

MICROBUILD FUND

**Habitat for Humanity International's
MicroBuild facility - Emerging Lessons**

Ezekiel Esipisu

What is MicroBuild

- Catalytic Investment fund established by HFHI – targeting to mobilize US\$100 million for wholesale lending
- Aims at increasing availability of housing loan products to low-income customers of MFIs
- MB to help MFIs expand their services to meet the demand for incremental housing and HIL's
- MB will foster lasting partnerships with MFIs through capital investment and specialized TA
- Partners of the MB Fund will have access to relatively longer term funding and technical assistance.

Institution Selection Criteria

- Operationally sustainable or in positive trend.
- Strong management and good corporate governance.
- Good portfolio quality.
- Leverage within reasonable limits.
- Commitment to fair lending practices.
- MIX Transparency rating of three diamonds or higher (preferred).
- Audited financial statements of more than three years.
- Existing HMF portfolio (committed microfinance institutions without a portfolio can become partners for technical assistance).

Prequalification of investees

- Proportion of portfolio allocated to non-business and non-housing activities (salaried lending etc.) >35%
- No existing relationship (equity, debt, donations, governance) with publicly accountable organizations such as Development Financial Institutions, NGO networks, local reputable NGO's, foundations etc.
- Executive compensation significantly outside benchmark.
- Significant profits distributed to profit-oriented private owners. Policy of continuous dividend payout over 1/3 of profits.
- Not signed onto SMART campaign

Constraints to MFIs lending for housing

During the Assessment to determine the Technical Assistance required the MFIs expressed:

- Diversion of loan funds
- Using staff not trained in HMF
- Over funding of clients
- Poor collateralization
- Desire to expand their outreach
- Desire to increase the value-add to the clients by providing non-financial housing support services (HSS)
- Diversify their housing portfolio to include loans that target a wider spectrum of clients:
 - ✓ the low income (less than \$1,000)
 - ✓ the slightly better off (average loan size of \$2,000)
 - ✓ the relatively well-off but who still might not have an opportunity to access finances from formal mortgage providers (average loan size of \$5,000).

Our Institutional Technical Assistance through Habitat's Center for Innovation in Shelter and Finance

- Market Research and Client satisfaction Assessment
- Credit officer/Branch Manager training on HMF (capacity building)
- Marketing and promotional materials of HMF products
- Product refinement/development and lending policy and procedures review
- Product monitoring and evaluation
- Housing support services design including materials (non-financial services)



Global Impacts of MicroBuild

- 24,220 households have improved their homes (14% include new homes)
- 58% women
- 42% urban
- \$29M invested
- 20 MFIs across 15 countries
- \$2.7M Technical Assistance
- Fund has recouped start-up costs and will give social investors returns

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Lessons learnt

- Few MFIs on the continent meet the strict financial performance criteria applied by the Investment Committee.
- By design, the fund seems to be excluding the less stronger MFIs which have the potential to try out new ideas
- High hedging costs in the region make MBF pricing in local currency unaffordable for the MFIs in some cases.
- Lack of clarity regarding non-financial eligibility criteria (salary lending, government ownership, etc.).
- Meeting MFIs expectations - In some instances, MFIs have previously received subsidized funding to pilot/implement “innovative” products. They expect same from MBF
- working with MFIs to focus them on HMF not easy – they think about housing in terms of mortgages and micro mortgages
- Substituting titling with secure tenure – mindset shift