

Building Sustainable Housing Finance Systems: Impacts of the European Fund for Southeast Europe¹

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1 Introduction

Access to credit and in particular micro credit is today recognised as an important instrument in the fight against poverty³. They enable poorer segments in society to create economic and social development from below and to actively participate in economic development. Similarly, providing households access to housing loans is often important for improvement of their living conditions, especially so in post-conflict and transitional country environments. This requires a financial sector which is capable of efficiently channelling financial resources to those most in demand of finance, without distorting market conditions and without jeopardizing the health of the financial sector. In line with this philosophy the European Fund for Southeast Europe (EFSE) was launched in December 2005.

1.1 History of the European Fund for Southeast Europe

“Southeast Europe has experienced the largest refugee crisis in Europe since World War II”.⁴ The conflict which so dramatically impacted on the region during the 1990s took place in countries already undertaking substantial political and economic liberalization transitions. It was in the international efforts to subsequently assist the reconstruction and development of this region that the European Fund for Southeast Europe (EFSE) emerged. EFSE is the successor to four revolving finance funds established by a group of bilateral and multilateral donors to support development and reconstruction in Bosnia and Herzegovina in 1998, in Montenegro in 2000, in Serbia in 2001 and in Kosovo in 2002⁵. The Fund provides long-term finance to micro and small businesses, and households, through local partner financial institutions in the southeast European region⁶. At its start EFSE inherited a total investment portfolio of more than € 130 million with more than 30 partner-lending institutions (PLIs) from the preceding funds. With these revolving finance funds the participating European donors created a credit facility for post-war reconstruction in this region. Similar lending programmes were also implemented in Bulgaria and Romania.

The strategy underlying the predecessor funds of EFSE was to complement direct reconstruction efforts with interventions to build effective domestic financial systems. The funds aimed to support small and medium sized enterprises and private households through strengthening a stable and competitive banking sector, building on sustainable market mechanisms. By providing refinancing to both banks and micro-finance institutions for onlending to households and small enterprises, the funds

³ The importance of micro credits in economic and social development was recently confirmed by the awarding of the Nobel Peace Prize for 2006 to Muhammad Yunus and the Grameen Bank from Bangladesh.

⁴ Council of Europe Development Bank: *Trends and Progress in Housing Reforms in South Eastern Europe*, 2005, p. 95.

⁵ Reference in this paper to EFSE includes also EFSE's predecessor funds, unless otherwise specified.

⁶ EFSE has also established a development facility, which provides PLIs with technical assistance to strengthen their operational capability and professional management. The impact of this facility is not examined in this paper.

sought to address a range of needs, with special emphasis on assisting those most affected by the conflict.

From the start of the predecessor funds to mid-2006, EFSE had distributed € 268 million covering three main product lines, namely micro and small enterprise lending (52%), housing finance (34%), and rural loans (14%). This paper examines the impacts of the housing finance component of EFSE's activities, representing disbursements of € 90.3 million. As 70% of this housing finance component has been disbursed in two places, namely Bosnia and Herzegovina (BiH) and Kosovo, the study concentrates in these places. The objective is to assess the extent to which EFSE's interventions have built sustainable housing finance systems to the ultimate benefit of household end-users. As such, the study examines the impacts that the EFSE-financed housing loans of PLIs have had on the final household borrowers, on the local financial institutions themselves, and on the domestic financial sectors.

Both BiH and Kosovo were profoundly affected by the conflict that swept the region in the 1990s. Post-conflict cooperation in the field of housing loans between EFSE and PLIs in BiH started in 1998, and with partners in Kosovo in 2002. The study focused on a group of twelve⁷ PLIs including eight commercial banks and four micro-finance institutions (MFIs) in the two regions. By June 2006, EFSE had disbursed € 46.6 million to eight of these PLIs in BiH, and € 7.2 million to the remaining four in Kosovo. These PLIs in turn had issued over 9,000 housing loans to end-users, 6,448 in BiH and 3,006 in Kosovo by June 2006. However, as the study shows the housing finance market and system triggered by EFSE financing has grown significantly larger.

1.2 EFSE Impact Study 2006

EFSE conducted an impact study in 2006 of its housing finance activities. The main objective of the study was to evaluate the development impact of the housing loan portfolio at the client / sub-borrower, PLI and financial sector levels. The study included an extensive survey of 473 households in BiH and Kosovo, including client and control groups. The latter with housing loans from other institutions (32) and without housing loans (95). Impacts were analysed according to their impacts on the physical, human, social and financial capital value of households, and on their participation in the formal financial system.

A financial and product survey and in-depth interviews were conducted with the twelve PLIs, and with four competing (non-EFSE financed) banks. Detailed case studies were also conducted of ten households and four PLIs. The main financial sector agencies and regulators in BiH and Kosovo were interviewed, and substantial public economic and financial reports were analysed. The main study

⁷ To date fifteen PLIs have accessed EFSE housing finance loans in BiH and Kosovo. Two PLIs which have recently entered a relationship with EFSE, and one PLI which has had minimal activity in housing lending, were not examined.

period covered three and a half years from 2003 to end-June 2006, although where relevant legacy impacts from prior to 2003 were examined.

For the analysis, the twelve PLIs were divided into three main types, namely the four MFIs, six smaller banks (three each in Kosovo and BiH), and two large banks, the latter operating only in BiH. Housing loans were grouped according to two main purposes, namely 'construction / purchase' loans related to new acquisition of housing, and 'improvement / expansion' loans related to enhancement of existing housing.

1.3 Structure of the Paper

Following this introduction, in the second section of the paper a background is sketched of BiH and Kosovo and especially the rapid development of their financial sectors. The third section examines the housing finance portfolios of PLIs created in BiH and Kosovo by EFSE financing, including the characteristics of their loan products and end-users. The outcomes and impacts of housing loans for households are explored in depth in the fourth section, before attention is turned in the fifth section to the impacts on the PLIs themselves. The final concluding section considers especially the extent to which EFSE interventions in housing finance have built sustainable housing finance systems.

2 Housing and Financial Sector Development in BiH and Kosovo

The southeast region of Europe has undergone a wide-scale political, economic and financial transition that continues today. BiH and Kosovo, both active participants of these reforms, have moreover been considerably affected by the conflict that swept through the Balkans in the 1990s. These post-conflict environments characterised by drastic changes have been the context for EFSE interventions in housing finance. The assessment of the impacts of interventions such as those made by EFSE is particularly complex in an environment, which changes as dramatically as in this region. In such an environment it is more difficult to isolate the impacts of EFSE's interventions from the overall changes and developments taking place. For this reason this section begins with a brief discussion of the political and economic context in which EFSE has operated in BiH and Kosovo, which also frames the housing sector developments discussed thereafter. The tremendous changes and growth to their financial and especially banking sectors are then highlighted. This forms the framework for further analysing the impacts of EFSE within the market.

2.1 Political and Economic Reform

BiH has a population of around 4 million inhabitants. BiH was recognised as an independent and sovereign democratic state by the United Nations in 1992. Not all parties involved accepted the declaration of independence by BiH (and Croatia and Slovenia), however, resulting in a war during the 1992 to 1995 period. The war ended in 1995 with the Dayton Peace Accord. The Office of the High

Representative headed by international officials is mandated to establish integration of the country and to monitor the implementation of the Dayton Peace Accord.

The BiH economy grew rapidly since 1995 among others as a result of an economic reform programme. This programme was supported by the international community with large volumes of aid funds. A large number of reforms are being undertaken, including in the banking sector, privatisation and liberalisation of labour and product markets, and liberalisation of international trade. Introduction of a currency board in combination with strict fiscal discipline has contributed considerably to economic stabilisation and therefore to overall political stability, economic development and improvement of the investment climate. As an illustration, Moody's Investor Service has recently⁸ upgraded BiH's credit rating from B3 with positive outlook to a B2 rating with a stable outlook.

Kosovo is a semi-autonomous region of about 2 million inhabitants under the supervision of the United Nations. Kosovo received a special status under UN administration in 1999, and after elections in 2001 Provisional Institutions of Self-Government were established. Negotiations about Kosovo's final political status started in March 2006. During the earlier years of its semi-autonomous status Kosovo experienced an economic boom with annual growth rates of around 20%. This bright economic performance was mainly fuelled by remittances and international aid.

Kosovo made great progress in reforming its economy through the introduction of an open market economy. With inter alia privatisation, reform of the financial sector, and the introduction of rules and regulations to accommodate reforms, substantial progress has been made in the implementation of liberal market policies. The introduction of the Euro as the de facto local currency in 2001 has contributed significantly to macroeconomic stability. In spite of these reforms Kosovo's economic structure is still weak. Its industrial base is small and industries face difficulties competing in the international market, reflected in a substantial trade deficit. Due to the unclear political status of Kosovo the confidence of foreign investors is low and investments remain below what is required for long-term economic growth. The situation is further threatened by the current declines in both foreign aid and remittances. As a result unemployment is estimated at between 30% and 40%, and economic growth slowed down considerably to negative growth in 2005, although it recovered in 2006 to an estimated 3%.

2.2 Housing Sector Challenges

The housing sectors and the national housing stocks in BiH and Kosovo were affected both by the underlying political and economic transition in the region and the accompanying privatization of public and/or socially-owned housing, and dramatically by the conflict.⁹ It is estimated that 2.5 million people in BiH were displaced by the conflict. Some 445,000 homes are estimated to have been partially or

⁸ May 17, 2006.

⁹ This section draws extensively from Council of Europe Development Bank: *'Trends and Progress in Housing Reforms in South Eastern Europe'*, 2005.

completely destroyed, representing 37% of the pre-war housing stock. Internationally supported efforts to reconstruct housing have been considerable with almost 40%, around 164,000 units, reconstructed by 2004. However, it was estimated by UNHCR that over 200,000 displaced persons and refugees in BiH still required durable housing solutions in 2005. Almost 190,000 housing units remained damaged or destroyed by 2004 estimates. Regarding tenure structure, housing stock privatization has resulted in owner occupier levels of almost 80% by 2001, although 9% of the housing stock remains public sector rental housing, the highest percentage for Southeast Europe. In 2002, less than 5% of dwellings in BiH were serviced with central heating, and while over 70% of households have piped water, only 20% have piped sewage. BiH therefore faced considerable challenges not only in addressing the damage on the national housing stock caused by the conflict, but also in bringing the remaining housing stock to better quality level. Systemically, while sector reform progress has been made, challenges remain inter alia regarding the cadastral and legislative systems.

The housing sector in Kosovo was even more strongly affected by the conflict. Between 30% and 50% by some estimates of the pre-existing housing stock of approximately 250,000 units were either partially or completely destroyed. It is estimated that more than one million people were displaced by the conflict in Kosovo. And while general population growth in the wider region over the last two decades has been modest (less than 0.5%), there has been considerable pressure on urban areas as a result of cityward migration. Prishtina, for example, has increased its population from 250,000 to 600,000. The international donor community made significant interventions in housing reconstruction in Kosovo, replacing 13,500 units in 1999, 29,000 in 2000, and 8,800 in 2001. Nevertheless, in 2005 UNHCR estimated that there were still over 22,000 displaced persons in Kosovo requiring durable housing solutions. The privatization of housing stock has taken place rapidly. The tenure structure in 2002 already showed a high proportion of owner-occupation (95%), with only a small fraction (1.4%) of public rental housing remaining. The combination of war damage, together with urban migration, therefore left Kosovo alone in the region with a housing stock deficit of 70,000 units in 2003. In addition, there remains a need for general maintenance and improvement in its existing housing stock, with much of the stock aging, and reflecting inferior building materials and construction of the past. Regarding basic services, in 2002 just 60% of households in Kosovo were serviced with piped water and sewage. More broadly, the housing sector faces challenges also regarding outstanding property claims from the conflict, and development of the legislative and institutional framework for housing.

2.3 Financial Sector Growth

Both BiH and Kosovo have experienced phenomenal growth in their financial and banking systems in the post-conflict period. The total assets of banks in BiH have grown by 26% per annum from € 2.99 billion at the end of 2003 to € 6.2 billion by mid 2006. In Kosovo, annual growth has been even faster at 36% from € 589 million at the end of 2003 to € 1.06 billion by March 2006. This reflects substantial reform in the financial sectors and reorganisation in the banking industries which continues today.

2.3.1 Bosnia and Herzegovina

While the banking sector in BiH was extremely weak at the end of the war, considerable achievements have been made to strengthen the sector. New banking laws have been put in place and the sector has almost completely privatised, with the majority of assets now also under foreign ownership. Consolidation was one of the keys to modernising the sector, and the number of banks has declined from 72 in 1998 to 33 today. Due to this restructuring the BiH banking sector is much healthier and more dynamic than before and most likely also more dynamic than the non-financial corporate sector. Confidence in the financial sector has grown considerably during this period, seen inter alia by the increase in deposits entrusted to the banks, and the increase in the use of the banking system for settlements and value storage rather than cash.

During the early years of reform in BiH, foreign investors were reluctant to invest due to the uncertain political and economic situation. As a result Bosnian banks did not have access to foreign funding except from donor-financed investment funds, such as EFSE, or to a limited extent from the mother companies of the foreign owned banks. This was in particular problematic regarding funding of loans and of long-term loans in particular. Today this situation has improved as can be witnessed by residents increasingly entrusting their savings to the local banks in the form of deposits and because access to foreign funding resources has improved.

Total bank assets in BiH about doubled from 2003 to just over € 6.2 billion by mid-2006, with cash and loans growing especially rapidly (loans have grown by 17.4% per annum). Deposits have grown slightly faster than liabilities, and the loan-deposit ratio has decreased from 80% in 2003 to 77.3% in mid-2006. The share of private sector lending in total loan portfolios of the banking sector in BiH increased over time, with loans in this sector almost equally divided between loans to private enterprises and households. Almost one quarter of loans to households was for housing purposes, and the rest for consumer goods. While the maturity structure of deposits has lengthened (facilitated since 2002 inter alia by the Deposit Insurance Agency in which twenty-one banks participate representing 97% of total savings), the demand for longer maturity loans has grown even faster. Banks therefore face growing difficulties in financing their longer term lending activities.

Interest rate spreads are relatively high in BiH, with interest on loans to non-financial corporations varying between 13% and 15% and seen to have decreased to as low as around 7% to 8.5% for housing loans to households in mid-2006. Interest rates on deposits range to 4% in some banks. Importantly, interest rates on lending have been decreasing and on deposits increasing over recent years, and especially in the very recent period. However spreads remain generally high as sector reforms continue and banks carry comparatively high overheads. The obligatory reserve requirements of the Central Bank contribute further to costs. BiH's recent upgraded credit rating will improve access to international capital markets.

The financial sector in BiH is far healthier today than previously. One of the most striking trends has been the entrance of foreign-owned banks into the country, mainly through the takeover of domestic banks. This has brought efficiency and competitive benefits, and the larger mostly foreign-owned banks appear to be competing more as further concentration continues. To some extent, however, the sheer pace of growth of the banking market has tended to reduce competition.

2.3.2 Kosovo

In Kosovo, the formal financial sector includes six private banks (the two largest entirely foreign owned) and eighteen non-bank financial institutions of which fourteen are MFIs. Total assets of the banks have grown tenfold from just over € 100 million in the year 2000 to more than € 1 billion by mid-2006. Loans by these banks to the public have increased from less than 20% of total assets in 2002, to approaching 60% by mid-2006, with deposits growing rapidly as well (total deposits increased from 20% of GDP in 2001 to 35% in 2006). The loan-deposit ratio has increased from virtually zero to 70% over a period of just six years, approaching the limits set by the financial regulators. The banking sector has therefore grown phenomenally in Kosovo, and banks have funded most of their increasing lending activities from domestic deposits.

In 2006 about one quarter of bank loans were issued to households. Over the preceding two years there was a strong trend of lengthening in overall bank lending, with loans longer than two years growing from 32% to over 50% from 2004 to mid-2006 (especially in corporate lending, but also in households). The portion of household loans of over two years grew from 62.8% to 69.8% over the period. The introduction of mortgage lending in 2006 contributes to the lengthening of maturity structures. Since EFSE housing loans had on average longer maturities, this facility clearly contributed to this trend.

The structure of bank deposits in Kosovo also lengthened, as deposits longer than three months rose from 35% to 40% of total deposits between 2004 and mid-2006. This reflects inter alia growing confidence in the banking sector, although a significant amount of domestic savings is still deposited outside of Kosovo (around € 1 billion by some estimates). The growth of long term deposits has not kept pace with the demand for long term loans, with long term loans as a percentage of long term deposits rising from 100% in 2004 to 130% in mid-2006. Borrowing from abroad could bridge the growing term mismatch between loans and deposit structures, but access to international capital markets remains limited. As one of very few such lenders in this market the EFSE fund has therefore played an important role beyond what is suggested by its relatively low share of total liabilities.

Interest rate spreads are high in Kosovo, with loans averaging around 12.5% to 13% (and decreasing only slightly from 2003 to mid-2006), and interest paid on twelve-month deposits between 3.5% and 4.25%. This is partly explained by perceived lending risk, although when bad loan provisions (approximately 2.5%) are removed the spread remains high. This suggests lack of competition among banks (concentration indices show three of the five banks dominate the market), high barriers to entry due to the uncertain political status of Kosovo, and operational inefficiency (although improvements

were seen, especially in the larger banks). The larger and foreign owned banks are growing more rapidly than the smaller banks in Kosovo, with the three largest comprising 80% of total assets, deposits and lending. In the context of such rapid market growth, price competition is limited, although product competition is somewhat increasing.

The financial sector in Kosovo is affected by the unclear political status and the related high risks. International capital markets are virtually closed for banks with respect to funding of their lending activities. The relatively large balances the local banks are holding with non-resident banks also reflect a risk adverse attitude, as is also illustrated by the large amounts of savings deposited abroad. In such a situation domestic (long-term) deposits, equity and loan support from mother companies in the case of foreign owned companies, and support from donor driven investment funds, such as for example EFSE, EBRD, European Investment Bank and World Bank are extremely important, in particular regarding long-term funding.

2.4 Conclusion

A lot of progress has been made in rebuilding the economies of BiH and Kosovo after the conflict that affected the region. Following complex political reforms (ongoing especially in Kosovo), substantial economic liberalisation and reforms have been undertaken, rewarded by positive economic growth (although the situation in Kosovo remains weaker). The housing sectors in both BiH and Kosovo face serious challenges, exacerbated especially by the conflict. Financial sector reforms have resulted in booming growth in the financial and especially banking sectors in both places. Reorganisation in their banking industries has seen inter alia industry consolidation, the strong entry of foreign ownership, and growing professionalisation within the sector. Further consolidation in the financial sector in BiH is expected, and greater competition is likely in both BiH and Kosovo. While banks have to date financed their fast growing and lengthening lending portfolios largely from domestic deposits and through their foreign owners, generally the need for longer term funds and for debt financing in the industry is growing. This is the political, economic and financial sector context in which EFSE catalysed the fast growing housing lending market.

3 Housing Finance, Loan and Client Characteristics

EFSE has been an active lender in housing finance to domestic institutions in BiH and Kosovo, resulting in significant on-lending to client households in both places. In this section the activities of EFSE in providing financing for housing are described first. In the second part attention is focused on the characteristics of the housing loans issued by PLIs using EFSE financing. Attention is then given to the characteristics of the households who received these housing loans as end-users.

3.1 EFSE Housing Finance Activities

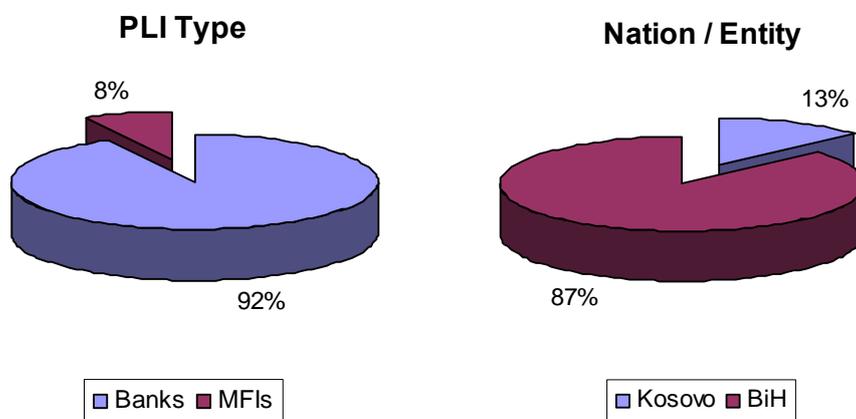
The history of EFSE lending to PLIs for housing differs between BiH and Kosovo, and between banks and MFIs. Housing lending to PLIs in BiH began in 1998, and in Kosovo in 2002. The disbursement of

EFSE housing funds since then to mid-2006 is presented in Table 1 and Figure 1. Most lending has been to banks (92%) with MFIs being financed only recently (one MFI in Kosovo from 2004, and three MFIs in BiH in 2006). As such, it is generally more difficult to draw reliable conclusions regarding the impacts of EFSE housing lending on MFIs. Using EFSE financing PLIs have disbursed 6,448 loans worth €61.3 million in BiH (87%) and 3,006 loans worth €10.9 million in Kosovo (13%).

Table 1: EFSE Disbursed Housing Loans and Sub-Loans by PLI Type and Nation / Entity, 1998 to June 2006

		Banks	MFIs	Total
Kosovo	Disbursed EFSE Loans Sub-Loans	€ 5,278,230	€ 1,900,000	€ 7,178,230
	Amount Approved	€ 8,723,483	€ 2,196,600	€ 10,920,083
	Number Approved	2,034	972	3,006
BiH	Disbursed EFSE Loans Sub-Loans	€ 44,349,285	€ 2,250,000	€ 46,599,285
	Amount Approved	€ 60,058,061	€ 1,282,324	€ 61,340,385
	Number Approved	5,948	500	6,448
Total	Disbursed EFSE Loans Sub-Loans	€ 49,627,515	€ 4,150,000	€ 53,777,515
	Amount Approved	€ 68,781,544	€ 3,478,924	€ 72,260,468
	Number Approved	7,982	1,472	9,454

Figure 1: EFSE Disbursed Housing Loans, 1998 to June 2006



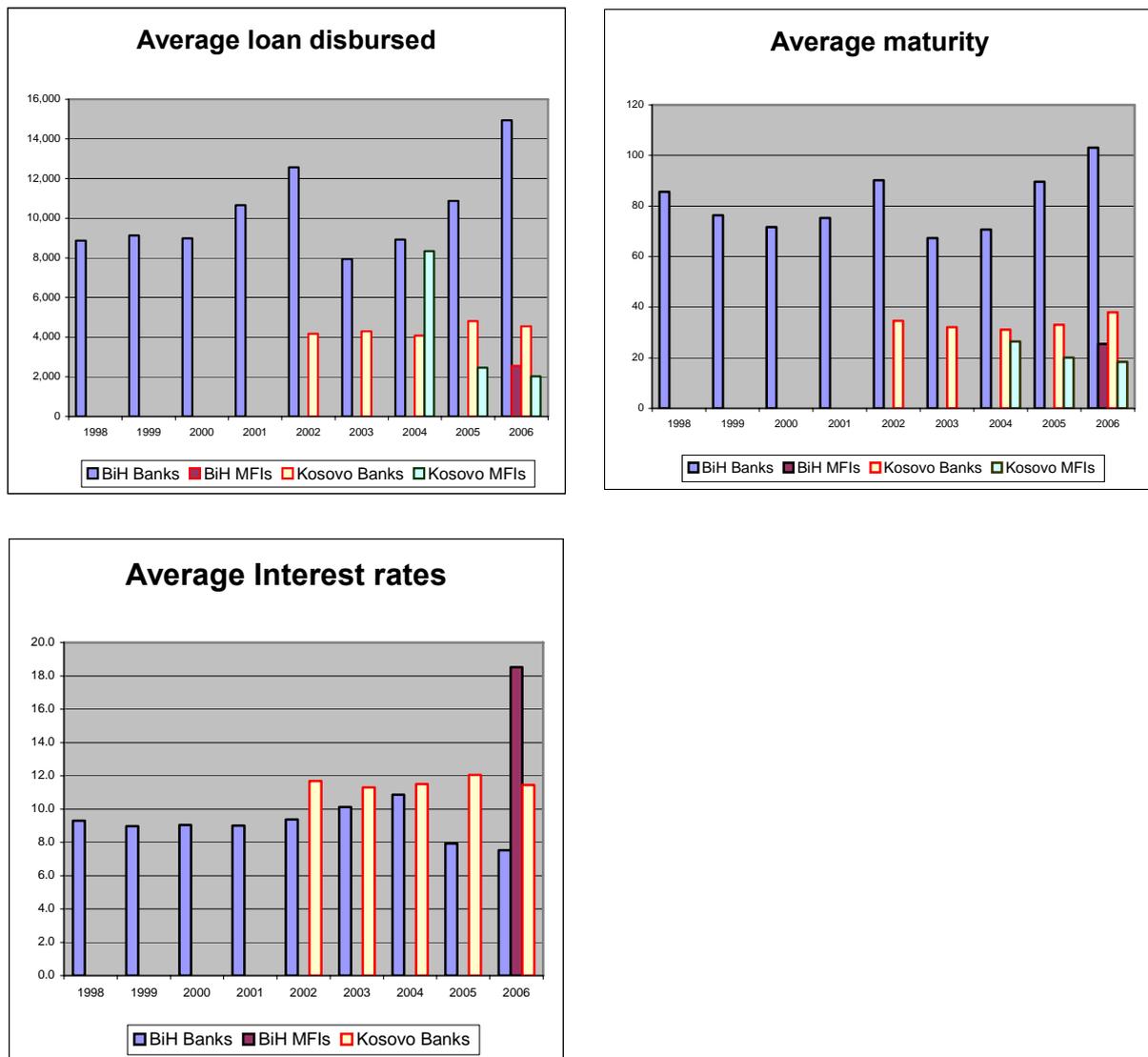
The financial terms of EFSE predecessor loans to PLIs were concessional (especially given country risks), typically at Euribor+0, although a number of special conditions were imposed. These special conditions included limits to onlending for new housing purchases or construction (none allowed in Kosovo, and first a 20% then 50% limit in BiH), targets for average loan sizes (in Kosovo € 4,000), limits to maximum loan sizes (€ 25,000 in BiH and Kosovo), average maturity targets (three years in Kosovo), and maximum maturities (five years in Kosovo and up to 2012 in BiH). Since EFSE was established at the end of 2005 the financial terms of loans have been more commercial, typically

Euribor+350 to +550 for MFIs and Euribor+200 to +300 for banks. EFSE also removed the special conditions that had been required, replacing them simply with a maximum loan size limit of € 100,000. At the early stage of development of the financial sector in BiH and Kosovo EFSE's predecessors started their housing loan programme at rather concessional terms and with rather strict conditions and limitations for on-lending. With the local financial sectors growing more mature and reaching a higher level of development EFSE reacted with more commercial terms and with gradually removing special conditions. These changes were first introduced in BiH where the financial sector developed faster and is recently followed in the lending to Kosovar PLI's.

3.2 Housing Loan Characteristics

PLI housing loan characteristics largely reflect the special conditions imposed up to the end of 2005, with average housing loan sizes of € 9,513 in BiH and € 3,633 in Kosovo, and average maturities of 58 months in BiH and 31 months in Kosovo. Significant differences were found between the housing loans of MFIs and banks (Figure 2), due in part to the fact that EFSE lending to MFIs for housing began only recently (2004 in Kosovo, and 2006 in BiH). MFIs issued on average substantially smaller housing loans of € 2,358, a full 240% smaller than average bank loans of just over € 8,000. Within the banks, the larger banks in BiH provided on average larger housing loans than the smaller banks. Similarly, the average maturities of MFI housing loans (21 months) were a third of the average length of bank loans (62 months). A very significant difference in interest rates charged was found between MFIs at 18.5% on average and banks at 8.5%.

Figure 2: Main characteristics EFSE-Financed Housing Loans of PLIs, 1998 to end-June 2006



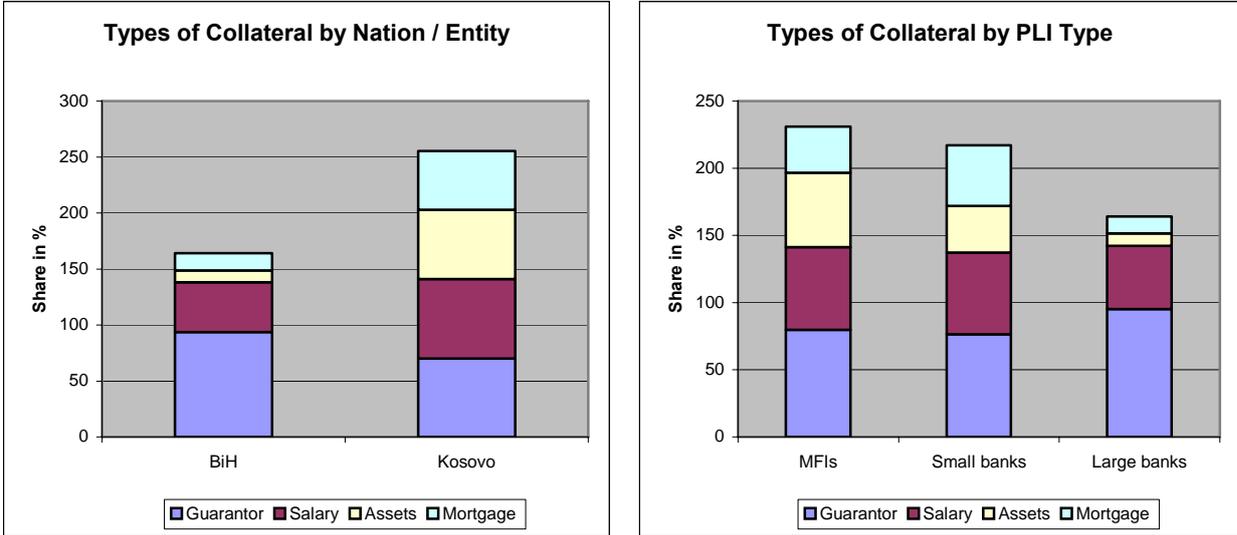
Similarly, loan characteristics differed between BiH and Kosovo. The housing finance market started earlier in BiH than Kosovo and has developed further. The three MFIs that received EFSE support in 2006 have since issued loans with an average size of € 2,565, while the five banks had an average loan size of € 10,097 (although one bank and one MFI were offering similar average loan sizes). Average loan sizes increased by 12.8% from € 8,433 to € 9,513 over the study period, driven mostly by the banks. Four of the five PLI banks in BiH issued housing loans higher than the average of all PLIs, indicating their focus on the higher end of the PLI client group. One bank in particular has increased its loan sizes by 48% and offers now the largest housing loans of all PLIs. Average maturity periods differ significantly between MFIs (27 months) and banks (90 months), consistent with the differences in loan sizes offered, and significantly the maturities of bank loans lengthened by 19.5% over the period. Interest rates charged by MFIs on housing loans averaged 18.5%, far higher than those of banks at 7.5% in 2006 which have also decreased by 260 basis points since 2003. This decline in interest rates banks charge reflects the growing interest rate competition seen in the

banking sector. The large difference between MFIs and banks indicate the strict segmentation in the market with MFIs focusing on the high costs segment of smaller loans for high risk largely rural clients¹⁰.

In Kosovo the average size of EFSE-financed housing loans disbursed by PLIs decreased during the study period by 20.5% from € 4,228 to € 3,633, especially reflecting efforts of the MFI to access lower income households with smaller loans. Average loan maturities shortened from 33 months to 31 months over the period, however underlying the average was an increase in maturities by one bank from 27 to 38 months, and a shortening of maturities from 26 to 18 months by the MFI as it aggressively reduced loan sizes. Average interest rates rose slightly over the period to 11.76%.

The collateralisation of housing loans revealed several distinctive features (Figure 3). Most housing loans required multiple forms of collateral, with clients in Kosovo required to provide notably more forms of collateral (256% versus 164%). Guarantors (87.2%) were required most frequently overall, with salary liens second (57.3%), and assets (34.4%) and mortgages (32.8%) third and fourth. Savings were seldom used as collateral. Surprisingly, guarantors were notably the most important form of collateral in BiH, with asset collateral and mortgage of less importance. In Kosovo, by contrast, asset collateral and mortgage featured significantly more (albeit that more forms of collateral were required there overall). This was not expected as the housing finance market is generally more developed in BiH and hence more use of mortgage finance and less dependence on guarantors was anticipated.

Figure 3: Collateral by region and by type of bank



¹⁰ It should be mentioned that as shown below the risks do not have an impact yet on the quality of the EFSE loan portfolios of the MFIs.

Also unexpected were the differences found in the collateral patterns between the different types of PLIs. While for all PLIs guarantors were the most required form of collateral, surprisingly the small and especially the large banks made significantly more use of guarantors than assets or mortgage. It should however be noted that MFIs and Small Banks require more often multiple forms of collateral than Large Banks. The latter, although relying heavily on guarantors require significantly less multiple forms of collateral. The MFI in Kosovo in comparison more often used assets and mortgage as collateral. Collateral requirements by loan size and purpose, which correlates with PLI type, repeat this pattern. The larger and longer maturity housing loans, used more often for purchasing or constructing new housing, were significantly more collateralised by guarantors than by mortgage. Smaller and shorter maturity loans used most often for housing improvements or expansions were more frequently backed by assets or mortgage *in addition* to guarantors. The overall high reliance on guarantors found for housing loans presents a significant credit risk and limitation to market growth, with what is suspected to be a relatively small pool of guarantors standing as collateral for loans from multiple borrowers.¹¹ This also underlines the need for more rapid development of the mortgage market.

3.3 Client Characteristics

Who were the beneficiaries of the EFSE-financed housing loans of PLIs in BiH and Kosovo? To a considerable extent the client group reflected both the special conditions imposed by EFSE and the selection criteria adopted by the PLIs. Overall, the client households who accessed these housing loans as a group had on average higher household incomes (although with many clients having very low incomes) and education levels, and were more often formally employed than the general populations of BiH and Kosovo.¹² Most housing loans were issued to households with married couples, in their early 40s living in households with an average of 3.3 adults and 1.6 children, with households in Kosovo usually larger and with more children than in BiH. One quarter of loans were made to households without children. More than half of households had as their highest education level at least one university or college degree, and 95.3% were employed full time, 78% in formal wage employment and most of the rest in full time self employment. The average net household income in 2006 reported by PLI clients was € 670 per month (€ 717 in BiH and € 630 in Kosovo). The Federal Office of Statistics in BiH estimated monthly wages at € 305 in November 2006, however this is a wage estimate and does not include other possible sources of household income, or multiple wage earners. On the basis of the GDP per capita and assuming an average household size of five persons the average monthly household income in BiH can be estimated at between € 700 and € 750 per month. For Kosovo, average household monthly income levels have been estimated in 2004 to be € 274.¹³ PLI client households therefore appear on average in BiH to have similar household incomes to the general population, and in Kosovo to have significantly higher incomes. The similarities between

¹¹ The financial regulators in BiH plan to introduce a common debt register on short notice to address this.

¹² Although reliable and recent basic census information is not available in both BiH and Kosovo, and there is a high variance in available estimates.

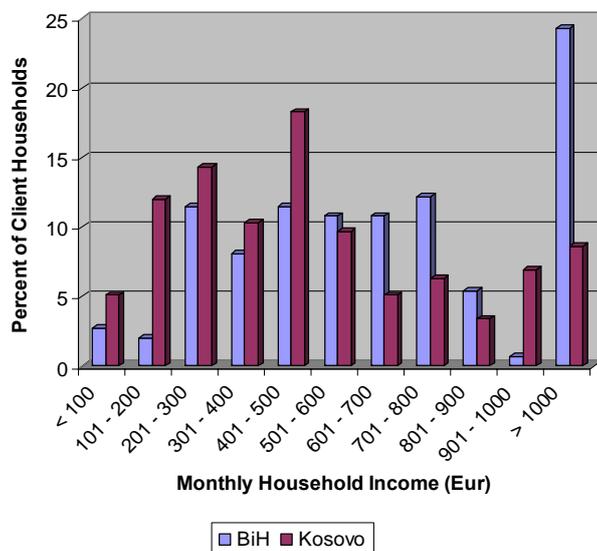
¹³ Source: SOK, "Statistics on Standards of Living 2003 – 2004".

average household incomes of PLI clients and the general population in BiH probably reflects that incomes are overall higher in BiH and the population is in general relatively more bankable. By comparison in Kosovo overall incomes are lower and less bankable.

Table 2 and Figure 4 provide a more refined view of the household incomes of PLI clients. One quarter of PLI clients reported household incomes less than € 300 per month, and one half less than € 500. In BiH 16.2% of clients had households below the BiH average, and for Kosovo approximately 31.4%. It is significant therefore that PLI lending for housing finance included lending to households at or below the nation / entity household income averages. Viewed by PLI type, around one third of MFI clients (34.3%) have household incomes lower than € 300 per month, and around a third of small bank clients (35.4%) less than € 400. Approximately one quarter (23.8%) of MFI clients are in the € 201 to € 300 income bracket, while 29% of large bank clients have incomes greater than € 1,000. This suggests overall that PLIs have penetrated also to lower income households within the client group. The finding also suggests that PLIs were able to penetrate to lower income households in part by ensuring that their overall client base included also households with relatively better incomes that are more bankable.

Table 2: Household Monthly Income Structure by Nation / Entity

Income Bracket (€ p.m.)	BiH			Kosovo			Total		
	N	% BiH	Cumm. %	N	% Kosovo	Cumm. %	N	% Total	Cumm. %
< 100	4	2.7	2.7	9	5.1	5.1	13	4.0	4.0
101 - 200	3	2.0	4.7	21	12.0	17.1	24	7.4	11.5
201 - 300	17	11.5	16.2	25	14.3	31.4	42	13.0	24.5
301 - 400	12	8.1	24.3	18	10.3	41.7	30	9.3	33.7
401 - 500	17	11.5	35.8	32	18.3	60.0	49	15.2	48.9
501 - 600	16	10.8	46.6	17	9.7	69.7	33	10.2	59.1
601 - 700	16	10.8	57.4	9	5.1	74.9	25	7.7	66.9
701 - 800	18	12.2	69.6	11	6.3	81.1	29	9.0	75.9
801 - 900	8	5.4	75.0	6	3.4	84.6	14	4.3	80.2
901 - 1000	1	0.7	75.7	12	6.9	91.4	13	4.0	84.2
> 1000	36	24.3	100.0	15	8.6	100.0	51	15.8	100.0
Total	148	100.0		175	100.0		323	100.0	

Figure 4: Household Income of PLI Clients, BiH and Kosovo


Overall, the different types of PLIs were found to focus on different market segments (Table 3), seen most distinctly in BiH. This indicates that the decision by EFSE to finance both banks and MFIs resulted in a wider market of households being served. MFIs focused on younger, lower income and education level families, with more children, based mainly in rural areas. Small banks and even more so the large banks focused on higher income and more educated families, middle aged and with fewer children, and most often in urban areas, representing the higher end of the client group. A similar segmentation was seen in Kosovo, although household incomes among MFI clients are higher than those of small banks due to more household income sources (including remittances from abroad and sometimes salaries from jobs in nearby urban centres) for rural than urban based households.

Table 3: Market Segmentation by PLIs in BiH and Kosovo

	BiH		Kosovo	
MFIs	Female	51.7%	Female	21.8%
	Average Age	38.5	Average Age	38.9
	College/University	18.1%	College/University	41.8%
	Household Income	€ 534	Household Income	€ 740
	Adults	2.7	Adults	4.0
	Children under 18	1.3	Children under 18	2.3
Small Banks	Female	36.8%	Female	17.7%
	Average Age	47.6	Average Age	43.3
	College/University	63.2%	College/University	60.7%
	Household Income	€ 755	Household Income	€ 546
	Adults	3.1	Adults	4.0
	Children under 18	0.8	Children under 18	2.5
Large Banks	Female	40.7%	<i>No large banks operating in Kosovo</i>	
	Average Age	42.8		
	College/University	64.1%		
	Household Income	€ 762		
	Adults	2.5		
	Children under 18	0.9		

Examining the characteristics of clients of different loan sizes and maturities illustrates that different loan products penetrated different markets within the client group (Table 4). For this analysis, loans were divided into those below €2,500, those from €2,500 to €7,000, and those above €7,000, each representing approximately one third of issued housing loans. More housing loans in Kosovo (48.4%) were concentrated in the lower third of loan sizes, and in BiH in the upper third (52.6%). Over 60% of loans of MFIs were in the smallest third of loan sizes and more than three quarters of large bank loans were in the top third of loan sizes. The smaller loans with the shortest maturities were typically issued to younger often single households (or retired persons), with comparatively more children, lower education levels and the lowest household incomes. These households had more limited income earning capacity and higher family expenditure needs. The larger housing loans were issued to middle aged households, more often married (or divorced / widowed), with fewer children, higher education levels and the highest incomes. These households typically had higher income earning and debt carrying capacity.

Figure 5: Loan Size by Household Income and Educational Level

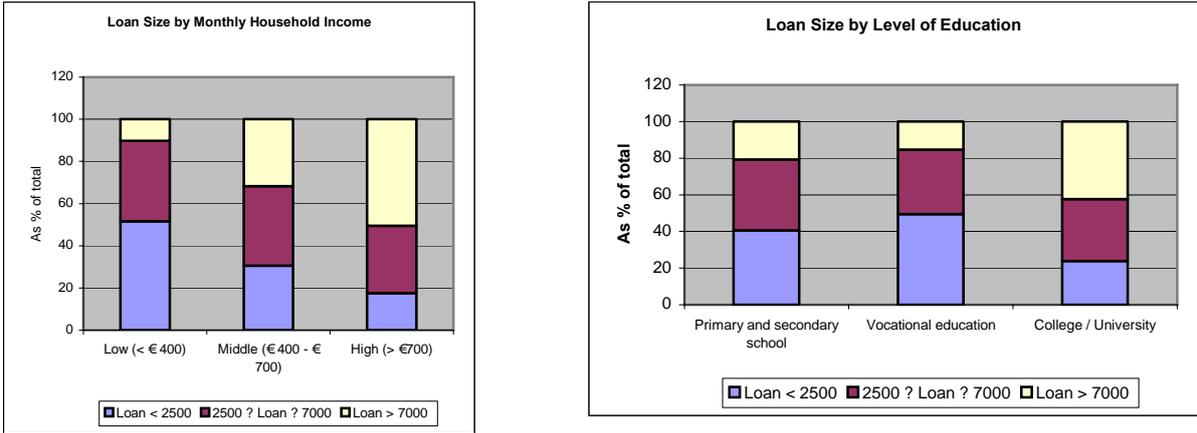


Table 4: Client Characteristics by Housing Loan Size

	Loan < 2500	2500 ≤ Loan ≤ 7000	Loan > 7000
	%	%	%
Age			
18 - 30	52,3	31,1	16,6
31 – 40	39,5	31,3	29,2
41 – 50	21,9	40,6	37,5
51 – 60	26,1	34,7	39,2
61 +	36,1	46,5	17,4
Marital Status			
Single	57,0	28,7	14,3
Married	29,3	38,2	32,5
Divorced/widowed	20,7	19,4	59,9
Children			
No children under 18	11,2	40,5	48,3
1 or more children under 18	37,0	32,6	30,4
Highest Level of Education			
Primary and secondary school	40,5	38,8	20,7
Vocational education	49,5	35,1	15,4
College / University	23,9	33,7	42,4
Household Income (Month)			
Low (< €400)	51,6	38,2	10,2
Middle (€400 - €700)	30,6	37,7	31,7
High (> €700)	17,5	32,0	50,5

3.4 Conclusion

EFSE has been an active lender to PLIs for housing since the mid-1990s. In initial years EFSE provided financing at concessional terms although with special conditions, while since 2005 these conditions have been removed and financing is at more commercial terms. A substantial volume of housing loans have been issued by PLIs using EFSE financing. The characteristics of these loans were found to differ significantly between the types of PLIs, with MFIs issuing smaller, shorter maturity, and significantly higher interest rate loans than the banks. They were also found to differ between BiH and Kosovo, with greater loan diversity in the somewhat more developed market in BiH. Collateral requirements for housing loans revealed an over-reliance on guarantors overall, especially among the banks and larger loans for housing purchase or construction, which gives rise to concern.

The general characteristics of housing loan clients show that PLI housing loans have overall concentrated on the more bankable households in BiH and Kosovo, although households with incomes below the national averages are included in this group. Moreover, PLIs have addressed different market segments, with MFIs focusing on the lower end of the client group, the large banks in BiH on the higher end of the client group, and the small banks the mid-market section. Similarly, housing loans products have penetrated different segments of the client market, with smaller loans of shorter maturities concentrated in lower market segments, and the largest loans with longest maturities at the higher end.

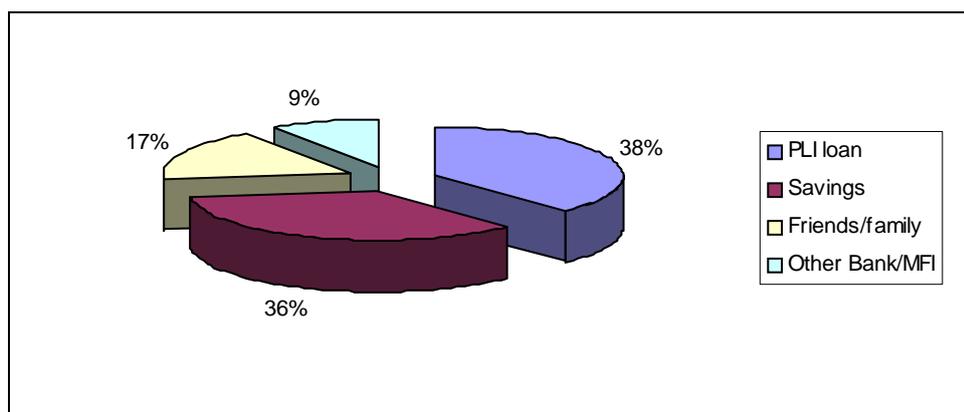
4 Household Outcomes and Impacts

A fundamental measure of the developmental effectiveness of a housing finance system is its ability to deliver improvements to the housing conditions and livelihoods of households through the provision of loan finance. These improvements are generally seen in both the *outcomes* of housing loans, the direct often physical changes made to the size and quality of housing, and in the *impacts* on households, the consequences on for example the health, wealth, happiness or productivity of households. Outcomes can usually be directly measured, whereas impacts are most often assessed indirectly using a variety of indicators. The outcomes and impacts can be investigated at the level of individual households and with regard to the wider society. This section examines the outcomes and impacts for households of EFSE-financed housing loans by PLIs in BiH and Kosovo. The data presented in this section are mainly from the survey of the over 470 households in Kosovo and BiH. The outcomes of the housing loans are recorded in the first part, before focusing in the second part on the impacts on households.

4.1 Housing Loan Outcomes

The outcomes of housing loans are the result of the combination of EFSE's policies and conditions regarding loans to PLIs, the policies of the PLIs regarding targeting of loans, and the wishes of the ultimate client / sub-borrowers. This section analyses the results of this combination of policies and behaviour. Housing loans were important to enable households to undertake housing improvements. Households who received loans invested on average € 15,611 in their housing since 2003. The average PLI housing loan size was € 6,083 and clients financed the difference from their own savings (59.9%), borrowing from friends / family (28.9%) or with other bank or MFI loans (16%). The average combination of financing sources for housing investments is shown in Figure 6.

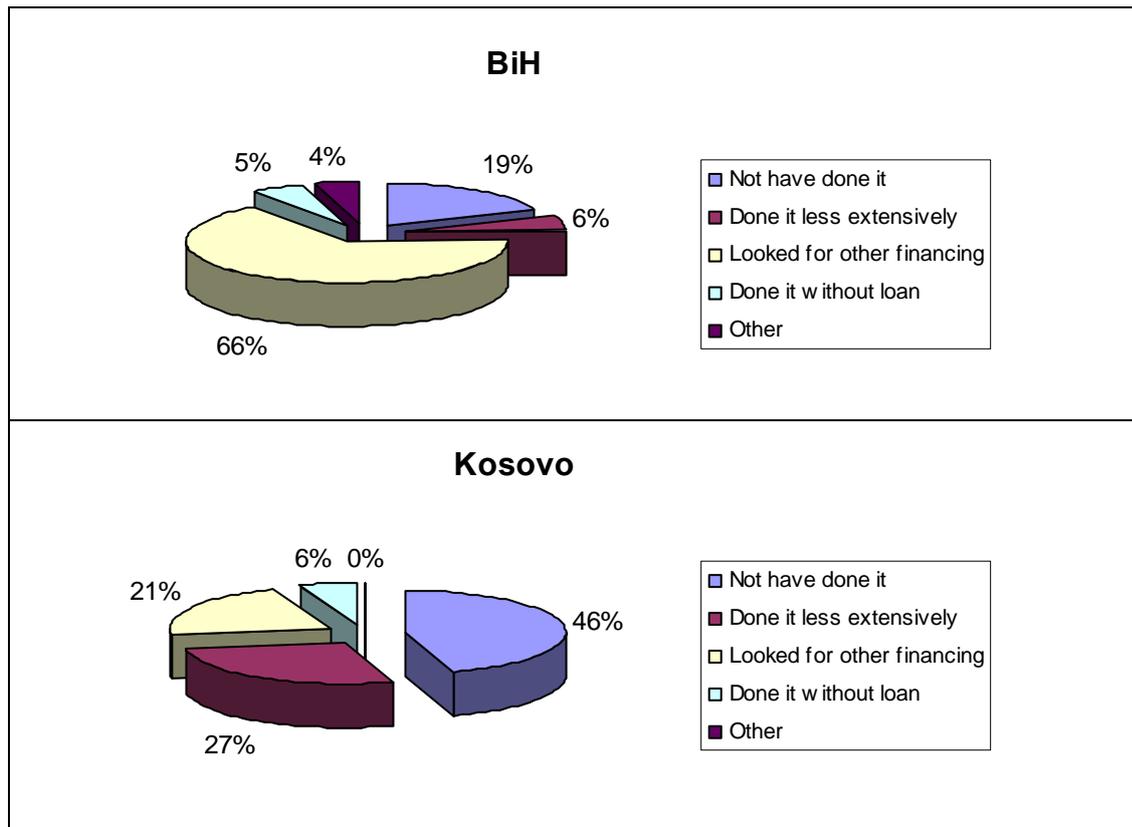
Figure 6: Share of Financing Sources for Housing Investments



At portfolio level, total investment by clients in housing therefore totalled € 185 million, of which EFSE-financed PLI housing loans contributed € 72.3 million. A third of clients would not have done their housing improvements without the PLI housing loans, while almost half (43.6%) would have looked for other sources of financing. Only a small proportion (5.8%) would have improved their homes without loans. The differences between households in BiH and Kosovo in this regard were significant (Figure

7). Half of the households in Kosovo would not have undertaken improvement without a housing loan from the PLI, whereas in BiH a significant majority (about two-third) would have sought other financing. This reflects the level of market development in each place, with these households in Kosovo presumably less familiar with shopping for loans, and more finance market awareness among households in BiH. This is confirmed by the large bank clients in BiH who would mostly have turned to other financing sources had their loan not been granted, reflecting a client group more familiar with participation in the banking sector.

Figure 7: Alternatives to Receiving PLI Housing Loans



PLI clients received housing loans for 'improvement' (i.e. expanding or improving the existing residence) and 'purchase/construction' (i.e. buying or building a new residence). Loans could also be used for multiple purposes, for example both expanding and improving. From the use to which housing loans were put (Table 5) it can be seen that the vast majority of clients used their loan to undertake improvements to their housing, with fewer expanding or adding rooms, and almost one quarter buying or building new residences. This distribution over the different loan purposes results inter alia from the conditions initially imposed by EFSE. Housing loans from MFIs and small banks were used most often for housing improvements and expansion, whereas loans from the large banks in BiH funded home purchases and construction more often. This mirrors the market segmentation of the different PLI types described previously and again indicates how EFSE's selection of different PLI types to finance resulted in the needs of a wider range of household target markets being reached. As expected, the larger loans with longer maturities were used more often for new home purchase or construction, while

smaller loans with shorter maturities funded mainly improvements. Loans for new home purchasing and construction were more prevalent in BiH and rare in Kosovo, also reflecting the restrictions initially placed on such lending by EFSE.

Table 5: Use of Housing Loan by Nation / Entity and PLI

	Total		Nation / Entity		PLI		
			BiH	Kosovo	MFIs	Small banks	Large banks
	N	%	%	%	%	%	%
Expanding	64	18,3	18,3	18,3	20,4	21,2	10,9
Improving	255	73,2	57,1	89,2	85,5	82,0	43,5
Buying	53	15,3	24,9	5,7	4,6	8,6	39,3
Building	31	8,9	12,3	5,4	5,4	6,4	17,3

Note. As multiple uses are possible the percentages total to more than 100%.

The vast majority of clients (73.2%) used the loan to improve their housing condition, 18.3% expanded existing or added new rooms, 15.3% bought and 8.9% built a new residence. PLI clients used their housing loans to expand their living space on average from 103 m² in 2003 to 107 m² in June 2006, and from 2.94 to 3.14 rooms. At portfolio level, EFSE funding therefore contributed to the addition of 37,816 m² of new housing space and the addition of 1,898 rooms in BiH and Kosovo. As noted previously, given the housing challenges faced in these places in the post-conflict period the expansion of quality living space is a priority. The survey shows statistically significant differences in the use of the loan at both country and PLI levels, also reflecting the lending conditions of EFSE. In Kosovo 89.2% of the clients used the loan to improve their housing condition and 5.7% to buy a new residence. In BiH the difference is less pronounced (57.1% and 24.9% respectively). Over 80% of the loans issued by MFIs and small banks are for improving purposes, whereas for large banks the percentage is 43.5%. 39.3% of the loans issued by large banks are for buying, compared to 4.6% in the case of MFIs and 8.6% of small banks.

Since most housing loans are used for making improvements to houses, it is worth looking in more depth at how they were used (Table 6). It is notable that the majority of home improvements were made to kitchens and bathrooms, and then to living rooms and bedrooms. Interesting also is that almost 40% of loan recipients use the loan to improve the general physical conditions of residences, and noticeably more so in BiH than in Kosovo. It can be seen also that loans from small and especially large banks are used especially to improve kitchens and bathrooms, which are usually more expensive operations than improvements to other rooms and hence may require larger loans which are characteristic of the banks rather than the MFIs.

Table 6: Nature of Housing Improvements made with Housing Loans

	Total		Nation / Entity		PLI		
			BiH	Kosovo	MFIs	Small banks	Large banks
	N	%	%	%	%	%	%
Bathroom	146	57,2	66,2	51,5	47,0	58,2	78,6
Kitchen	126	49,6	48,3	50,4	36,9	52,3	71,4
General physical condition (e.g. roof, walls, painting)	101	39,7	59,0	27,4	32,3	41,0	53,5
Living room	94	37,0	40,8	34,5	24,0	39,2	60,7
Bedrooms	76	29,8	28,7	30,5	20,4	33,9	39,3
Heating / insulation	44	17,3	21,4	14,7	17,1	13,9	28,5
Wiring / electrics	33	13,1	12,2	13,7	14,7	11,5	14,3
Water heating / water pipes	28	11,0	18,8	6,1	11,3	9,8	14,3
Business / office space	20	8,0	5,8	9,4	10,8	7,3	3,6
Garages	16	6,2	7,7	5,3	2,4	10,0	3,6
Stables	2	0,8	0,8	0,7	0,9	0,9	0,0

Note. As multiple uses are possible the percentages total to more than 100%.

In summary, housing loans issued by PLIs have overall increased the living space of households. The majority of loans have been used especially for improvements to existing housing, and especially to the main functional rooms (kitchen, bathrooms, living and bedrooms) and to the general physical conditions of dwellings. BiH shows greater activity in new home purchases and construction than in Kosovo. As can be expected, the larger loans received with the longer maturities were used more often for construction and purchase than for improvements.

4.2 Household Impacts of Housing Loans

Impacts of the housing loans on households were investigated according to their impacts in five main dimensions of households, namely:

1. physical capital (the physical assets of households),
2. human capital (the well-being, performance and productivity of households),
3. social capital (the social networks and structures of households),
4. financial capital (the financial or income generating capacity of households), and
5. participation in the formal financial system.

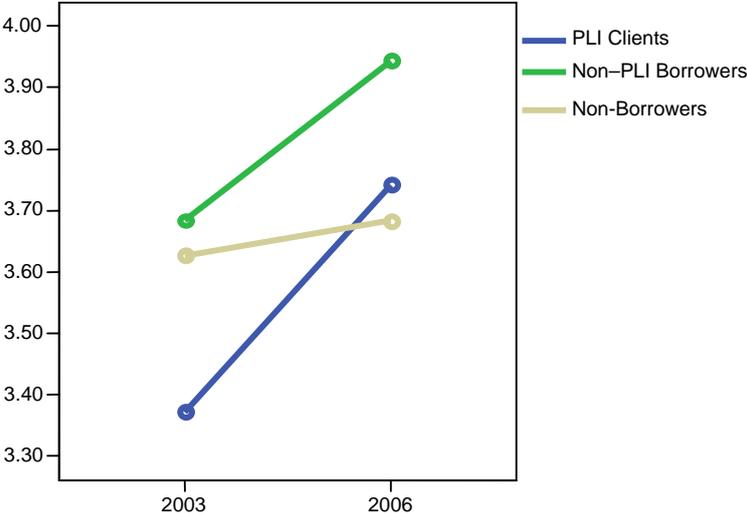
In most cases, households were asked to rate a number of criteria reflecting housing loan impacts on a scale of 1 (low/negative) to 5 (high/positive) for the year 2003 and for 2006. This allows for comparison between clients and the control group both relatively and with regard to changes over time. When the results of the main indicators were combined (Figure 8) the survey showed three important conclusions regarding housing loans:

- **Households perceiving greater housing needs were targeted** – housing loans were targeted to households that perceived a greater need to improve their housing situation (hence motivating their decision to apply for a loan), and who rated the conditions of their

housing as worse than the control group. Client households also lived more frequently in temporary or shared housing than the households in the control group.

- **Loans resulted in a dramatic improvement in living conditions** – overall, households reported a dramatic improvement in their living conditions as a result of the loans, significantly more so than the non-borrowers in the control group and also more than non-PLI borrowers. 93.3% would recommend someone in a similar situation as themselves to obtain a housing loan indicating strong recognition by households of the benefits brought by housing loans.
- **While housing conditions of loan recipients were worse than other (control) households in 2003, by 2006 they were better** – in 2003 the conditions of housing were perceived by client households to be substantially worse than those of control households. However, by 2006 the perceived housing conditions of client households had increased to more than the non-borrowers in the control group.

Figure 8: Overall Improvement in Living Conditions (combined impact indicators), 2003 to 2006



The survey results for the main indicators used are presented in Table 7 and then discussed in more detail in the sections below.

Table 7: Household Impact Indicators, 2003 and 2006

	PLI Clients		
	2003 (1=low, 5=high)	2006 (1=low, 5=high)	Attributed to the Loan
Overall housing conditions	3,35	3,75	93%
Physical Capital			
- Physical condition	2,9	4,0	92%
- Problems with residence	2,4	1,9	72%
- Comfort in winter	3,3	4,2	81%
- Living space	3,1	3,6	52%
- Working space	2,3	2,7	31%
Human capital			
- Noise	2,2	2,1	38%
- Incidence of sickness	2,2	2,2	16%
- Appreciation living place	3,2	3,8	59%
- Safety in house	4,2	4,4	8%
- Safety in neighbourhood	4,3	4,4	8%
Social capital			
- Contacts with neighbours	3,7	3,8	8%
- Neighbourhood meetings	2,5	2,6	8%
- Invite neighbours to residence	3,5	3,6	20%
Financial capital			
- Monetary value	€73.820	€86.673	75%

4.2.1 Physical Capital

With regard to the effects on their 'physical capital', the loans effected residential types by increasing the number of households living in free-standing houses and high-rise apartments, and significantly reducing the number of households living in temporary and shared housing. This impact was seen most for the large banks in BiH, although MFIs and small banks also contributed. The physical condition of housing improved very significantly as a result of housing loans, from an average of 2.9 in 2003 up to 4 in 2006 on a 1 to 5 scale. With 91.6% of households attributing this to the loan. Problems with housing (e.g. leaks, flaking plaster, peeling paint, etc.) decreased substantially, also attributed mainly (72%) to loans. Households experienced a significant improvement in their overall living space, and just more than half attributed this to the loan. The comfort of homes and whether they were warm enough in winter improved considerably, from 3.3 to 4.2 with 80.9% attributing this to the loan. Overall, therefore, housing loans had their most dramatic and significant positive impacts on the physical condition and value of housing of households.

With regard to energy efficiency, housing loans resulted in physical changes to housing and housing utilities that impacted positively on the energy efficiency of households and their housing. Households who used their loans to improve heating and insulation, water heating and pipes, or wiring and electrics spent on average less on utilities in 2006 than in 2003 in comparison to households who did

not use their loans for these purposes. This measure indicates that housing loans significantly improved the energy efficiency of housing.

4.2.2 Human and Social Capital

The physical improvement of housing conditions with housing loans are expected to translate into improved 'human capital' for households. Improvements to noise levels and to family health were not seen, although both were not identified as major problems by households before receiving loans. Households reported a significant increase in their general appreciation of their housing, notably more than those who did not receive loans. The sense of safety both within the house, and within the neighbourhood, improved. Measures of 'social capital' suggest households were interacting more frequently at neighbourhood level, and that most (95%) intended to remain living where they are. Impacts on human and social capital from housing loans are not expected to be seen as directly and as soon as the impacts on the physical condition of housing. A number of significant impacts were noted already in the study period, such as on perceived living space, comfort, general appreciation of housing and neighbourhood cohesion, but in others, such as family health, significant impacts were not (yet) reported by the sub-borrowers.

4.2.3 Financial Capital

Households estimated that the market value of their housing increased on average from €73,820 to €86,673, with 75% attributing this to the loan. Household incomes, one measure of the 'financial capital' of households, increased significantly more for clients than those without loans. Income increases were mainly related to formal wages and employment, while rental income increases (possibly resulting from improvements made to the home using the housing loan) were minimal (6.7%), although one third of clients reported that the loan increased their space available to work or run a business. It is therefore difficult to directly attribute all household income increases to the housing loans. However, housing loans have somewhat increased the ability of households to undertake self-employment from home, and have supported persons to move closer to formal job opportunities (as well illustrated in one of the household case studies). The higher increase in household incomes than the control group more likely reflects that PLIs through their loan criteria are selecting households with greater income earning potential. This is seen especially for the clients of large banks in BiH which showed the greatest increase in household income.

Housing loans reduced some areas of household expenditure. For some households, expenditure on utilities and maintenance increased, although in many cases households were moving from temporary or shared housing (where little is typically invested) into proper housing, and many were improving their housing standard. However, a significant reduction of expenditure on utilities (heating, water and electricity) and maintenance was noted in comparison to those without loans, and up to one third attribute this to the loan. Household savings were understandably reduced for 30% of households (with 40% attributing this to the loan), as they transferred savings for the future into loan repayments and the benefits of home improvements now. Less than half of households reported that the loan repayments were a serious financial burden.

4.2.4 Participation in the Formal Financial System

A final impact of housing loans on households was on their participation in the formal financial and banking system. More than a third (38%) of households had never had a bank account prior to obtaining a housing loan, and while 37.5% had tried to borrow from banks / MFIs, most had turned previously to family, friends and moneylenders for the financing requirements. Almost 40% of clients were therefore introduced into the formal financial and banking system, at portfolio level meaning 3,700 households brought into new relations with a bank or MFI. Most clients (58.9%) who had tried to borrow money previously did so for housing purposes. Of those with loans who are planning to invest further in the next 12 months, 37.4% intend to apply for another loan from a bank or MFI. After receiving a housing loan, 35% of clients applied for other products from the PLI, namely current accounts (50.4%), credit cards (50%), applications for new loans (35.5%), transfers (32.9%) and savings accounts (32.3%). The housing loans clearly had an impact on bringing new households into the formal system, and on deepening the participation of households.

4.3 Conclusion

Housing loans were necessary for the vast majority of households to improve their housing conditions. Clear benefits for the end-users of EFSE-financed PLI housing loans were identified in BiH and Kosovo. The loan outcomes included increases to the quantity of living space for households, with loans used for the expansion of homes as well as for the purchase or construction of new ones. However, the majority of loans were used for the improvement of existing homes (especially the main living areas and the general physical conditions), with positive outcomes for the overall quality of housing. Importantly, these housing outcomes were seen to have translated into wider improvements to the conditions and livelihoods of households.

Understandably, the greatest positive impacts for households were felt with respect to the physical conditions of their housing, with virtually all households recognising that these physical improvements resulted directly from the loans they received. Benefits for households were also identified in other areas, such as the warmth of their homes in winter and general appreciation / better liveability of housing.

5 Impacts on Financial Institutions

EFSE strategically aims for additionality and leverage in its financial sector interventions. Through its combination of technical assistance and long-term financing to domestic financial institutions, EFSE created the housing finance markets in BiH and Kosovo. As one of the only institutions providing long term finance in the post-conflict period, EFSE exerted considerable influence as a market maker. In both BiH and Kosovo the housing finance markets have since grown and deepened dramatically. This has had considerable implications for the financial intermediary institutions in the system.

The first part of this section considers the impacts of EFSE on the development of the housing finance market and of financial products suited for housing purposes by PLIs. The growth and characteristics of the housing finance portfolios developed by PLIs with EFSE support are then examined. Finally, the wider impacts that EFSE has had on the industry and the competitiveness of PLIs within it are discussed.

5.1 Market and Product Development

There is strong evidence that EFSE catalysed the growth of the housing finance sector in both regions, and supported PLIs to enter this new market. Since the late 1990s, the housing lending markets have grown dramatically, as seen in the growth of housing lending portfolios of PLIs. With one exception, all PLIs developed housing loans as new products with technical and financial support from EFSE. Major interests for PLIs in entering a relationship with EFSE was to gain access to long term financing, to enable entry into housing finance lending, to widen their product mix and deepen their financing mix. In addition to financing, PLIs that received technical assistance reported that this was essential for them to structure new housing products and develop their market position. PLIs reported that they focused their new housing finance products mainly on existing clients, although the household survey showed that they indeed gained a considerable number of new clients (see Section 4).

A review of the housing loan products offered by PLIs illustrates fairly general 'housing purpose' loans with generally standard and comparable criteria. Relatively minor changes have been made to products since their introduction (mostly as expected to interest rates and maturities). Loan criteria are focused on households with full-time employment or reliable incomes, with MFIs allowing lower income households than banks, and the large banks in BiH offering the largest loans with longest maturities. The reliance on multiple collateral forms and especially on guarantors for collateral is seen again in most loan requirements. Almost all PLIs reported that they consider housing finance an indispensable part of their financing activities.

5.2 Portfolio Characteristics

PLIs have developed substantial housing lending portfolios. This section examines how these portfolios have grown and been financed, and assess the overall quality of the resulting portfolios.

5.2.1 Growth and Financing

Analysis of the portfolio structures over the 2003 to 2005 period shows that PLIs have substantially incorporated housing finance lending into their fast growing lending portfolios (Table 8). The total loan portfolios of the PLIs grew by an explosive 89% from € 923.6 million in 2003 to € 1.7 billion at the end of 2005, while their housing lending portfolios grew by 45% from € 105.5 million to just short of € 153 million. EFSE financed housing loans remained stable at just over € 25 million over the period.

Table 8: Total, Housing and EFSE-Financed Housing Loan Portfolios, 2003 - 2005

	Total Loan Portfolio	Housing Loan Portfolio	EFSE-Financed Housing Loans	Housing as % of Total Loans	EFSE-Financing as % of Housing Loans
Nation / Entity					
BiH					
2003	790.9	78.1	23.5	10%	30%
2004	1203.5	84.9	20.9	7%	25%
2005	1489.5	92.5	22.3	6%	24%
Change (2003 - 2005)	88%	18%	-5%	-4%	-6%
Kosovo					
2003	124.8	27.4	2.7	22%	10%
2004	190.8	48.5	3.6	25%	7%
2005	262.7	60.4	3.4	23%	6%
Change (2003 - 2005)	110%	120%	26%	1%	-4%
Total					
2003	915.7	105.5	26.2	12%	25%
2004	1394.3	133.4	24.5	10%	18%
2005	1752.2	152.9	25.7	9%	17%
Change (2003 - 2005)	91%	45%	-2%	-3%	-8%

The growth and financing pattern differed between BiH and Kosovo. PLIs in Kosovo saw their housing lending portfolios grow even more rapidly than their total loans (120% against 110% growth over the 2003 to mid-2006 period), although both grew tremendously. Housing loans grew to occupy almost a quarter of their total loan portfolios. In BiH by contrast housing lending grew less rapidly than total loans (18% against 88%) and consequently declined to just 6% of total loan portfolios. The different growth patterns between BiH and Kosovo might be an indication of PLIs in BiH having more and probably better alternative investment opportunities than the PLIs in Kosovo. Figures for the first half of 2006, however, show a 21% increase in housing loans in these six months alone and suggest the market is booming.

In 2003, of the 15,749 housing loans outstanding from PLIs (Table 9), 4,459 or 28% were funded by EFSE. By mid-2006, EFSE funded 6,097 loans making up 19% of total outstanding loans of 31,505. In value terms, at the end of 2003 EFSE contributed € 26.2 million to finance 25% of PLI housing portfolios worth € 105.5 million. By the middle of 2006, EFSE's greater € 34.2 million now financed 19% of total housing portfolios of € 177 million. PLIs therefore funded 75% of their housing portfolios from other sources (deposits, equity, and loans) in 2003, and 81% in mid-2006. Over the study period total housing loans issued by PLIs grew by 100% in number and 68% in value, while EFSE housing loan financing grew by 37% in number and 31% in value. This demonstrates the very significant impact of EFSE financing on catalysing the housing finance market for PLIs, and the extent to which PLIs have embraced the market. During the later 1990s when EFSE was the first party to open the market, each EFSE € 1 was matched by a further € 0.7 of PLI self-financing, while by 2003 this had increased to € 3.03 and by 2006 to € 4.18. This indicates that EFSE catalysed a housing finance

industry that has been aggressively embraced by the PLIs. It also means however, that the proportional importance of EFSE financing for housing loans is decreasing annually as the sector grows.

Table 9: PLI Housing Loans Outstanding (end of period), 2003 to mid - 2006*

	2003	2004	2005	Mid-2006
Kosovo	6,487	13,603	18,024	19,485
BiH	9,262	10,068	10,609	12,020
Total	15,749	23,671	28,633	31,505

* Unaudited information provided by PLIs.

For the financing of PLIs, EFSE played an important role by offering longer term loans at a time when the banking industry was purely short term savings and lending. This gave PLIs access to financing for longer periods when no alternatives were available. During the late 1990s and into the 2000s EFSE's predecessors were offering the largest external housing financing facilities to PLIs in both regions. The role of EFSE financing for housing within the overall borrowing activities of nine PLIs during the 2003 to 2005 period is shown in Table 10. This shows that borrowing overall is a larger proportion of total balances for PLIs in BiH where the financial sector is more developed than in Kosovo. However, EFSE housing loans to PLIs in Kosovo represent a greater proportion of their borrowing than those in BiH. This underlines the role of EFSE as a pioneering financier during the early stages of the financial market development. This is the same pattern that would be found in years prior to 2003 for PLIs in BiH, as can be seen even over the 2003 to 2005 period the proportion of financing provided by EFSE reduces as other sources of borrowing enter. As would be expected, EFSE loans represent a larger proportion of MFI financing overall than of banks. The subsequent development of the financial sectors in Kosovo and especially BiH, and the strong entry of foreign banks, has changed the financing environment. As noted previously bank deposits have grown tremendously and lengthened, and foreign owned banks are reportedly financing a substantial amount of lending activities. In earlier years, EFSE predecessors provided financing to PLIs at concessional rates while in recent years EFSE financing has been more commercial (see Section 3). PLIs are increasingly viewing EFSE financing against other options with other institutions reportedly now also offering long term finance in the market. As such, while EFSE was the clear 'market maker' for housing finance in BiH and Kosovo, in the study period EFSE has become a 'market supporter' in which competition in the long term lending market may be starting to grow. Today other external financiers are active in housing financing in both regions, notably the International Finance Corporation and the European Bank for Reconstruction and Development.

Table 10: Total Balance, Borrowing and EFSE Housing Borrowing of Nine PLIs in BiH and Kosovo, 2003 to 2005^{*/}**

	2003	2004	2005
Nation / Entity			
Kosovo			
Total balance	384,529	502,445	561,619
Borrowing	11,264	23,275	30,522
EFSE loan	3,278	5,462	5,379
Borrowing/Total Balance	3%	5%	5%
EFSE loan/Borrowing	29%	23%	18%
EFSE loan/Total Balance	1%	1%	1%
BiH			
Total balance	1,230,940	2,419,938	2,877,414
Borrowing	165,175	364,015	505,347
EFSE loan	15,220	26,805	24,419
Borrowing/Total Balance	13%	15%	18%
EFSE loan/Borrowing	9%	7%	5%
EFSE loan/Total Balance	1%	1%	1%
PLI			
MFIs			
Total balance	4,883	4,724	11,288
Borrowing	1,750	1,915	8,220
EFSE loan	-	700	1,800
Borrowing/Total Balance	36%	41%	73%
EFSE loan/Borrowing	0%	37%	22%
EFSE loan/Total Balance	0%	15%	16%
Banks			
Total balance	1,610,586	2,917,659	3,427,745
Borrowing	174,689	385,375	527,649
EFSE loan	18,498	31,567	27,998
Borrowing/Total Balance	11%	13%	15%
EFSE loan/Borrowing	11%	8%	5%
EFSE loan/Total Balance	1%	1%	1%
Total			
Total balance	1,615,469	2,922,383	3,439,033
Borrowing	176,439	387,290	535,869
EFSE loan	18,498	32,267	29,798
Borrowing/Total Balance	11%	13%	16%
EFSE loan/Borrowing	10%	8%	6%
EFSE loan/Total Balance	1%	1%	1%

* Three MFIs in BiH did not receive housing loans from EFSE during 2003 to 2005 and are excluded

** Figures for one bank for 2003 available only for the total banking group and excluded

5.2.2 Quality

The assessment of PLI portfolio quality was based on financial information provided by the PLIs together with public financial statements. Portfolio at Risk (PAR) was used as the main measure of portfolio quality, referring to the value of the balance of housing loans that are in arrears by more than 30 days expressed as a percentage of the total value of outstanding loans.¹⁴ The situation over the 2003 to 2005 period for four reporting banks is summarised in Table 11 below and the findings for

¹⁴ Total value of loans outstanding > 30 days (end of period) / total value of loans outstanding (end of period).

seven PLIs are discussed. The average PAR's of the four banks in Table 12 show a better portfolio quality of EFSE funded housing loans than for both the total loan portfolio and the total housing portfolio. The figures show further that the PAR for EFSE housing loans increase over time. Some increase in PAR values was expected in these relatively new housing loan portfolios of banks and especially of MFIs, moreover due to the efforts of EFSE to encourage lending also at the lower end of the market.

Table 11: Average Portfolio at Risk (30 days) of Four Reporting Banks in Kosovo and BiH, 2003 to 2005

	Total Portfolio	Housing Portfolio	EFSE Funded Housing Portfolio
2003	3.36%	4.83%	1.15%
2004	3.45%	5.45%	1.79%
2005	5.18%	5.68%	3.14%

** Unaudited information provided by PLIs and EFSE*

Conclusions for Kosovo are difficult, as only two banks partially reported. One banks shows a concerning increase in PAR on all parts of its portfolio, although the housing and especially the EFSE housing component of the portfolio is of significantly better quality than the total loan portfolio. The situation for the second bank is inconclusive.

In the case of BiH some other banks have significantly higher PAR levels than others on their housing and EFSE-funded housing portfolios. Interviews indicated that these are the banks, which are most aggressive in the market, and are willing to reduce their loan qualification parameters and take on higher risk in return for greater market share. On the aggregate level two strong trends can be noted in BiH. First, what can be seen consistently¹⁵ is that the PAR of housing loan portfolios of banks are significantly higher than their total loan portfolios, but that the EFSE-funded component of housing loans have lower PAR values than the overall housing portfolios in 2003 and 2004 In 2005 EFSE PARs rose in general to higher levels. This shows in part that due to the rather dynamic economic changes taking place some clients are experiencing difficulties in meeting their obligations over time. However it is also noted that as write-offs are very limited at present, bad debts from previous years still remain in the portfolios (hence contributing to increased PAR levels). It can also be surmised that PLIs initially paid greater attention to their EFSE-funded portfolios, most probably due to the combination of the credit administration procedures, technical assistance and external monitoring by EFSE. It might also be that PLIs were prepared to take greater risks in the parts of their housing portfolios that they fund themselves, than in the EFSE-funded component. The second overall trend that can be noted is that with one exception¹⁵ the PAR levels on EFSE-funded housing loan portfolios have increased each year from 2003 to 2005, often substantially.

¹⁵ With the exception of one bank due to missing data.

The study shows that arrears on the EFSE funded housing portfolio are growing overall, while banks in particular are facing more difficulties than MFIs. It should be borne in mind however that MFIs began their housing financing activities more recently than banks and it is therefore less likely that portfolio quality problems are already visible. This is also demonstrated by the delinquent arrears ratio (number of housing loans in arrears divided by the total number of housing loans). Arrears on the combined portfolio of housing loans have increased significantly in recent years in both Kosovo and more so in BiH. Up until now the losses on housing loan portfolios of PLIs have been limited. Only one bank has written off a significant part of its portfolio, although related mainly to overall management problems experienced in the bank. For the PLIs in general, losses are low at present but arrears are increasing. The arrears problems are relatively recent and present a new phenomenon to the PLIs. It should be mentioned that it is also not unusual for arrears problems to emerge in a new loan portfolio first after 4 to 5 years. This often reflects an initial management focus mainly on portfolio growth, and insufficient credit risk management within the bank.

5.3 Industry Conditions

EFSE funding and technical assistance gave PLIs a number of competitive advantages in the finance industry, including access to long term finance allowing them to lend more effectively into the long term housing finance sector, support in product development, product innovation, widening product offerings, and generally strengthening their retail operations. MFIs believe that their overall status improved as a result of their relationship with EFSE, while for banks and in the perspectives of the regulatory authorities this impact was less. Importantly, EFSE has selected the stronger and better performing financial institutions to finance and support. By so doing, it has contributed to consolidation and rationalisation in the finance industries in BiH and Kosovo, and the general professionalisation of the sector.

For many PLIs, technical assistance was an important part of what EFSE has offered. Increasingly, however, local banks have become part of wider international banking networks, as foreign banks have increasingly bought their way into the Kosovo and BiH financial sectors. Many MFIs are also parts of international micro finance networks. Such international bank and micro finance networks have become very important sources of technical assistance for domestic banks and MFIs, both for improving their general operations and regarding housing finance products.

While PLIs were first in the housing market, they now face considerable competition from other (non-EFSE) banks. Competitors, especially in BiH where the market is more developed, are offering housing loans of at least the same conditions as PLIs, or slightly better (longer maturities, larger sizes and lower interest rates). Competing banks are drawing expertise and financing especially from their foreign owners to rapidly enter and compete in the housing lending sector. There are indications also of housing product diversification, with banks beginning to create more than one housing loan product for different market segments and for example starting mortgage lending activities, again especially in BiH.

By supporting the better performing local financial institutions in BiH and Kosovo, therefore, EFSE contributed to the general consolidation and professionalisation of the finance industries in these places. For banks, the industries are characterised still by general rapid growth, although competition between banks is growing (especially in BiH). MFIs are confronted now by a different set of challenges as changes to financial sector legislation require them to make more fundamental strategic choices about their futures, in essence requiring them to increase their professionalism and in the case of BiH presenting the option to transition into formal banks.

5.4 Conclusion

Clear impacts of EFSE on the financial institutions in BiH and Kosovo were identified. EFSE financing and technical assistance catalysed the housing finance market, which has subsequently grown at a rapid pace in both markets. For almost all PLIs, housing loans were introduced with EFSE support as new products. Housing lending has been mainstreamed within the operations of PLIs, inter alia, as their housing lending portfolios have rapidly grown, PLIs have financed an increasing portion of these portfolios from their own financing sources. This reflects especially the impact that EFSE financing has had on leveraging further financing into the housing lending market.

The quality of the housing lending portfolios of PLIs created through EFSE financing are at present better than the quality of the general housing portfolios of these institutions, however for a number of the PLIs these housing portfolios are of weaker quality than the total portfolios. This reflects to some extent the aggression of especially banks in entering the housing lending market. The quality of both the general and the EFSE-financed housing portfolios have however been decreasing over recent years, as could be expected for such a relatively new product.

EFSE support to PLIs in housing has also contributed to the wider reforms and professionalisation taking place in the financial sectors of both BiH and Kosovo. By backing the better performing institutions, EFSE provided them with additional competitive advantages. This has contributed to the consolidation of financial institutions and general operational improvements. The financial sectors in BiH and Kosovo over the past years have been characterised mostly by tremendously rapid growth. There are indications, however, that in BiH and to a lesser extent Kosovo competition between banks is beginning to increase with regard to products and price.

6 Sustainable Housing Finance Systems?

A key consideration for EFSE is whether its developmental impacts are sustainable. In the sphere of housing finance, this concerns particularly the extent to which the housing finance markets, systems, products and institutions catalysed by EFSE technical assistance and financing are (commercially) viable over the long term without extraordinary support. As explored in this paper, EFSE's impacts on housing finance in BiH and Kosovo have been systemic, institutional and have reached to individual households. Viewing these impacts on aggregate, in this section the extent to which indications of

sustainability of the housing finance systems that have been created in these locations by EFSE are assessed. Attention is focused first on a number of factors which suggest that the foundations of sustainable housing finance systems have indeed been created. The second focus is both systemic and institutional challenges that remain.

6.1 Foundations of Sustainability

A sustainable housing finance system is an environment in which commercial financial intermediaries are able to serve on a repeatable basis a real demand for housing loan products from households who are in turn able to service these debts, without permanent external support. There is a real need for housing loans in BiH and Kosovo, seen distinctly in the interest and need expressed by households to improve their housing conditions. At a wider level this is reflected also in tremendously rapid growth of the housing lending market since its first establishment. Households have had few alternatives to loan finance to undertake these improvements. Households who have received housing loans have demonstrated the ability to translate these loans together with other moneys into real housing improvements, which in turn have had a number of beneficial impacts on their overall household conditions. PLI clients have also shown the ability to service housing loans, with at this point relatively low (although increasing) default risk levels. These loans have been concentrated on a client group of bankable households, although the group includes households below the national average household income levels. There is therefore real demand for housing loans by households in BiH and Kosovo and at least for the PLI client households the ability to service such debts effectively.

The housing loan markets in both BiH and Kosovo have grown at an extremely rapid pace. PLIs have established and then grown significant housing lending portfolios that in the case of Kosovo have grown faster than their total lending portfolios, and for BiH have grown also at a considerable pace. Very importantly, since being supported by EFSE to enter this market, PLIs have strongly embraced housing lending and have increasingly financed their portfolios from their own funds. Different kinds of financial institutions have focused on different market segments, and the characteristics of housing loans products have allowed penetration into both relatively lower income and more specialised (e.g. housing mortgage) markets. As the housing market has grown overall, more and new competitors have also entered (especially so in BiH), increasing the range of products and suppliers to consumers. This will ultimately translate into more financing options and on better terms for households. Similarly, increasing competition will improve institutional level efficiency. To date the housing loan portfolios of PLIs have performed well and (as yet) at modest risk levels.

Taken together, these findings regarding the households and financial institutions active in the housing finance system in BiH and Kosovo suggest that a viable and sustainable commercial market has been created through EFSE's interventions. The system in both places, although still in relatively early stages of development and confronting a number of challenges going forward, is functioning effectively although tailored support is still required. Such support is required more in Kosovo than in BiH since there are few alternative financing sources there. With EFSE bank financing now representing only about 0.5% of total bank liabilities in BiH and Kosovo, and EFSE total housing finance making up 17%

of PLI housing lending portfolios in 2005 (down from 25% in 2003), it appears that sustainable early-stage housing finance systems have been established.

6.2 Institutional and Systemic Challenges

While the basic foundations for sustainable housing finance systems have been created by EFSE in BiH and Kosovo, these are still in their early stages of development, in particular in Kosovo. As such they are confronted by a number of systemic and institutional challenges going forward. Indications of a decrease in portfolio quality are seen for housing portfolios of a number of banks. While this has appeared very recently, the growth of portfolio at risk measures for housing lending should be taken seriously by PLIs, who will need to enhance their credit risk management and should probably reduce their aggression in seeking market share. Related to this is the general lack of sophistication in the collateral structure of housing lending, to a large extent reflecting underdevelopment or inefficiency in the cadastral and property registration systems. The over-reliance on guarantors for collateral has been noted as a particular credit risk, also identified by the sector regulators, as well as a limit to market growth. For housing lending PLIs need to explore especially mortgage financing, as this is a more suitable approach for the longer term lending involved.

In general, and as mentioned above, the mortgage market is in its infancy in BiH and Kosovo. For further growth of housing lending, for provision of larger housing loans over longer maturities, and for purposes of maintaining credit portfolio quality, mortgage lending is important. Constraints have been noted in the process of mortgaging properties, and as yet acting on mortgages in instances of default is untested. Improving the legal and institutional framework for mortgage financing is required in both BiH and Kosovo, together with support to financial institutions in credit risk management.

Perhaps the biggest constraint on the immediate horizon for PLIs involved in housing finance relates to the financing structure of these institutions. MFIs, given that they are as yet limited from being involved in taking savings, not least those of longer durations, will continue to demand debt financing if they are to remain active in housing lending and even increase the maturities of their lending in this area. These MFIs are additionally expected to be an important market for EFSE lending also as the high interest margins they enjoy more easily offset the more commercial terms on EFSE loans more recently, as opposed to banks who are facing increasing pressure on interest margins.

Banks which can be expected to play more considerable roles in the development of the housing lending sectors than MFIs in the future will also face financing constraints. This especially relates to their need to balance the term structures of their financing and lending activities. The maturity structure of deposits will most likely fall behind the lengthening maturities of housing lending portfolios. Similarly, as noted previously foreign banks will not be able to finance their local subsidiaries in an unlimited fashion without compromising their own credit ratings. Hence the need for long term forms of debt financing is expected to grow alongside with general market of the housing lending sectors. This has two consequences. On one hand it suggests that the need for long term debt financiers such as EFSE in the market will grow. On the other hand it highlights the need for local intermediaries to

increase access to larger and longer term investors, notably domestic institutional investors and international capital markets.

In summary, this paper set out to assess the extent to which EFSE's activities in the housing sector impacted to build sustainable housing finance systems in BiH and Kosovo. The analysis resulted in several important findings in this regard.

1. There is strong evidence that EFSE catalysed the initial development of the housing finance markets in BiH and Kosovo through its combination of technical assistance and long term debt financing.
2. At the client / sub-borrower level it was found that the EFSE-financed housing loans contributed significantly to the ability of households to improve their living conditions in this war-damaged region. The findings indicate that not only was this impact significant, but that for most households such improvements would not have been possible without housing loans. The need and effective demand among households for housing loans is apparent.
3. EFSE-financed housing loans were targeted by PLIs to a bankable client group that felt significantly more in need of housing improvements than the control. Since the PLIs analysed in the study targeted different client segments, with MFI's providing smaller loans to lower income level households and large banks offering larger loans to higher income households within the client group, the EFSE financing facility covered a wide spectrum of clients with the many below national household income averages.
4. At the start of its housing loan facility EFSE was about the only foreign institution supporting PLIs with long-term loans and technical assistance. With this facility and the conditions attached, EFSE had not only an impact on the efficiency of these institutions through better credit management, etc. but also enabled them to start long-term housing lending. In particular during the early years of the partnership EFSE's activities PLIs in BiH and Kosovo had difficulties in matching the maturity wishes of their clients with the maturities of the funds entrusted to them. Recently banks have become more successful in attracting long-term savings.
5. Except during the first years of the intervention the conditions of EFSE lending are commercial and as such did not distort market conditions. Similarly, the loan conditions for the sub-borrowers have been market conforming during the entire period. This is confirmed by the fact that non-PLIs have followed the PLIs in entering the housing loan market at in some cases even milder conditions than PLIs.
6. Since EFSE's 'market-making' interventions, the housing finance markets in BiH and Kosovo have and continue to grow rapidly. Financial institutions are increasingly financing their housing lending growth through non-EFSE sources, including deposits, equity and other borrowing. These important signals underline the longer term commercial viability of these markets.
7. EFSE with its support to PLIs in housing has sought to develop and improve financial systems, institutions and products so as to benefit those households most in need of financial support to

improve their housing conditions. This requires a trade-off between the requirements of commercially sustainable financing, and the needs of often extremely poor households. The study shows that through its combination of technical support, financing and conditions, EFSE supported PLIs to provide housing loans to both poorer households and those with greater means thereby achieving a working balance between commercial sustainability and extending benefits to those most in need.

Given these observations it is clear that EFSE has contributed to establishing efficient and healthy financial institutions servicing new and growing housing finance markets. This in turn has been a positive and sustainable contribution to the overall financial sector developments in these rapidly changing environments.