bank for several years. I was with (another) bank but they refused to give me a personal loan, even though I was saving money with them. If I am in difficulties you should be able to help. (…) HFC gave me a personal loan so easily. They are approachable, they understand things. At times, cheaper things cost more. So you look for people who will understand you".

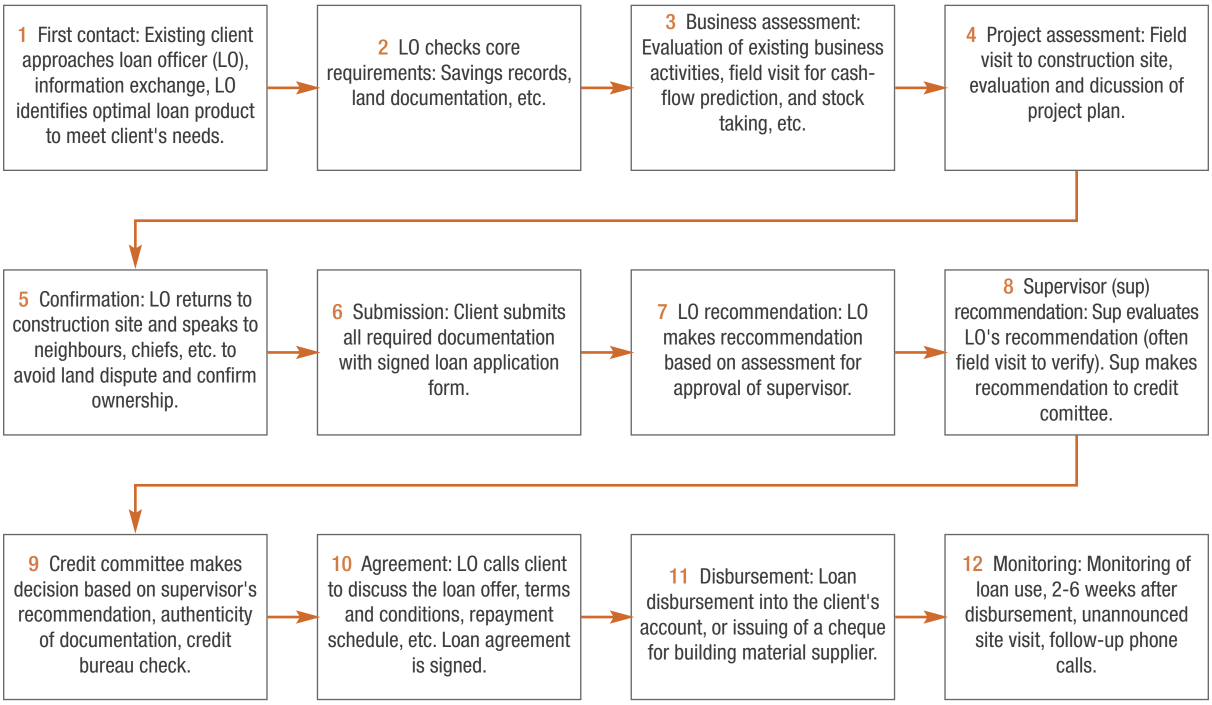
Customer-centric services often remove hassle factors, which commonly result in saving time and reducing cognitive involvement and depleting the self-control resources of the customer. Both, Sinapi Aba and HFC Boafo offer a daily or weekly savings collection service for free. So called savings mobilisers collect the cash amounts and deposit them into the clients' accounts. These services are specifically recommended to clients who are delaying repayments: "We advise clients to make daily contributions (…) so we collect the amounts daily and they add up to the monthly repayment". The uptake for the collection services is high and during the interviews numerous clients confirmed the benefits: "We give money to the bank every day, so that we do not struggle at the end of the month".

Even though interest rates of HMF loans seem to be non-negotiable, clients can influence the required cash collateral, the deposits against which the loan is issued, through negotiations and a sound credit history with the respective institution. Most of the interviewees report to benefit from lower cash collateral rates, based on their long-term relationship with the MFIs. All MFIs require a cash collateral deposit of 10 to 15 percent of the total loan amount. As discussed in section 4, this often constitutes a bottleneck for new clients to access the loan.

Appraisal process: Savings are a rigid credit requirement among all three MFIs and if a client does not have savings records at the respective MFI, or is unable to provide bank statements for a savings account, the client is advised to start saving before the loan application is considered. Demonstrating the ability and capacity to regularly deposit money is a key characteristic for a loan candidate. Global Access suggests savings records to be a key pillar of the clients' character assessment: "[When] we are looking at their savings patterns, we are able to deduce information".

This is usually done at an early stage in the loan appraisal process as illustrated in Figure 4, step 2.

Figure 4: Typical loan appraisal, disbursement and monitoring process; order and activities vary slightly among the three MFIs.



Business assessment: Based on the unsecured lending methodology—the capacity and character assessment of the borrower—, the housing loan application can be a lengthy and detailed process. An HFC Boafo loan officer summarises the assessment: "The first thing we have to find out is whether the client is able to repay the loan. We go to their business sites (…) some of them have financial records or sales books (…)".

A loan officer at Sinapi Aba confirms: "We assess the person's business, we study the business trends. I'll come to your shop, look at your stock, the expenses, how much are you selling in a day or a week, so we can look at averages (…) then you can deduce whether the person is making a profit. Out of the profits, is the person able to repay the loan? Maybe we give advice to the person to change a few things in the business". Loan officers also assess the potential future income generated by the new building, if clients are using the loan for productive assets: "We have a number of clients who build for business purposes: churches, hotels and so on. So we need to assess the businesses carefully".

The loan assessment processes of Global Access are similar to the ones of Sinapi Aba and HFC Boafo: "There is an appraisal process, whereby the clients bring an application form, requesting for the HMF loan. Then we do an on-site visit of the property, the construction site, and (conduct) a business appraisal, to determine the personal capacity. (…) We also help (the clients) to do a cash-flow analysis and we are looking at the stock that they have. We have conversations, and observe sales, so we can make an assessment. We are looking at both, business and household expenses".

At any point in the outlined loan cycle in Figure 4, loan officers can suggest business skills training for the applicants or train clients in financial capability. Even though all of the MFIs suggested that they offered financial advice to the clients, this non-financial service seems to be specifically important to Sinapi Aba: "We train clients in financial management, business management. Our training managers do that". Loan officers can recommend a training for a client or prospective client. The trainings range from financial advice to business skills development and basic financial management and accounting training for clients with micro-, small- and medium-sized enterprises. HFC Boafo approaches the subject of financial management mostly through one-on-one interactions between clients and loan officers: "(…) every time the loan officer meets the client, he provides financial advice (…) and periodically we hold financial education trainings outside". The loan officers of the two institutions are familiar with the available curricula or training content within the MFIs, and seem to know when and how to suggest training or transfer knowledge to the clients.

Project assessment: After the assessment of the business, the loan officer visits the construction site. He assesses the building site and the work plan suggested by the customer. He further validates the existing land documentation and potential related litigation cases and the authenticity of documents.

Based on the long-term partnership, first, through Habitat for Humanity Ghana, and then, through Habitat for Humanity International's CISF, Sinapi Aba's loan officers seem very well-versed in the assessment of construction projects: "Habitat for Humanity used to do our assessments. Now that the partnership ended, we have our own assessments. We know how much building material costs, and we can assess for instance how much cement is needed. (…) We have projections of costs of the projects. We don't do exactly the same as Habitat for Humanity. But we received training (…) so we have in-depth knowledge about building, so that we can advise the customer".

Based on the same partnership which included Opportunity International (OI) and International Land Systems (ILS), Sinapi Aba set up a system to assist clients with accessing the required documentation to register the land and obtain a land title. "(…) some of (the clients) may not have any documents, or the documents are not ok, so we will support the client to secure the land".

Both HFC Boafo and Sinapi Aba use the 'two heads are better than one principle' for their appraisal process, depicted in Figure 4, as steps 7 and 8. "You'll go to the field to assess the construction site and project. Then a team will follow you. We have a team in the branch, the credit team, who assesses the application and recommendations you are making", said a loan officer. This seems to be a necessary prerequisite, even though it increases the work hours spend on one loan application substantially. The MFI also makes use of relationship managers, who support the loan officers in building and maintaining relations with clients. HFC Boafo uses a supervisor to verify the recommendations of the loan officers: "Supervisors double-check the loan application, you have to be sure, so sometimes we go into the field and look at the sites".

Confirmation: Background checks within the customer's community are an assessment tool that is adopted by all three MFIs (Figure 4, Step 5). It seems particularly important for new clients, and is conducted both in the neighbourhood of the clients' business and in the community where the construction is planned or is under implementation. A Global Access loan officer explains: "After getting all the documentation, allocation, site plans, indenture, (…) we conduct what we call a secret investigation. We go to the community in which the property sits to find out whether we are dealing with the right people. So we are doing a background check in the community (...)". Loan officers from the two other MFIs confirm this practice during the interviews and underline that confidentiality is maintained during the checks.

Disbursement: To disburse a loan, the three MFIs require the client to open a bank account with them. (Since HFC Boafo does not have a deposit-taking license, customers are required to open an account at HFC Bank). Global Access and Sinapi Aba seem to have flexible policies regarding the disbursement of loans. They are either disbursed in full or in tranches dependent on the work plan provided in the loan application. Where possible Global Access directs parts of the loan funds to building material vendors in form of pre-filled cheques to avoid misuse of funds: "(…) we have vendors, people who are into the sale of building materials. If you want to purchase cement, the client can go and buy there. We refer them to outlets for building materials. If they have their own suppliers, it is fine, but we will issue a cheque in the building material suppliers' name. So the funds cannot be misused. But if it has to do with the payment of labour, we cannot do that. So we give you some of the funds to pay for the labour. Sometimes we disburse loans in tranches, or the whole amount at a go. Because of the rising prices, people need to buy everything quickly, so that's why we disburse at a go".

Monitoring: Especially loan monitoring processes seem to be based on the loan officers' individual experiences and capacities. "There is no specific schedule to visit clients. (…) I pass by without informing the client. We have to do that", said an interviewee. Among all the sampled loan officers, the time period to follow up on loan utilisation seems to be between two and six weeks after disbursement. Often loan officers do not only monitor the building process but also the business activities of the clients: "I then go back to the field to check the progress of the work. You can see whether or not the client bought materials, whether there are workers at the site. After one week and then after two weeks. The client will pay the loan through the business, so I also go and visit the business. To see how the business is doing (…) maybe we can offer advisory services. It is embedded in the loan offer", says a loan officer of Sinapi Aba.

Loan monitoring, like loan assessments, is a responsibility of both the loan officer and the supervisor and relies on regular site visits. A loan officer of HFC Boafo explains: "After one month we'll come and visit the site to monitor utilisation. The monitoring form is validated by the supervisor. He might phone the client again. We take photos from before and after the loan disbursement". This is also done by relationship managers of Sinapi Aba to confirm the reported progress.

4. Key Findings and Analysis

During the course of the research a number of factors constraining or promoting the development of a housing microfinance sector in Ghana were identified. These are either based on specific market characteristics in Ghana, or based on particular institutional characteristics of the three MFIs.

4.1 Land Security System

As described above, the land security system in Ghana is complex, due to the parallel existence of customary and statutory law, as well as the complicated nature of the customary law. Traditional authorities own the majority of land and acquisition processes can be lengthy, as agreement among various families may be required for a land deal to be consummated. The Executive Director of 'Housing the Masses' in Ghana considers the land tenure system as a "key bottleneck in Ghana, with double and triple sales that add to housing demand and supply cost".

This is the main reason for the stringent requirements of ownership documentation – indenture documents - of the three MFIs. Indentures are seen as form of security to ensure the funds are spent on the land. The institutions hold the original document for the full loan cycle to prevent on-sale of the land during the course of the construction project. This also reduces the risk of one client borrowing from multiple sources at the same time, as this is a common practice in the HMF sector. It, however, does not protect the MFIs from fraud entirely, as traditional leadership can be approached to issue new purchase documents when clients pretend to have lost the original copy. Apart from potentially fraudulent documents, some clients might not have proper documentation of land ownership at all.

A loan officer sees this as key bottleneck for housing microfinance in Ghana: "It has been the major challenge. In Ghana plots are sold without the proper papers". "If we were able to build a good capacity for the future, we'd consider offering technical assistance to obtain required land documentation, such as land titles", says a credit manager of HFC Boafo. He continues, "I think the housing support services model would work in Ghana. If you want proper documentation, you are prepared to pay".

Apart from supporting clients' land registration the MFI already has validation processes in place to assist clients, who are using the HI-5 loan to purchase land. Prior to finalising the land deal, the MFI uses the infrastructure of the mortgage unit of HFC Bank: "When you bring the land documents to us, we take the documents to the main bank. They will perform a search based on information of the land commission and tell you whether the land you are purchasing is already owned by someone or whether it is free for you to buy. The branches offer these services to our clients. As a MFI we do not have that capacity, we forward the documents to the bank and within a week, the client receives a response".

The two other MFIs might not have the capacity to perform checks with the Ghana Land Commission to validate sales but have other strategies to support clients in obtaining their land documentation. "We (…) developed a documentation process, where we have everything. All the pieces gathered together in one [file]. It helps clients get all the documentation (…) for the final process", says an area manager for housing finance of Sinapi Aba. Surveyors were part of Sinapi Aba's non-financial services during the "Housing Finance and Land Title for Ghana's Poor" project. Even though the surveyors are not part of the HMF loans at present, the MFI still supports customers to gather documentation for their "property folio".

The interest in land titles and proper land documentation is motivated by two reasons. First, clients who have a land title can be sure to own the land and thus might have a greater incentive to invest in building assets on their property. Second, litigation cases based on multiple sales can be avoided when land titles are available. This decreases housing-specific credit risk substantially and thus promotes portfolio quality and reduces the cost of commercial funding.

4.2 Values, Beliefs and Behavioural Patterns

Often up-take and utilisation of financial services are influenced by values, beliefs and behavioural patterns of customers.

An entrepreneurial mind-set: HMF clients often use funds to build, renovate, expand or improve business facilities rather than their personal dwellings. Among the buildings are schools, warehouses, churches, clinics, public sanitation facilities, hotels, hostels for university students, stores for petty traders and flats. One can distinguish between two categories of productive purposes of HMF loans: they are either used to build rental units on the property of the clients or devoted to the construction of other income-generating assets, often on a second plot or in another area. Productive assets are built in the same incremental, self-managed approach as private houses and make use of the same building material suppliers and artisan contractors.

A housing microfinance client in Accra has taken a HMF loan to build a public toilet facility, with 18 toilets and a 54 cubic meter septic tank and currently services a second loan to install a bio-gas plant at the facility: "I expect to earn additional income from the bio-gas plant. For me, the future is bright", says the man, whose core business is public transportation. A school owner in Kumasi used her second HMF loan to build a canteen, after fencing her school yard with a first loan. She sees the gradual improvements as an investment in her business. When asked about the impact of housing microfinance, only three of the interviewed clients cited an improvement in their living situation as the main outcome. The remaining answers can be categorised into three main groups: (i) an additional source of income for the household, (ii) the expansion of existing business activities and (iii) an increase in the household's assets and, therefore, increased economic security through accumulation of wealth. The three may not directly respond to the desired agenda of housing microfinance, namely to provide adequate shelter for the low income group, but contribute indirectly to improving the standards of living of these households, through an increase in productive assets and economic activity.

The shift from residential development to the construction of business premises or rental units seems to be a fairly recent trend, perhaps in response to the gradual economic slowdown in Ghana. The economic pressure on low income households led to an urgent need to generate additional revenue and diversify income sources. The progress report of the Sinapi Aba and Habitat for Humanity joint HMF project states that the housing microfinance loans were initially intended to finance construction and improvements of private dwellings on residential lands[35]. Currently, the conventional purpose of housing microfinance seems to be a luxury that only clients with larger businesses can afford.

Housing microfinance loans are commonly lend against a household's cash flow—based on an assessment of household income and expenses, the MFI is able to determine whether the client has sufficient disposable income to meet the repayment obligations. When lending to self-employed clients, the MFI relies on an evaluation of the profit and cash flow of the business activities of the household. The trend towards the construction of productive assets adds a new source of revenue to this assessment. The MFI has to take prospective changes of the household's cash flow into account, based on the expansion of business activities. The responsible loan officer therefore has to make predictions regarding the returns and expenses of the productive asset.

Further, the HMF loans seem to promote diversification in the business portfolios of the clients. Specific examples from this field study include: A shop owner who is selling pharmaceutical products out of a rental unit, using HMF to build a two-storey hotel; an owner of a printing press and maize plantation, using HMF to build a warehouse and flats on an additional plot; and a family of five using HMF to renovate and expand a student hostel in their backyard.

The interviewed loan officers acknowledge the trend and seem to have little objections, as it improves their portfolio quality. A loan officer for HFC Boafo states that his target clients are primarily school owners and churches, rather than personal home owners. In contrast, a relationship manager of Sinapi Aba states: "The loan should be taken out for personal houses. That's how I see it. If they want construction done at their business facilities, they should come for a business loan". This argument is understandable, as the housing microfinance loan constitutes foregone interest revenues for the MFI, based on lower interest rates for housing finance products. The lower rates are partly justified by the interviewed employees of the MFIs by the assumption that the clients' income is not increasing as a consequence of the investment.

Reluctance to borrow: Clients seem to be reluctant to use debt financing for an investment that does not generate additional income. This seems to be part of a more general reluctance towards housing microfinance in Ghana. A 'Housing the Masses' representative describes the common feelings towards debt as follows: "Debt is a culturally unwelcome position to be in and, with the relatively high interest rates in Ghana, people are usually afraid of being entangled in a web of debt that they may possibly never be able to pay off". This view is supported by numerous client statements throughout the interviews: "I do not feel comfortable owing all the time", says a school owner in Kumasi, who wants to avoid a third loan to complete the school building.

Lack of self-control: While Ghanaians might be sceptical about debt, some HMF clients seem to utilise the pressure of owing money to finance investments. A number of times during the client interviews, financial discipline was explicitly cited as a challenge for the accumulation of savings that could be used to finance building and home improvement, as an alternative to HMF. Some clients seem to be aware of their tendencies to spend money rather than to save and thus prefer loans as the repayments are a fixed commitment and collected on a monthly basis. "Yes, [HMF] is valuable. If I was to save money, I would still spend some of it, as it is available along the way", says one customer. Clients seem to want to avoid spending disposable income on consumption goods. To be able to make large ticket investments, a loan offers a mechanism to manage their financial discipline.

To counteract challenges related to a lack of self-control during the repayment stage, two of the three MFIs offer daily cash collection services. As outlined in section 3.4., MFI staff collect small daily contributions which are deposited into the customers' savings accounts. The loan instalment is deducted from the account at the end of the month. This prevents clients from spending money that is available at the end of a business day. One client says, "I can repay [the loan] on a daily basis. Everyday someone collects a little money, so when the month is over, the instalment is deducted from my account. (…) Every day, part of my sales are going to the repayment of the loan".

[35] BFA, 2011.

Clients who were not offered cash collection services often refer to the monthly deposits as "challenging", as they physically have to travel to the branch. It seems that the reduction of hassle factors for clients is an important criteria for customers. HFC Boafo breaks monthly instalments into weekly and daily payments, and communicates them to the clients on their repayment schedules. Daily payments only consider working days, so that clients know exactly which amount to set aside, before taking their daily profits home.

4.3 Affordability

On the one hand, inflation seems to be a key reason to access housing loans, rather than to accumulate funds through savings. As outlined in section 2.1, Ghanaian building material markets are subject to gradual price increases over the past five years. On the other hand, high inflation rates affect the affordability of HMF loans through multiple channels: operational costs of MFIs, household and business expenses and total costs of construction increase, while household revenues decrease, which leads to a reduction in disposable funds to meet monthly financial obligations. Moreover, it is argued that HMF loans are correlated to business cycles, because of their interest rate sensitivity.

Offering affordable HMF loans in the context of economic recession and inflationary pressure is a challenge that can require the revision of loan amounts and loan term. Moreover, two characteristics are specifically significant for the affordability perception among clients: the interest rate, as well as other financial requirements, such as cash collateral.

Macroeconomic developments and loan affordability: The interviewed client sample seems to consider inflation and price volatility in investment decisions. A pastor refers to inflation as the main driver for deciding in favour of a taking housing microfinance loan: "It helped us to fast-track the construction. It takes a while before you gather the amount and every year prices go up. The inflation was not able to affect us". Inflation was a frequently recorded motive for debt financing in client interviews and a sales argument in loan officer interviews. "[A client] usually feels like using her own resources to build. The home loan requires more convincing. When you invest money into building, it doesn't come back. So we convince people that when they take out a loan, they can do more at a time. They can purchase more material at a time so that even when items' [prices] increase, you have bought [them] at a cheaper price", says a Sinapi Aba officer in Kumasi.

The HMF loans of the selected MFIs are offered at three percent or 3.5 percent monthly. It is an industry standard to offer flat interest rates that are not anchored to any signalling rate and thus remain constant during the loan cycle. The average client within the sample borrows GHc 16 500 (US$ 4 176) at a monthly interest of 3.25 percent. She repays the principal and a total interest amount of GHc 6 435 (US$ 1 629) over 12 months. For this loan to be cheaper than savings, building material prices have to increase by at least 39 percent. This said, it might take her longer than a year to accumulate the savings, as discussed in the previous section.

Between January 2015 and January 2016, consumer prices for the sub-group of housing, water, electricity and fuels increased by 45.5 percent. Furnishing, household equipment and routine maintenance prices increased by 24.5 percent[36]. Even though this does not allow for accurate estimates of the increase of the costs of construction, it provides an understanding of the general dimensions of inflation in Ghana. Dependent on the building project the 'example client' is looking to finance, increases in building material prices might outpace the interest paid on her loan. Based on the discussion around financial discipline in the previous section, some of the households might also be willing to pay a premium to manage their propensity to spend rather than to save money. Another potential reason to opt for debt financing could be a bias in financial decision-making based on historical market developments. Between 2007 and 2008, cement prices increased by 67.3 percent within one year. Even though the steep increase was primarily due to a temporary halt of cement production due to mechanical fault, clients might expect prices to rise at any time and thus value the fixed interest rate that allows them to plan and budget with little uncertainty.

The gradual price increases in building supplies led to MFIs considering offering larger loan amounts for incremental housing finance loans. A Sinapi Aba relationship manager confirms the necessity to revise the loan amounts in light of the inflationary pressure: "I would increase the term of payment - at the moment the maximum is three years. I would also increase the amount. (…) With this economy, the 20 000 (Ghana cedi; US$ 5 063) can only build a small section of the house, and we encourage building in stages. However, some things, like roofing, cannot be done in parts. It's better if you don't do it then".

The majority of interviewed clients add personal funds to top up their loans. Whether this is a consequence of insufficient loan amounts or a strategy to keep debt at a minimum level is debatable. A pastor admits to sacrificing a portion of his salary and asking his employees to make personal contributions too, while raising the walls of a new church building, as the GHc 15 000 (US$ 3 797), offered by the MFI was insufficient. While most clients add personal savings to the loan amounts, two borrowers admitted to asking friends for additional funds, when they were taken by surprise by price increases during their building process. HFC Boafo also increased their maximum loan amounts: "Building materials are becoming expensive, so we have increased the ceiling to 100 000 cedi (US$ 25 316)", says the operations control manager.

[36] Ghana Statistics Services, 2016.

For the average client, bigger loan sizes pose significant challenges. Firstly, even though they need larger amounts to complete construction projects, the stringent capacity assessment described in section 3.4 does not allow them to access the larger amounts. A businessman elaborates on his experience: "I was constrained. I wanted to get ahead of the inflation, so I requested for a large amount to pay for everything (…) but I did not get exactly what I asked for. I could not escape inflation". During periods of high inflation and business cycle contractions, the capacity of self-employed clients is further reduced. A number of interviewees stated that current economic pressure affected their household cash-flow during the building process. The strategy of offering larger loan volumes to account for increasing prices is thus flawed. Moreover, this would increase the cash collateral deposits required to access the loan.

To reduce financial distress, extending the term while holding the loan amount constant could be a medium-term strategy to offer relief: "It is planned to extend the tenure of the housing microloans. Currently it is 36 months maximum. We give people a longer period so the repayments do not affect their monthly income too much", says a Sinapi Aba area manager for housing loans. A number of interviewed clients already opted for longer terms to be able to manage their monthly financial obligation, even if their capacity assessment allowed for shorter repayment terms. Longer terms increase the total amount of interest paid and thus have a negative effect on the overall cost of HMF loans.

In the past few years, the economic situation has led to a gradual increase in the MPR rate, as well as an increase in the perceived risk in the Ghanaian financial sector. This has affected the cost of funding, specifically for MFIs, as they offer unsecured loans and thus bear a greater risk. The consumer price increases affect operational costs of MFIs, which is a key consideration for the high-touch loan officer business model used for HMF loans, outlined in section 3.4. Consequently, all three MFIs, have inflated their HMF interest rates, which is detrimental to the affordability of the HMF loan.

Cash collateral: One of the mandatory requirements of the three MFIs is a deposit of cash collateral prior to loan disbursement. As discussed in section 3.3, the required percentage is subject to negotiation and is dependent on the relationship and credit history of the client. Thus cash collateral requirements can affect the affordability of HMF loans, specifically for new clients, as they are not in a position to negotiate the applied rates. In general, cash collateral is perceived as a barrier to borrow. "The cash collateral requirements make the loan difficult to access", says a client who had to deposit GHc 1 000 (US$ 253) as collateral, with a self-reported monthly income of GHc 6 000 (US$ 1 519). Another interviewee confirms this notion by describing cash collateral as a disincentive for customers.

A number of loan officers perceive cash collateral as a requirement that further compromises the eligible loan amount. "The affordability is a question that we are dealing with. The cash collateral makes the loan unaffordable for some of the clients. You reduce the amount of cash that the person has at hand to do the project". Another loan officer agrees: "We also take 10 percent cash collateral. This is mainly for the clients who do not perform well on their savings accounts. It is important as it commits the client to the loan. But if I want 100 cedis and I make a down-payment of 10 percent up front, I might end up not having 100 but 90 cedis, because maybe I borrowed the cash collateral amount somewhere else". This insight could not be confirmed during the client interviews as most of the customers in the sample were reluctant to share their other outstanding financial obligations.

Table 5: Interest rates for the three HMF loans.

Institution	HFC Baofo	Global Access	Sinapi Aba
Interest Rate	36% p.a. (flat rate)	42% p.a. (flat rate) Changed to 60% p.a. in March, 2016	42% p.a. (flat rate) 32% p.a. in 2013

Interest rate:

As discussed in section 3.3, the interest rates vary among the three MFIs. HFC Boafo offers a cheaper HMF service at 36 percent p.a., compared to 42 percent p.a. offered by Global Access (now 60 percent) and Sinapi Aba. The pricing for loan products is commonly suggested to be based on credit risk, cost of funding and operational costs; the subsequent section therefore focuses on these determinants.

Credit Risk

The level of interest rates should be primarily determined by the associated credit risk, not the financing purpose. The conventional HMF loan is not asset-backed and borrowed against household cash flows. These cash flows depend primarily on the customer's business performance when lending to self-employed individuals operating in the informal sector. Thus, enterprise finance and housing finance are subject to the same systemic risks. One argument for the lower interest rates of HMF loans is the longer term and the concern around affordability for the clients. HMF loans are subject to additional endemic risk, such as land dispute and consequently land litigation, as well as poor construction quality. All HMF loans of the three sample MFIs are unsecured and offer slightly larger volumes over longer loan terms. This further increases the risk compared to the enterprise finance portfolio.

Credit risk can be mitigated when financial records of customers' savings patterns and credit history are available. Often these offer reliable estimates of the customers' capacity and willingness to repay. Most interviewed loan officers stated that at least 70 percent of their housing clients were existing clients. In the interview sample, all but two clients were existing enterprise finance clients of the MFI. Global Access initially made HMF loans available to their existing client base only, to mitigate risk.

If the pricing of the HMF services was driven by associated credit risk, new clients would bear a higher interest rate than existing clients. Existing clients often have business, as well as personal accounts, with the MFI and their savings patterns and cash flows are transparent over long periods. This however does not seem to influence the offered interest rates for HMF among the institutions. None of the clients were borrowing at discounted rates. Utilising HMF loans for the construction of productive assets mitigates credit risk by allowing clients to gain exposure to income diversification and to increase revenues for customers' households. This should lower the interest rates for HMF loans invested in income generating assets.

Cost of Funding

In comparison with enterprise loans, housing microfinance loans are cheaper in all three MFIs. A number of loan officers and portfolio managers argue that HMF should be offered at a lower interest rate based on its loan purpose. Traditionally, HMF is not an income-generating loan and should thus be cheaper than enterprise lending. "Compared to the business loan (the interest rate) it is still cheaper. Because there are no direct returns, it has to be a bit cheaper. The current interest on our business loans is 48 percent, while the housing is at 42 percent per annum". A manager confirms this belief in an interview: "Using commercial funds for housing finance is not good, as people expect lower interest rates than for the income generating business loans. We would like to find a social investor with lower interest rates". In light of the prominence of housing entrepreneurs and the construction of productive economic assets with HMF loans, this argument is weakened.

As a subsidiary, HFC Boafo is able to borrow funds from HFC Bank at favourable rates compared to the commercial funding rates. The two other MFIs rely on commercial funding. Additionally, HFC Boafo and Sinapi Aba also access donor funding for certain loans. During the past years, cost of capital increased gradually in Ghana, with a current Monetary Policy Rate of 26 percent[37]. According to Habitat for Humanity, the market borrowing rate for microfinance institutions increased to 38 percent in 2014[38]. These developments were mainly based on the general slowing of the Ghanaian economy and the deteriorating local currency, which at the same time led to an increase in capital costs of international funding.

One of the reasons for Habitat for Humanity International terminating the partnership with Sinapi Aba was the cost of funding that made an introduction of a HMF loan on a commercially sustainable basis unattainable. MicroBuild, a wholesale fund managed by Triple Jump, dedicated to providing capital for housing solutions, was not attractive as its funding is not concessional but based on commercial rates in hard currency[39].

Since the Efi Pa loan was already developed and Sinapi Aba had benefitted from extensive capacity building, it was launched as a complementary loan product with a social goal. At a borrowing rate of 38 percent, on-lending at 42 percent is not a profitable business model but generates sufficient revenue to sustain operations. Cost of funds is Sinapi Aba's greatest expenditure item, with a current cost of funds ratio of 18.33 percent. A Sinapi Aba portfolio manager says: "No other institution in Ghana is so ready. But the commercial funding is limiting our activities. If we had dedicated funding, we'd make a lot of noise. It is a capital intensive operation and we would cannibalise on the business loan portfolio if we offered more housing microfinance loans now. That's why we do it on a lower scale".

[37] Bank of Ghana Website, 22.02.2016.
[38] HfH, 2016.
[39] HfH, MicroBuild Fund Annual Report, 2015.

Currently, Sinapi Aba fund their business through commercial funding (60 percent) and equity and donor funding (40 percent). In 2011, during the duration of the housing microfinance product pilot, commercial funding rates increased from 22 percent to 38 percent[40]. For the pilot phase, Opportunity International made US$ 250 000 available as equity funding, which added up to almost 20 percent of the funding in 2011. Projections that were made in 2011 for the target sales were however not met by the institution, and the partnership came to an end in 2014, based on the economic situation in Ghana. Due to the increase of the commercial funding rate, Sinapi Aba raised the interest rate for HMF loans from 30 percent (initially) to 42 percent.

Bad debt expenses are low for the housing products of Sinapi Aba, with a current default rate of 1.23 percent and a portfolio at risk of 4.13 percent. However, the housing microfinance portfolio contributes to 5.68 percent of the profit of the institution, even though HMF makes up a mere 2.45 percent of the total loan portfolio[41].

This leads to the assumption that the HMF services are profitable but constrain the liquidity of the MFI's capital. Opportunity costs are high, as business loans are currently priced at 48 percent interest and have a shorter turn-over time. A sector expert further emphasises that most funds in the banking system are short-term based and are thus an inappropriate source of finance for longer-term HMF loans, which can have a term of up to 36 months. Additionally, the demand for enterprise lending is not satisfied and thus availing business loans to the clients allows the institution to earn higher revenues.

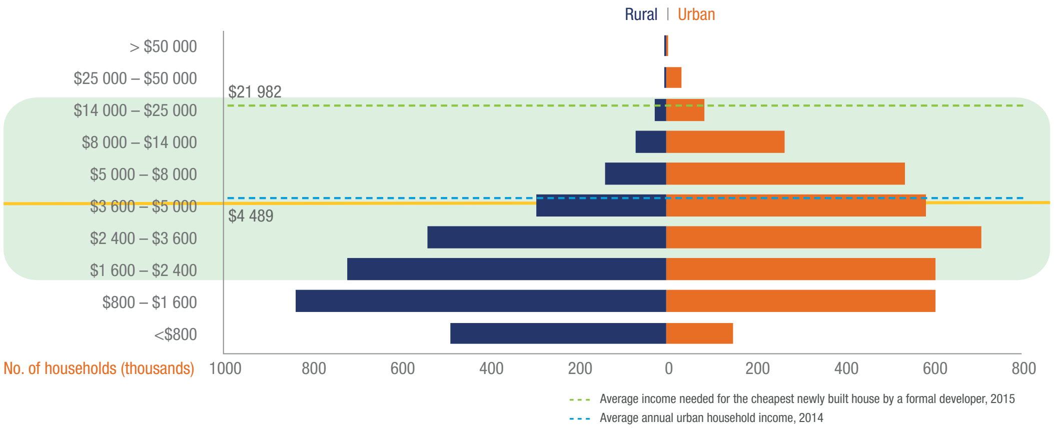
Operational Costs

Costs of operations can have a significant impact on the pricing of financial services. As described in section 3.4, housing microfinance requires more rigorous assessment processes than conventional enterprise loans. Site visits, the validation of land security documentation, as well as face-to-face contact with clients, neighbours, business partners or family members can add to the costs of issuing and monitoring HMF loans. As discussed earlier, the frequent contact moments and strong relationship focus make MFIs especially perceptive of inflationary pressures[42].

Target segment: According to a brief about Habitat for Humanity's closure of the "Building Assets, Unlocking Access" project in Ghana, the housing microfinance services they developed in partnership with two financial institutions in 2012 were intended to serve the very poor segment of the population. The interviewed clients however are not part of this group. Only three of the 27 interviewed clients reported a monthly income of less than GHc 500 (US$ 127); less than a yearly income of GHc 6 000 (US$ 1 519). The median self-reported income of the interviewed clients was recorded at GHc 1 200 a month, which translates to an annual income of GHc 14 000, or US$ 3 645.

The current absolute poverty line in Ghana is defined at an annual income of GHc 1 314 (US$ 333), which is less than a quarter of that of the lowest-income interviewees[43]. The sample of clients suggests that HMF loans now target the middle-income or upper low-income segment rather than the very poor. The initial target group that Habitat for Humanity had in mind would not be able to service the average loan size of GHc 16 500 (US$ 4 181).

Figure 5: Range of annual incomes of interviewed HMF clientele of three MFIs in Ghana.



The interviewed customer sample of housing microfinance services offered by the three MFIs can be found in the income bracket indicated by the green box in Figure 5. The median monthly income of the interviewed clients is only US$ 840 lower than the average household income. This suggests that available HMF services target middle income clients, rather than the low income clients.

40 HfH, 2016.
41 BFA, 2011.
42 Ibid.
43 Ghana Living Standards Survey Round 6 (GLSS 6), Ghana Statistical Services, 2013.

A number of statements during loan officer interviews confirm this hypothesis, "The only problem is the affordability at the moment. We target low income (clients) but it is not accessible to all", said one of the loan officers. A 'Housing the Masses' Ghana representative elaborates that the key challenge in the local housing microfinance sector is "the development of a realistic low income housing product that would not end up catering to the middle income market instead". Although, as suggested above, the interviewed customer sample is neither representative, nor sufficiently large to allow inference about the general housing finance clientele of the MFIs. Sinapi Aba, for example, has a much smaller average loan size of GHc 3 600 (US$ 912) per client.

4.4 Operational Challenges

Loan officers report that the requirements for the appraisal and administration of the HMF loans are "quite challenging", and that field visits are often "time-intensive". As discussed previously, low- and moderate income earners commonly purchase land at the periphery of urban centres due to affordability concerns. HMF customers can be scattered geographically and are commonly located far from the MFI branches. In contrast, enterprise loans require a visit to the business location, which are often more centrally located. One loan officer admitted during the interview that even though the demand is greater, he cannot sell more than five housing microfinance loans per month, due to the workload of assessment and monitoring. A Sinapi Aba relationship officer perceives the "Efi Pa" loan to be more work-intensive during the application phase. "With the application, the workload is more on the housing loan site. You have to check the demarcations. Some of them live far away, you might drive for more than an hour or two".

According to the loan officers, the key challenge of the HMF loan appraisal process is the thorough assessment of the business and the validation of the authenticity of land documentation. The assessment of the client's capacity, based on cash-flow estimates of the informal businesses, seems to be a bottleneck, even though most HMF clients already have a file or account at the MFI and might have taken out an enterprise loan before.

When asked for priority topics for a loan officer training programme, the majority of interviewed employees and staff mentioned the assessment of the client's capacity as topic for potential improvement. Housing microfinance requires the loan officers to evaluate the capacity of the existing business, as it facilitates the repayment of the HMF loan, as well as to forecast future prospective revenues, when the loan is used for business construction.

Another loan officer in Accra agrees: "There are some techniques that are important. For instance if you have a client who needs a facility to build a school, you need to know how to assess the client's business well. Those are the things that need to be trained. When you visit the client and he doesn't have a sales book, you take sales of random days. Yesterday, last week, and so on. We speak to business colleagues, landlords, residents". Loan officers predict cash-flow of businesses based on sales, available stock and testimonials. "We also help them to do a cash-flow analysis and we are looking at the stock that they have. We have conversations, and observe sales, so we can make an assessment. We are looking at both, business and household expenses".

Loan officers, seem to struggle with a rigorous analysis of the household cash-flow, but this is an important prerequisite for housing microfinance. In their mid-term report of 2011, Habitat for Humanity finds that Sinapi Aba staff require training in household cash-flow analysis. This is motivated by the fact that HMF loans are repaid based on disposable household income. An underestimation of household expenses can therefore lead to delays or defaults in repayments[44]. One of the loan officers suggest that even though the assessment might be done correctly, the capacity of a client can be overstated in some cases: "We'd probably train on assessment. Some of the officers want to meet their targets, so they try and modify the application in a way that the client will get the loan. So there is a temptation to manipulate the assessment tool".

Sometimes loan officers are unsure of the projections and estimates clients are providing for their building projects, especially when they have not gained a lot of experience with HMF. "If loan officers could know whether 30 bags of cement are sufficient to build a bedroom that would be helpful", says a loan officer from Sinapi Aba. Another bottleneck is the differentiation between genuine and false land documents, such as indentures or site allocation plans. Three of the interviewed loan officers, each from one of the three MFIs, feel that a training to detect fraudulent documentation could increase the quality of their loan assessments.

The credit manager of HFC Boafo acknowledges this challenge and prioritises the topic for loan officer training programmes. "The priority would be to appreciate the legalities of land documentation. What happens is the credit committee might defer a loan application based on the fact that the documents relating to land ownership are not properly done. If the loan officers had a good understanding of the processes of obtaining such documentation, they could advise the clients better".

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44 BFA, 2011.

None of the three MFIs offer construction technical support or consultation with respect to building materials and project plans. A representative of 'Housing the Masses' in Ghana explains that the building quality is generally low as innovative construction methods and alternative building materials that could improve quality and reduce cost are not accepted culturally. Most Ghanaians seem to prefer traditionally build brick and mortar housing. As discussed in section 2.2, most Ghanaian households rely on SME contractors to build their homes, who commonly use traditional building practices.

Sinapi Aba's partnership with Opportunity International, Habitat for Humanity Ghana International's (CISF) and International Land Systems ended in 2014, during which time they provided construction technical assistance, as well as consultation and support in obtaining land titles for clients. Since the termination of the project, relationship managers and loan officers validate the proposed construction plans of clients and provide technical assistance where possible. This adds to their workload and is not their mandate. One relationship officer said that he is also concerned about the legal implications if the technical advice offered is unsound potentially leading to a building collapsing or bad quality delivery once completed.

Part of the project involved the preparation of property folios, which included site surveying by external surveyors, who also valued the client's existing buildings and produced a document required for the application for a land title by the Land Commission. This was funded by donor subsidies during the pilot stage but is still offered, according to the MFI.

Three quarters of the interviewed clients agreed that technical assistance and support in obtaining land titles is valuable and expressed a willingness to pay for the service, given that it is affordable and payable on a monthly basis with the instalments. Throughout the management interviews it became evident that strategic partnerships with non-governmental organisations or private sector companies is not the preferred mode of delivering housing support services.

Instead, the preferred solutions seem to be the development of internal capacity within dedicated units or teams to support the loan officers. "It would be better to have a dedicated unit that is supervising the construction then to have external consultants", says Sinapi Aba's housing finance area manager. The operations control manager of HFC Boafo also suggests that a dedicated department for housing support services would be the optimal solution to facilitate technical assistance services and support clients in obtaining land titles. A less prescriptive form of technical assistance would be the referral of artisans and building material suppliers. "We currently are working on a project in the field of construction where capacities of artisans are being build up. And then a database will be created for these people. So maybe in the future, since we are part of the project, we can do referrals".

5. Opportunities and Recommendations

There are a number of opportunities for MFIs, sector stakeholders and governmental institutions to grow the HMF sector for self-employed clients in Ghana. Some of the recommendations concern the macroeconomic environment and legislative framework of the sector, while others address the microeconomic environment of financial services providers and consumers.

5.1 Opportunities and Recommendations: Government and International Organisations

The first set of recommendations outlines opportunities for policy makers, as well as international organisations to support the development of adequate guidelines and a legislative framework for small-scale construction and rental enterprises.

5.1.1 Improving Construction Quality and Safety

The construction quality of self-build housing is important for the sustainability, resilience and safety of the personal dwellings of Ghanaians. If self-built houses are associated with poor quality, housing microfinance ultimately fails to facilitate the provision of adequate housing to low-income earners. Construction projects of inferior quality will ultimately impact on loan repayments and portfolio quality of the financial institutions. During the research it became evident that the majority of housing microfinance clients have limited knowledge of good building practices. Low-income households often rely entirely on the knowledge, skills and judgement of artisans. Certain site visits revealed poor choices of construction location (for example, in a trench that seemed prone to flooding during the rainy season) and signs of poor quality artisanal work (for example, holes in brick walls).

The need for housing support services in form of construction technical assistance is even more pronounced for construction and rental entrepreneurs. Structures that are built to house a large number of tenants or frequented by many people (e.g. schools, churches and shop fronts) have to meet set standards for quality and safety. While a private home owner has personal incentives to ensure the quality and durability of his or her home, construction entrepreneurs might be biased towards monetary incentives. Maximising the financial returns of a construction project can lead to awarding building projects to the artisans providing the cheapest quote, regardless of construction quality.

The discussion of safety standards for self-built housing also raises questions of legal responsibilities for accidents during the construction stage or after completion of a building, financed by housing microfinance products that were bundled with construction technical assistance services.

Promote research and data collection: Microfinance institutions are well positioned to become a key player in the housing value chain of the low-income market segment in Ghana and could therefore provide a valuable point of intervention to improve construction quality of affordable housing. This requires further sector research.

Objectives of the research:

- To form a better understanding of the required construction technical assistance services, and current building practices among the low-income segment and construction entrepreneurs.
- To gain insights into best practice partnership models to deliver construction technical assistance.
- To develop an understanding of industry standards among small and medium-sized enterprises operating in the construction industry.
- To get an understanding of potential financial incentives and business models for CTA (as indicated above, most sampled clients expressed a willingness to pay for housing support services, including CTA).
- To understand the role and responsibilities that MFIs are willing to take regarding the quality and safety standards of buildings and the associated potential risks they face in taking this on.

This research could inform the design of a regulatory framework that defines roles and responsibilities of construction entrepreneurs, SME artisans and financial institutions to adhere to defined safety standards. It could further inform the development of public private partnership models to ensure the enforcement and monitoring of these safety standards.

Example: The development of a country-wide database for skilled and qualified artisans could reinforce industry standards and allow MFIs to make valuable referrals to HMF clients. Capacity building interventions for artisans based on a registry could further support these objectives and at the same time contribute to the objectives of the National Housing Policy to promote innovation and the use of local building materials.

Currently, the Artisans Association of Ghana (AAG) is hosting a youth employment programme, aiming at equipping more than 23 000 young Ghanaians with construction technical skills in five urban centres. Partner organisations of the Youth Inclusive Entrepreneurial Development Initiative for Employment (YIEDIE) programme include international organisations such as Global Communities and MasterCard Foundation, as well as HFC Boafo, one of the case study HMF providers.

One prospective outcome and/or extension of the programme could be a database accessible to all MFIs, allowing referrals based on certified technical skills. This database could benefit from the buy-in of government bodies, such as the Ministry of Employment and Labour Relations to offer incentives for artisans to register. Direct disbursement options to those artisans registered could provide additional incentives to obtain required certification to be listed in the registry.

5.1.2 Subsidise Housing Microfinance for the Poor: Housing Trust Fund

The study indicates that while all three MFIs offer housing microfinance loans, none of them currently provide financing for residential housing for the poor. Instead, the current products are contributing towards improving the standards of living of upper low-income and middle-income market segments, albeit often indirectly, by improving and diversifying household revenues.

To fulfil the original mandate of housing microfinance services of contributing towards construction of residential housing for poor people through loans for self-built incremental housing, subsidies need to be made available. These subsidies are required against the backdrop of the current macroeconomic context in Ghana (outlined above), which makes the use of commercial capital for housing microfinance loans on a sustainable basis impossible.

Opportunity costs are high and HMF loans strain the liquidity of the MFIs. Targeted subsidies in the form of concessional wholesale loans priced at lower rates than commercial funding can encourage MFIs to continue developing and innovating housing microfinance products. Once sufficient capacity is built in the sector and scale has been reached, HMF loans can generate sufficient returns for financial self-sufficiency.

One potential instrument for targeted subsidies could be a dedicated national housing trust fund (NHTF), offering wholesale lending to eligible savings and loans companies and microfinance institutions. Ghana Home Loans, the country's largest mortgage finance institution benefits from long-term project finance of development financial institutions, such as KFW, a German development financier which explicitly aim to support the development of an affordable housing market in Ghana. As outlined above, Ghana Home Loans' mortgage products currently far exceed the financial capacity of the majority of Ghanaian households. To reach the low income segment, available funds of development financiers could be invested into a dedicated trust fund, and on-lent to eligible financial intermediaries offering HMF services. This would require the engagement of an eligible government body to manage the NHTF and to ensure sound market conduct and lending practices among the financial institutions receiving capital through the fund.

Currently, the Ghanaian government is seeking to establish partnerships with financial institutions and property developers to move their existing offering down market, and therefore to increase affordability of formally developed houses. One example is the agreement of the Department of Rural Housing to collaborate on an affordable housing scheme for middle income and lower income land owners with Ghana Home Loans, signed in 2015. These efforts however serve the upper low income segment and middle income segment, and do not provide affordable housing to the majority of Ghanaian households.

In order to adequately capitalise the housing microfinance operations of MFIs, further research is required to assess the feasibility of the establishment of a NHTF and to then identify best-practice models, matching Ghanaian market characteristics.

Promote research and data collection: The recently established partnership between MWRWH and KNUST aims at providing research-based, tailored housing solutions for poor and low-income households. The Ghanaian Centre of Excellence in Housing Studies is part of the College of Art and Built Environment of KNUST and is mandated to offer accurate and reliable data to inform effective governmental housing interventions. This platform could be supported by international organisations through the provision of funds and technical support.

Objectives of the research:

- To assess the economic viability of a dedicated housing trust fund and its adequacy in terms of improving housing access for low income households.
- To establish the criteria for eligible on-lending institutions.
- To evaluate the interest and commitment of international and national potential funders.
- To analyse the regulatory environment with respect to the funds, functions and operations.

Dependent on the outcomes and recommendations of the study, a national housing trust fund could be established in Ghana to subsidise the housing microfinance portfolios of savings and loans houses, as well as MFIs, until the macroeconomic conditions allow for a viable use of commercial debt.

5.2 Opportunities and Recommendations for Financial Services Providers and International Organisations

Despite the dire macroeconomic environment, all three financial institutions can benefit from the identified opportunities of the Ghanaian HMF sector. In order to make informed strategic decisions, MFIs need to analyse and monitor operational and financial cost centres, and carefully assess the target market segments for their HMF loans. International organisations can offer technical advisory services to the financial institutions, develop knowledge sharing platforms and offer capacity building programmes for MFIs.

5.2.1 Cost Based Pricing

As discussed in the preceding section, the pricing of HMF loans should consider associated credit risk, costs of funding and operational costs. The motivation to charge lower interest rates for housing loans than for enterprise loans is flawed, as unsecured housing finance is conventionally associated with higher risk and longer terms. The argument that housing finance is a non-productive investment and therefore needs to be more affordable than enterprise lending is well-received by clients, but debatable with respect to long-term growth and profitability of the portfolio. The extremely low non-performing loans (NPL) rates for housing loans among all three MFIs could motivate for lower interest rates for HMF in Ghana—this however has to be determined through analysis.

The three MFIs could benefit from a shift in their pricing strategies towards cost-based and risk-related interest rates. None of the MFIs were able to accurately quantify the resources spent on delivering non-financial services to housing clients (for example, business skills development training), or offering housing support services (for example, validation of land title documents). A thorough understanding of the costs centres of HMF can inform strategic decisions to reduce expenses, outsource services, revisit the business model, or change loan specific procedures. An initial result could be the stream-lining of loan appraisal and loan monitoring processes to eradicate duplicated tasks and responsibilities, without negatively affecting the rigour of the process. Cross checks constitute an effective method for controlling for credit risk.

Example: Even though the three MFIs have benefitted from institutional capacity building to varying degrees, it seems that interventions were limited to product development and the transfer of housing-specific technical skills. Consultation could improve the processes of HMF delivery, reduce operational costs, and promote the institutional integration of the product into the MFIs' existing structures, which seems to be problematic at present.

In order to promote the development and growth of the entire HMF sector, donor funding could support those MFIs, looking to advance their operations. An industry platform to share best-practice principles and lessons learnt could prevent the consultation to negatively impact on the competitive landscape of the sector. This initiative could be housed at a tertiary institution, such as KNUST.

5.2.2 Developing New Products

Based on the prominent trend of channelling HMF funds into the construction of income-generating assets, MFIs could benefit from developing loan products which are a better fit for the needs of the entrepreneurs. Construction entrepreneurs use HMF to diversify their income, or to increase their existing revenues through expansion and renovation of productive assets. Construction microfinance loans could curb the negative effect of business cycle contraction on the HMF portfolio of MFIs. Additionally, the business orientation of these clients aids the mitigation of credit risk. Lower interest rates, as well as larger loan amounts and longer terms, can facilitate the incremental building of productive assets and support entrepreneurs with unlocking the economic potential of existing assets, such as idle properties.

As indicated above, the distribution of interviewed clients who invest in productive assets versus those who build personal dwellings with the housing loans might be skewed due to selection bias. Out of the case study sample of 27 interviewees, 18 clients develop productive structures. This corresponds to more than 66 percent of the sampled portfolio. During the workshop in Accra, MFI representatives confirmed the trend, but acknowledged the biased sample. Portfolio managers and loan officers exposed the researchers to the projects and achievements of construction entrepreneurs, as they are more appealing to demonstrate the success of HMF loans. Never-the-less, the trend is welcomed by the three MFIs, and thus it is recommended that this business case be evaluated.

Clients who presently use HMF for entrepreneurial activities seem to have a pronounced need for infrastructure financing to guarantee water access, sanitation facilities and reliable power solutions for tenants, occupants or visitors. They further often require business skills training, which is currently only offered by Sinapi Aba: The organisation sells dedicated loan products for registered schools, bundled with enterprise training to support school principals in managing the seasonal cash-flows. Due to the size of the construction projects, larger loan amounts need to be made available over longer periods of time. As mentioned above, construction technical assistance in order to ensure quality and resilience of the buildings are important for this market segment. CTA therefore needs to be integrated into the loan appraisal and disbursement procedures.

Promote research and data collection: To develop new loan products for construction or rental entrepreneurs, market research in the form of an in-depth scoping study is required. The research should be client-centric and conducted in cooperation with the financial institutions. This research can either be financed by MFIs who see an opportunity in the market, or could be funded by sector stakeholders to promote market development and diversification of MFIs, and thus increase sustainability of their operations and engagement in the housing sector.

Example: One outcome of the cooperation between consulting organisation and MFIs could be an innovation hub, allowing the financial institutions to access technical support and funding to test novel applications of technology for financial, as well as non-financial services. For example, the utilisation of mobile money technology for collection procedures, or offering CTA services in form of SMS-based client communication using iterative systems. This innovation hub for affordable housing finance could be housed at a Ghanaian university supported by government bodies, commercial financial institutions and international organisations. Published learnings and findings could advance the growth of the HMF sector without impacting on competition.

5.2.3 Capitalising on the Client Relationship

The three sampled MFIs seem to be in agreement about the reputational gains of offering HMF loans. "I think the value added is very high. A lot of customers, a great share of the population, want to own property and housing. So we are providing them with a key need, (…) it positively contributes to our image", says HFC Boafo operations control manager. "Clients appreciate housing microfinance. It adds positive connotations to our institution". Clients seem to choose financial institutions based on soft factors like trust and former experience, rather than solely on the pricing of the products.

The majority of interviewees admitted that they did not compare prices before choosing an HMF loan, but that a friend or family member had referred them to the respective MFI for the housing loan instead. When asked whether the clients would themselves recommend the HMF service, the majority said they did so already. Long standing client relationships are important to achieve scale with HMF loans. Furthermore, the time and costs of a client's loan application and assessment decreases gradually, as the verification of land ownership, as well as construction site sketches and other steps, become redundant once completed. The profit margin of HMF loans increases in the number of loan cycles of a single client (even more than in the case of enterprise loans).

Example: Removing hassle factors can enhance customer retention of an MFI. Global Access could benefit from introducing regular cash collection services, which seem to be of great value to the clients of Sinapi Aba and HFC Boafo. An incentive scheme of decreasing interest rates for second, third and fourth loan cycles could nudge clients into staying with the MFI and completing their building projects faster. A general client-centric approach to product and process development is recommended to attract new clients. This could either be achieved through availing technical advisory services to the MFIs, or through a shared platform – such as the innovation hub – described above.

6. References

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