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MicroBuild Fund

Annual Report FY2019

At the fiscal year's end, 38% of MicroBuild Fund's outstanding portfolio was allocated to Latin America and the Caribbean.

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The capital and technical assistance provided by the MicroBuild Fund have helped **155,300 households — 776,500 individuals —** improve their housing conditions.



Mike Carscaddon

Chairman
MicroBuild Fund Board of Directors

The MicroBuild Fund completed another successful year of operations, exceeding expectations on both financial and social returns. During the year, the fund surpassed US\$132.5 million in disbursements to 54 financial institutions in 31 countries. The MicroBuild Fund aims to encourage the financial sector serving low-income populations to include housing products as part of a suite of services.

To that end, the capital and technical assistance provided by the fund have helped **155,300 households — 776,500 individuals — improve their housing conditions**. Beyond this direct impact, we have helped catalyze the sector to crowd in over **US\$441.2 million** in additional capital to affordable housing finance.

Another important role of the fund is to share what we have learned with others. We were thrilled that the Grunin Center for Law and Social Entrepreneurship at New York University School of Law, with support from the Omidyar Network, published the first in a series of three case studies on the MicroBuild Fund. These case studies are unique in that they will be longitudinal over the life of the fund and are interdisciplinary in nature and meant to be taught in law, public policy and business schools.

Given the success of the MicroBuild Fund and the critical need for more affordable housing finance as the fund winds down by 2026, Habitat for Humanity is in the early stages of exploring the launch of a second fund.

More broadly, Habitat for Humanity's Terwilliger Center for Innovation in Shelter, which houses the MicroBuild Fund, seeks to create more inclusive markets that are responsive to the needs of low-income home builders around the globe. The center's new strategic plan calls for influencing the housing sector by demonstrating new private-sector solutions that can be widely adopted by market actors to assist low-income households.

Habitat's Terwilliger Center remains grateful to our partners the Omidyar Network, MetLife Foundation and Triple Jump, and to our key supporters the Hilti Foundation, IKEA Foundation, Overseas Private Investment Corp., Morgan Lewis, the Stanard Family Foundation and the J. Ron Terwilliger Family Foundation. We also appreciate the many others who have supported the MicroBuild Fund and its mission to provide low-income families with access to affordable housing finance. ■



Steven Evers

Managing Director and CEO

Triple Jump, fund manager of the MicroBuild Fund

HIGHLIGHTS AND FUND EVOLUTION: Triple Jump is satisfied with the progress of the MicroBuild Fund and the disbursement of US\$132.5 million across the globe. This shows that the MicroBuild Fund continues its commitment to successfully enable financial service providers to expand their housing microfinance portfolios and supply tailored services to their end-clients. From a financial perspective, the fund is performing well, and the risk profile of the portfolio is satisfactory. During the fiscal year ending in June 2019, the fund maintained a robust presence in Latin America and the Caribbean, Asia and the Pacific, and the Caucasus, as we believe

these regions have conducive macroeconomic environments and well-performing microfinance institutions. The regional allocation of the outstanding portfolio at year's end was 38% Latin America and the Caribbean; 31% Eastern Europe, Caucasus and Central Asia; 23% Asia and the Pacific; and 8% Africa and the Middle East.

While keeping the risk of the fund within prudent boundaries, the MicroBuild Fund aims to reach clients through local currency loans in order to safeguard the end user from exchange rate losses. In this respect, 53% of the portfolio is in local currency, and over 75% of this local currency position is hedged at market rates as a means of managing the fund's foreign currency risk. The Hilti facility continues to be a vital tool for the fund's foreign exchange risk mitigation strategy, and as of June 2019 the Hilti portfolio amounted to US\$6.6 million.

PORTFOLIO EVENTS: During the year, the Nicaragua exposure was the primary source of risk for the portfolio. Since the start of the political protests in April 2018, investees in Nicaragua experienced a sharp increase in credit risk that resulted in a deteriorated portfolio quality and performance for all of the MicroBuild Fund's investees (FAMA Nicaragua, FDL and Fundenuse). Despite the continuous performance deterioration, all Nicaraguan investees have been able to honor their obligations with the fund so far. However, even with all efforts from microfinance institutions and the regulator to manage this crisis, portfolio quality and performance may continue to deteriorate. Despite the government's renewed hold on power, Nicaragua's economy entered recession in the second half of 2018, and this is likely to continue

MicroBuild Fund continues its commitment to successfully enable financial service providers to **expand their housing microfinance portfolios and supply tailored services** to their end-clients.



through 2019. Protests have somewhat died down but are more likely to start at the end of the year if the economy weakens further. However, it is unlikely that the protests will reach 2018 levels given that public demonstrations have been banned. The fund's exposure to Nicaragua will remain under close monitoring until the situation in the country improves.

HOUSING MICROFINANCE AND SOCIAL PERFORMANCE: The MicroBuild Fund continues to successfully accelerate the growth of housing microfinance by providing long-term social investment capital. The housing microfinance portfolio outstanding of the fund's partner institutions reached US\$1.089 billion, enabling access for more than 413,000 households and 2 million individuals. Furthermore, partner institutions continue to have a robust presence in

Latin America and the Caribbean, Asia and the Pacific and the Caucasus, as we believe these regions have solid social performance, with 44% rated A-Excellent and 56% rated B-Good. At the year's end, outreach to rural areas reached 71% and outreach to women reached 74%, maintaining the excellent social outreach that the fund has seen in previous years.

OUTLOOK: Triple Jump's team is enthusiastic to keep working on the MicroBuild Fund throughout the year as we expect to have the fund fully invested by the end of the 2019-20 fiscal year. We expect to maintain a high exposure mainly in Latin America and the Caribbean and in Asia and the Pacific, as we believe these regions have conducive macroeconomic environments. We anticipate 12 months of solid portfolio growth and high social return. ■



Johann Baar

**Director of Affordable Housing
and Technology**
Hilti Foundation

What if we could help not just a few hundred or a few thousand families find a decent place to live, but provide millions of people with the opportunity to build better homes for themselves? That was an intriguing thought for us at the Hilti Foundation when we started to engage with Habitat for Humanity back in 2012, providing early-stage support for the MicroBuild Fund.

Today, more than six years later, over US\$400 million of capital has been mobilized, helping more than 2 million people in some of the world's poorest countries receive an affordable loan to improve their housing situation. At the same time, the fund has proved to be profitable, and as such it has become a role model for a profitable financial business that is able to create sustainable social impact.

This was possible because of the smart management of the teams at Habitat's Terwilliger Center for Innovation in Shelter and Triple Jump, the continuous support of a group of committed partners, and the openness and dedication of

local microfinance institutions in over 30 countries globally to use the MicroBuild Fund as a resource and opportunity to redefine and enlarge their loan portfolio for housing.

At the Hilti Foundation, we are proud to be part of this success, especially since the MicroBuild Fund represents our core belief about the way development aid should be provided. Michael Hilti, the founder and former chairman of the Hilti Foundation, expressed this in our mission statement: "As a responsible family and as a strong group, we want to contribute to the further development of society. Our goal is not simply to help those who are in distress. We support people in their endeavors to improve their lives by way of their own effort, promoting help for self-help."

This shared belief is a strong basis for our partnership with Habitat for Humanity. For us, there is one thing, however, that makes this partnership even stronger: **the continuous and collaborative research of new and better solutions for affordable housing for families in need.**

The MicroBuild Fund in that sense is not an end to itself, but has led to numerous other ideas and initiatives that help deliver social impact through housing. Creating markets for housing products and technologies that are affordable, durable, ecological, locally produced and targeted to the specific needs of the informal sector across countries of the Global South is just one example of how the Hilti Foundation and Habitat for Humanity collaborate. We look forward to many other initiatives to follow. ■

Building the case of the MicroBuild Fund: From classroom to practice



Professor Deborah Burand

Board Director of the MicroBuild Fund and Member of the Investment Committee

In early 2019, with funding from the Omidyar Network, New York University Law's Grunin Center for Law and Social Entrepreneurship and NYU's Wagner School of Public Policy collaborated to create the first of a suite of multidisciplinary case studies about the MicroBuild Fund. This is the story of why and how my NYU colleagues and I built a case study about the fund's launch.

As the faculty co-director of the Grunin Center, I have seen firsthand the growing student demand for curricular and extracurricular activities that build the skills and knowledge necessary to launch a successful social impact career. In responding to this demand, however, I have come to realize that our educational horizons need to expand far beyond the legal discipline and law school where I teach. Just as the "wicked" problems of society require multidisciplinary approaches and innovations, so too must our educational offerings.

There is a word for people like me. We're called "pracademics," for we are both academics and active practitioners in our subject areas. As a practitioner in the fields of impact investment and social entrepreneurship, I am aware of the need to work across disciplines when confronting big societal issues, like the inadequate shelter that houses so many of the world's poor. As an educator and academic, however, I am troubled by how little we do to help students gain the skills necessary to work effectively on teams that are composed of professionals from a range of

disciplines. Legal skills alone will not solve the world's problems, yet neither will finance skills or public policy acumen. On the other hand, by working together across areas of expertise, we raise the odds that enduring change for the better is within reach.

I am not the first to imagine a world where educational institutions take to heart the old adage that "the whole is greater than the sum of its parts" and, therefore, intentionally put students in learning environments where they are required to problem solve with colleagues from other disciplines. But these opportunities are more often the exception than the rule. In part, this is due to the siloed, departmental structure favored by many universities and other institutions of higher learning.

Another practical consideration, however, is that there are not many teaching tools available that successfully integrate perspectives across disciplines. One way to begin to fill that deficit is to build a series of "social impact" case studies that show how actors from multiple disciplines work together to tackle some of the world's most challenging problems, hence our decision to build a series of case studies about the MicroBuild Fund.

As a demonstration fund, the MicroBuild Fund has learning built into its DNA. But, as those who invested in the MicroBuild Fund are likely quick to tell you, it is not enough that the investors learn from their experience. Rather, an important factor



in the MicroBuild Fund's enduring impact will be how successfully it informs all those who follow.

The first case study of the MicroBuild Fund focuses on its origin story. Told from the point of view of Patrick Kelley of Habitat for Humanity, the story opens as Patrick awaits word of the results from a meeting taking place at the U.S. government's development finance institution, then called the Overseas Private Investment Corp., or OPIC. At the meeting, staff members are presenting to OPIC's board of directors an investment proposal to lend US\$45 million to the not-yet-launched MicroBuild Fund. While he waits to hear news from OPIC, Patrick reviews the many steps taken over the years by Habitat's board and staff, along with other stakeholders, to get the MicroBuild Fund to this important juncture.

This setup offers users of this first case study the opportunity to examine the varying motivations and key decisions made by the MicroBuild Fund's early investors. The case study, however, does

much more than simply recount the MicroBuild Fund's origin story. It also provides access to major funding agreements (debt and equity), deal structure charts, and videotaped interviews of key players in the launch of the fund. Teaching guides are being created in a modular fashion so that they can be used by specific disciplines or jointly in multidisciplinary settings.

This is just a first step in "building the case" of the MicroBuild Fund. Over the coming years, my colleagues and I at NYU are committed to creating additional case studies that map the evolution of this particular impact investment fund – how it scales and how it winds up. In doing so, students and practitioners worldwide will have front-row seats to watch the life cycle of the MicroBuild Fund. This, we hope, will amplify the impact of the fund as it teaches and inspires others – in our classrooms and beyond – to invest their combined talents and resources into improving housing for the world's poor. ■

Terwilliger Center for Innovation in Shelter:

Influencing systemic market change



Patrick Kelley

Vice President of Habitat for Humanity's Terwilliger Center for Innovation in Shelter

When we launched the MicroBuild Fund in 2012, we knew that there was a vast need for housing finance services to address the realities of the informal housing sector. Formal housing finance markets had missed the mark, offering mortgage products that were unfit for the incremental process by which most people in emerging markets build their homes. Such low-income borrowers clearly wanted financing to help them build and improve their homes. Local financial institutions were convinced too and were increasingly offering unsecured nonmortgage "housing microfinance" products to their clients. There remained one question: Would investors follow? We built the MicroBuild Fund to demonstrate the case to investors and unlock the capital markets for this type of financing for the nearly 2 billion people worldwide living in substandard shelter – a sector that needs US\$16 trillion in capital to catch up to today's need.

Seven years after we launched the MicroBuild Fund, we believe that we are seeing progress toward our goal. The capital investments made possible by the MicroBuild Fund have enabled 54 financial institutions to provide new housing financial products and services to their clients. Furthermore, the MicroBuild Fund has provided consequential proof for the hypothesis at the core of our approach – that once a convincing case for a new business model has been made, there can be a ripple effect across the market as others adopt the model. We know of at least four funds that have

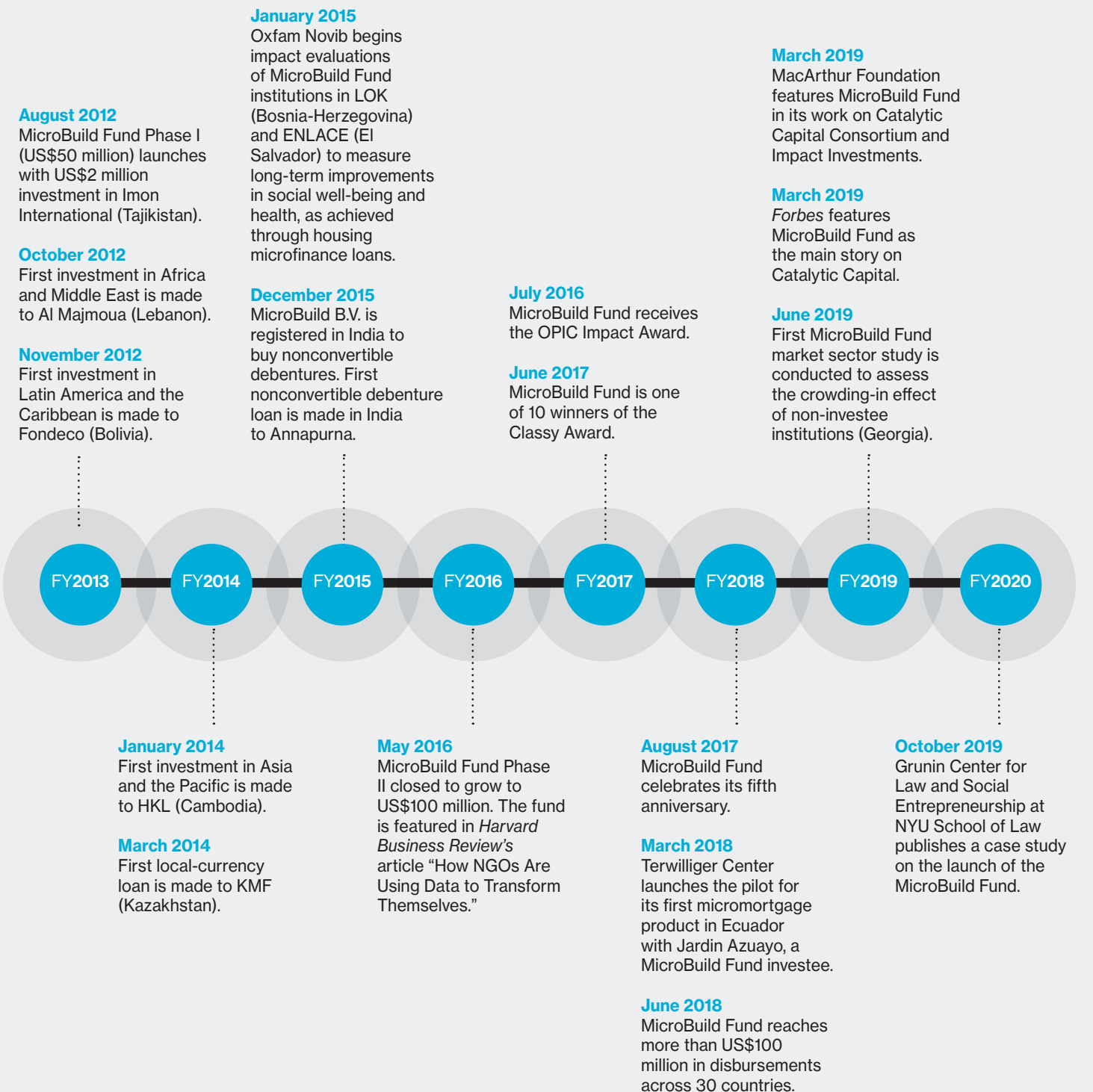
begun to include informal-sector housing within their scope and have seen growth of investment in the whole value chain around the incremental builder. Now technology firms, multinational cement companies and large banks are beginning to see the opportunity.

This role of a catalyst – instigating systemic change through an initial proof-of-concept – is the recurrent theme in the Terwilliger Center's new strategy. We have identified housing finance, entrepreneurship ecosystems, and the construction decisions and practices as areas where we aim for nothing less than systemic change by demonstrating to market actors that there is untapped opportunity at the base of the shelter pyramid. First, we prototype solutions such as accelerators for shelter innovation or the use of entertainment media for raising awareness on disaster-resilient construction. Then, we work hard to get firms, lenders and others to adopt successful solutions so that the entire market can change.

As we build on the success of the MicroBuild Fund, we have a narrative of fresh possibility to weave: that new flows of investment capital into markets that are inclusive and responsive to the needs of low-income builders will result in shelter improvements for many millions. ■

MicroBuild Fund milestones by fiscal year

Fiscal year runs from July 1 to June 30

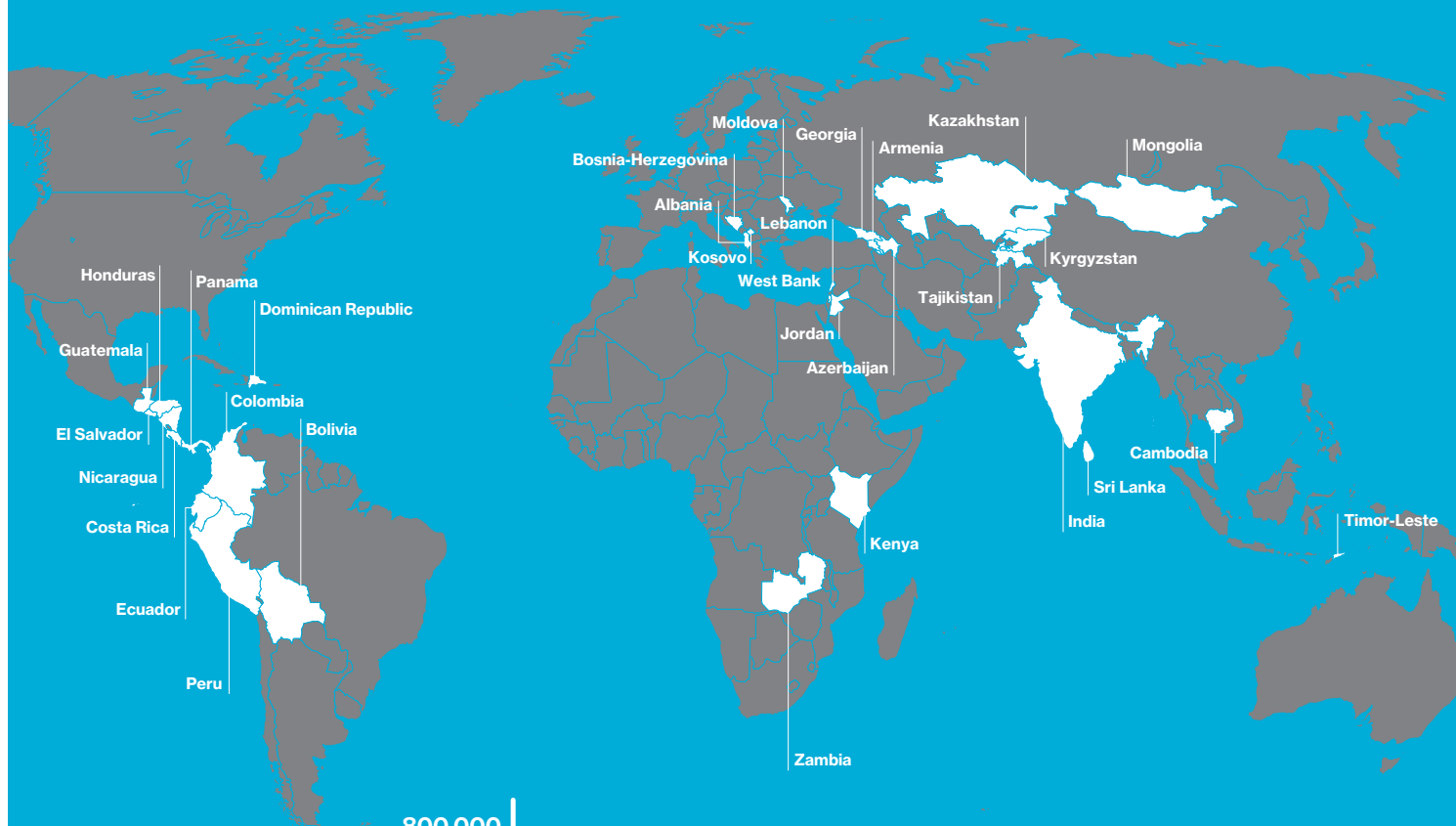


In recent years, the MicroBuild Fund won the OPIC Impact Award and was one of 10 winners of the Classy Award.

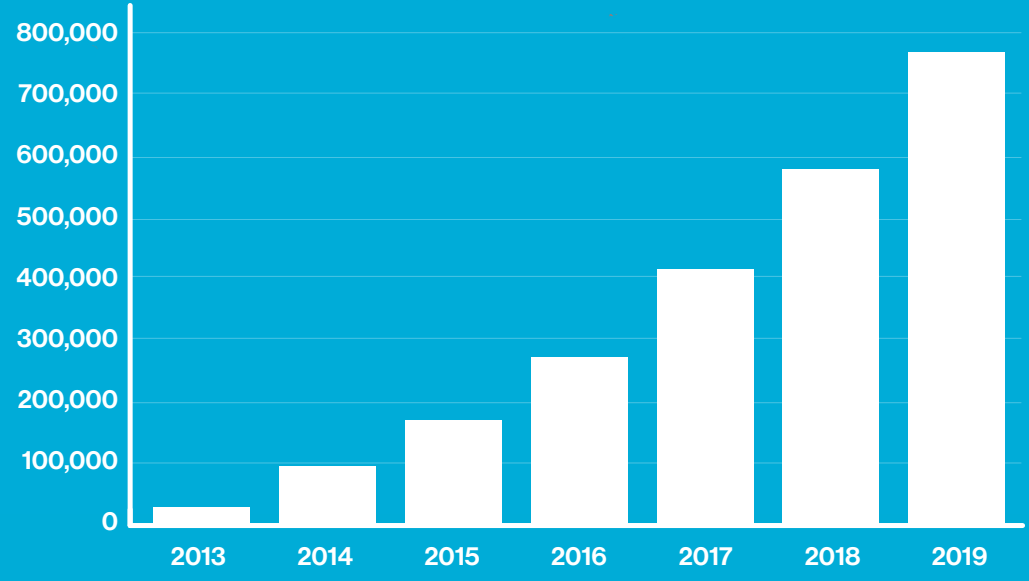


MicroBuild Fund by the numbers

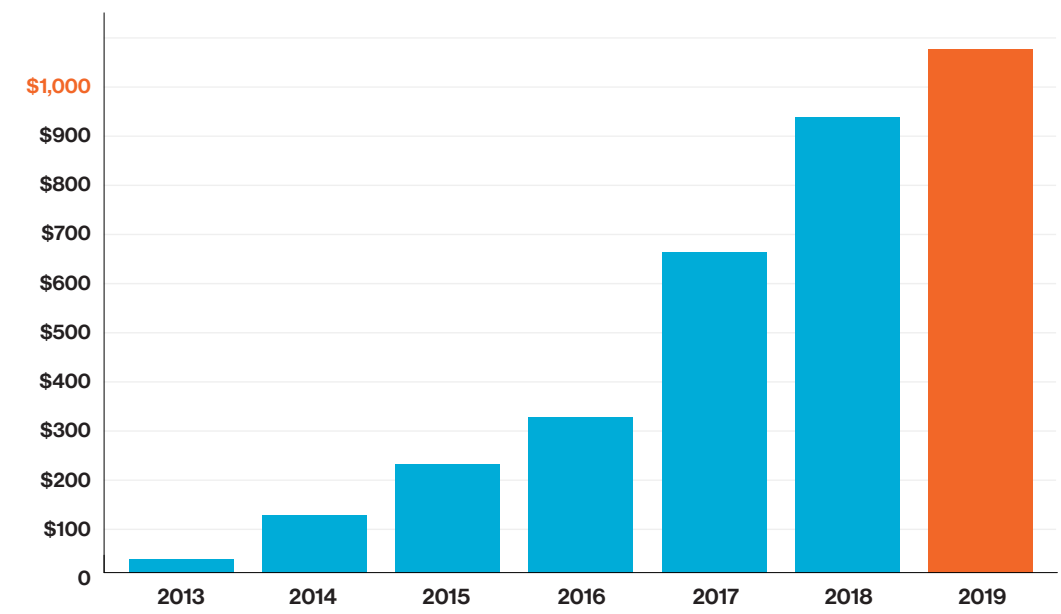
Where MicroBuild Fund operates



Individuals impacted by the MicroBuild Fund



Total housing portfolio of MicroBuild investee institutions (in millions)



Housing microfinance portfolio growth and performance

The MicroBuild Fund concluded fiscal year 2019 with its largest disbursement of US\$31.3 million since its launch. Five new institutions across as many countries – Albania, Bosnia-Herzegovina, Colombia, India and Kazakhstan – were added to the portfolio. Overall, the fund’s disbursed portfolio reached US\$132.5 million across 54 institutions in 31 countries in new and top-up funding. Cumulatively, 155,300 households and 776,500 individuals gained direct access to incremental housing.

In addition to funding, the MicroBuild Fund has provided technical assistance of nearly US\$8 million to partner institutions. Technical assistance comprises market research and housing needs assessment; new product development or refinement of existing ones; pilot rollout and monitoring; capacity building and training of loan officers and key staff members to underwrite

housing loans; and integration with related products such as hardware, cement, mason services and property formalization.

The housing microfinance portfolio of investee institutions continues to show strong growth and scale. As of June 30, 2019, the housing portfolio of all disbursed investee institutions increased by 16.2% to US\$1.089 billion; a compounded annual growth rate, or CAGR, of 25.3% compared with the CAGR of 22.9% for the general portfolio. Furthermore, MicroBuild Fund partner institutions have mobilized additional capital of US\$441.2 million to expand their housing microfinance portfolios, impacting over 413,000 households and over 2 million individuals. As an evidence of financial viability, the housing microfinance portfolios of investee institutions show strong portfolio quality with an average weighted portfolio at risk, or PAR30, for all housing loans at 2.8% compared with the weighted average PAR30 of 4.7% for the general portfolio. Overall, about 15% of the total portfolio of investee institutions is dedicated to housing.



The MicroBuild Fund captures several key social impact indicators globally.

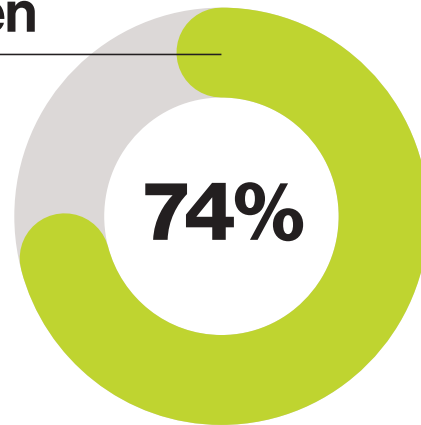
Social impact indicators

Below are several social indicators that highlight the MicroBuild Fund's social impact successes:

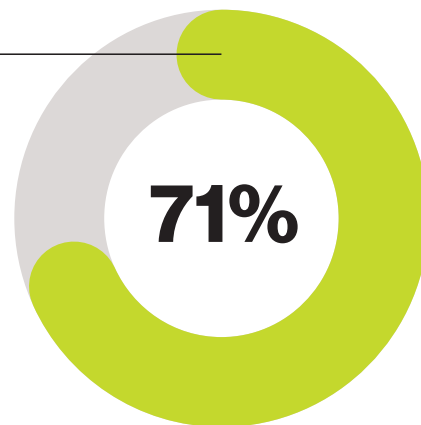
Seventy-four percent of the MicroBuild Fund's borrowers are women. The MicroBuild Fund aims to support women clients because the Gender Inequality Index estimates that if the proportion of women accessing microfinance services increased by just 15%, gender inequality could be reduced by half in the average developing nation.¹

Seventy-one percent of the MicroBuild Fund's borrowers are in rural areas. Rural housing typically suffers from lack of access to sustainable materials and linkages with existing infrastructure. A home is a major capital asset, and for many borrowers, housing improvement is synonymous with productivity, as they are running home-based enterprises. By partnering with institutions that focus on rural operations, the MicroBuild Fund aims to provide housing microfinance access to rural, unbanked households. ■

women



rural



Strategically managing an international portfolio

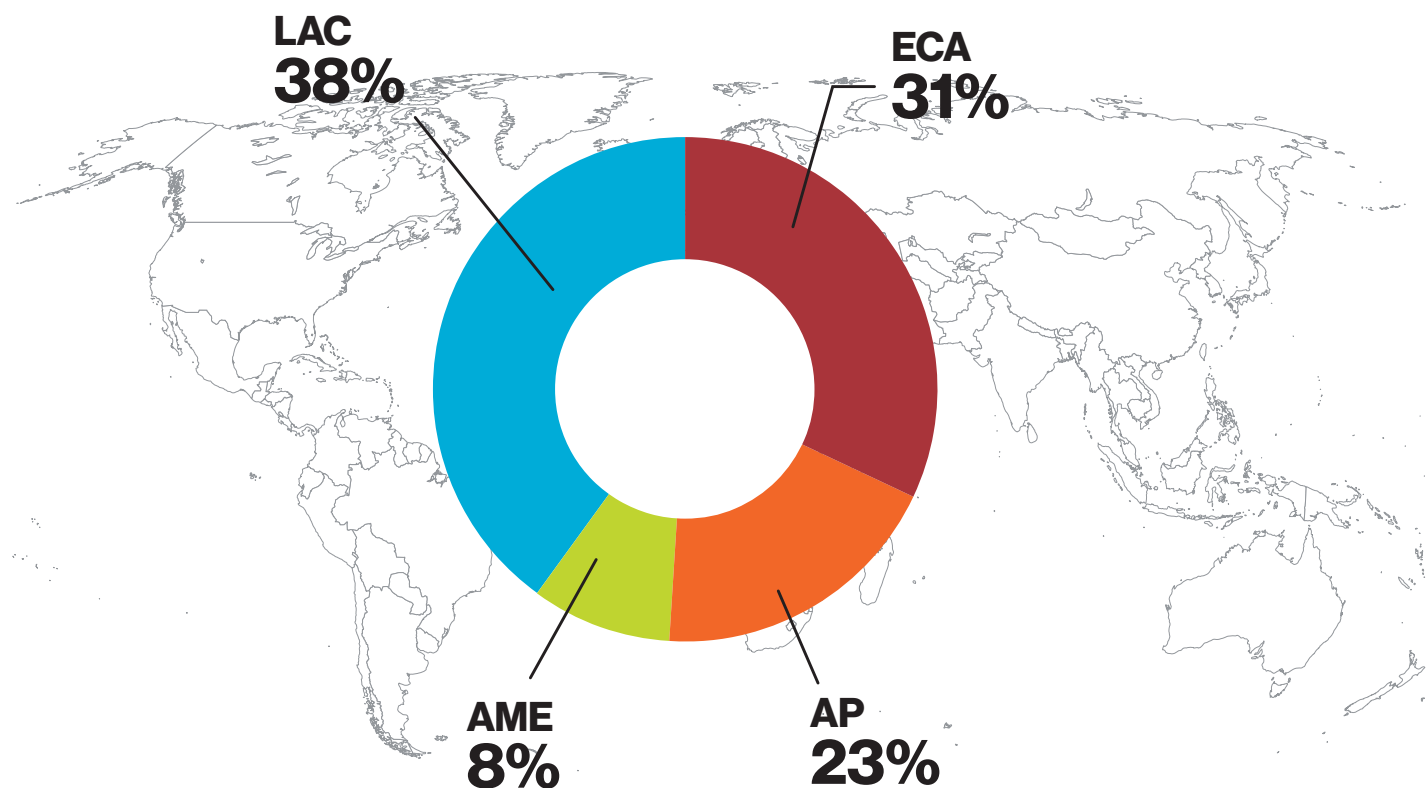
By region, MicroBuild Fund's total disbursed portfolio is allocated as follows:

8% in Africa and the Middle East

31% in Europe and Central Asia

23% in Asia and the Pacific

38% in Latin America and the Caribbean



Market sector impact study in Georgia

At the MicroBuild Fund's halfway point, Habitat's Terwilliger Center has seen evidence of a demonstration effect, whereby microfinance institutions that received capital and technical assistance from the MicroBuild Fund often scale their housing portfolios after the investment. To build upon this information, Habitat's Terwilliger Center sought to study whether the MicroBuild Fund was also having a crowding-in effect on non-MicroBuild Fund institutions (non-investees), whereby housing microfinance was adopted and scaled by non-investees as a result of the MicroBuild Fund's in-country investment.

As a first step toward answering this question, Habitat's Terwilliger Center conducted a study in the Europe, Middle East and Africa region.² The center hired a consultant to perform desktop research of four countries within the MicroBuild Fund's portfolio: Bosnia, Georgia, Kazakhstan and Lebanon. Based on this research, Georgia was selected for a field visit.³ In May 2019, Habitat's

Terwilliger Center and an independent consultant spent three weeks in Georgia and interviewed more than 30 stakeholders, including financial service providers, government entities and others.

Findings indicated that while MicroBuild Fund's Georgian investees had successfully scaled their housing microfinance portfolios, non-investee institutions had not adopted dedicated housing products. Based on these interviews, Habitat's Terwilliger Center will refine its MicroBuild Fund scaling strategy to be more customized at the country level. For example, the MicroBuild Fund may opt to scale housing microfinance only through its investees in some countries of investment, and it may aim to crowd in additional institutions beyond investees in other countries. Habitat's Terwilliger Center also may build upon these findings and replicate the market sector study in other regions to understand whether the findings are similar to or different from those outside of Georgia. ■



Security of land tenure

Facilitating access to land and secure tenure in El Salvador

Habitat for Humanity previously collaborated with Global Land Alliance, an organization that is advancing learning and practice around land tenure, to facilitate a mapping exercise to seek opportunities in countries where land reform has made sufficient progress and where there is demand. The main objective of the partnership was to design an initiative that would support the implementation of scalable models linking land tenure services with housing microfinance. Global Land Alliance identified El Salvador and Peru as two countries with the most conducive environments for implementing land-tenure programs.

In early 2017, INCAE estimated that about 4.3 million Central American families live in inadequate housing.⁴ About 1.2 million of those families are in El Salvador. The study analyzed and compared four components of the qualitative housing deficit in each country: property rights (secure tenure), quality of materials

(flooring, roofing and walls), access to drinking water, and sanitation. El Salvador had the highest qualitative deficit, with 24% of households lacking secure tenure.

Building on the above, Habitat's Terwilliger Center collaborated with Habitat for Humanity El Salvador in 2017 to facilitate access to secure land tenure for 200 Salvadoran families residing in the departments of San Salvador and La Libertad by introducing methodologies and tools that can streamline the titling process and reduce cost. Partnering with the Institute for Property Legalization, or IPL, a key player in El Salvador, Habitat El Salvador identified 500 families to receive social and legal diagnoses of their plots, along with education on secure land tenure. To date, 183 families across five settlements have been selected to obtain land security with the support of Habitat El Salvador and IPL. Successful implementation will facilitate the replication of the model in other Central and South American countries.



Land rights in Indonesia

Since 2018, the Terwilliger Center has partnered with Meridia, a company that combines its technology platform with on-site legal verification of documents to offer secure ownership to families. The collaboration is now extended to include Indonesia, where about 8 million homes are uninhabitable and a further 14 million are severely inadequate. Most of these homes also lack land title security, limiting a family's appetite for investing in housing improvements.

Based on research conducted by Meridia, land documentation in Indonesia can be had by private individuals, but this can be a daunting task for poorer communities in informal settlements. Government land titling efforts focus largely on key cities or rural farmer programs. If a family or individual landowner does not fall within these parameters, the cost of acquiring documentation

can be very high and the process can be quite long. As urban areas grow, financially disadvantaged communities in periurban areas risk losing their land or engaging in conflicts with developers and others. In some larger cities such as Bandung, entire communities have been displaced.

In partnership with the Indonesian government, Meridia has developed a unique approach to land documentation that allows for rapid digital registration of land rights and subsequent issuance of land certificates by local government land offices. Habitat's Terwilliger Center will work with Meridia to identify local banks to co-develop an integrated land title and housing improvement loan product that will help borrowers obtain housing microfinance loans bundled with the cost of land documentation. ■

Africa and the Middle East



Spotlight on FATEN, West Bank

COUNTRY CONTEXT AND HOUSING CHALLENGES

The West Bank and Gaza are characterized by high political, economic and security risk. The region is ruled by two political parties with unresolved conflict, Fatah and Hamas.⁵ The economy remains dependent on foreign aid, and approximately 32% of households in Gaza and the West Bank suffer from food insecurity as of 2017.⁶ The International Finance Corp. estimates that Palestine’s microfinance market has a demand gap between 245,000 and 345,000 people in need of finance as of 2016.⁷

There is also a large mismatch between housing supply and demand. There is demand for approximately 15,000 housing units annually, but only 5,700 construction permits are issued per annum. The result is a housing shortage of nearly 10,000 units per year.⁸ Even if the housing supply should increase, average home prices are unaffordable to approximately 70% of Palestinian households.⁹



developed a sizable housing loan portfolio. In 2016, FATEN partnered with Habitat’s Terwilliger Center to improve its housing loan product offering. As of June 2019, the institution’s housing portfolio was nearly 30% of its total gross loan portfolio.

ABOUT FATEN

- **Gross loan portfolio of nearly US\$98 million**
- **37 branches**
- **34,000 active borrowers**

FATEN is the largest microfinance institution in the West Bank, accounting for almost half of the market served, and it skillfully operates in a difficult region. It has financed housing improvement projects for low-income households since 2008. Over time, it has built a strong reputation and

CLIENT STORY

Rami works in construction and lives in the Dora governorate village of Hadeb AlFawar with his wife and two children. In 2018, his family began building a four-room home with a US\$4,000 loan from FATEN. With access to this capital, Rami was able to complete his home’s electrical network and install flooring, windows and doors. Now his new home is ready for him and his family. “The loan helped greatly in improving my life,” Rami says. “Having a house of my own makes me feel more comfortable.” ■

Asia and the Pacific



Spotlight on Ummeed, India



COUNTRY CONTEXT AND HOUSING CHALLENGES

Over the past decade, India's integration into the global economy has been accompanied by economic growth. The country has significantly reduced its poverty levels, with extreme poverty plummeting from 46% to 13% over the two decades before 2015. But even as the country has made strong progress, there are still 176 million people in poverty – equal to over half of the population of the United States.¹⁰

In India, there is also a significant housing shortage of over 60 million units. An additional 25 million to 40 million informal housing units are in poor condition. Rapid urbanization and a lack of planned, affordable housing further compound this problem. To address these shelter demands, the Indian government established the Housing for All by 2022 initiative. At present, the affordable housing segment represents a huge opportunity and is expected to be the next big growth driver of the Indian economy, with projected growth of 30% over the medium term.

ABOUT UMMEED HOUSING FINANCE PVT. LTD.

- Gross loan portfolio of US\$46 million
- 4,000 active borrowers

Most low-income people work in the informal sector and lack proof of income, which excludes them from the formal banking and housing sectors. Dedicated affordable housing finance companies, or HFCs, are bridging the gap and serving low-income households without documented income requirements.

One such HFC is Ummeed Housing Finance Pvt. Ltd., or Ummeed. This is a young institution founded in November 2016. It provides access to housing finance for the low- and middle-income urban population. Ummeed offers customized home loans ranging from INR 300,000 to INR 3 million (US\$4,500 to US\$46,000) to suit a range of customer requirements, including purchase of apartments, construction of homes, housing improvements, housing extensions and availing loans against property. Through these services, Ummeed is addressing a much-needed social intervention across India. ■

Europe and Central Asia



Spotlight on Crystal, Georgia

COUNTRY CONTEXT AND HOUSING CHALLENGES

Georgia was formerly part of the Soviet Union. Since gaining independence in 1991, the country has made tremendous strides toward political reforms and economic growth. As of 2017, it is a lower-middle-income country with a poverty rate of 21%.¹¹ However, the situation is tenuous, with approximately half of the population vulnerable to falling into poverty.¹² Looking ahead, one economic bright spot is the country's growing tourism sector, which offers homeowners in certain locations the ability to increase their incomes by renting rooms in their homes to tourists. Challenge areas that

may impede economic growth include household overindebtedness and a large shadow market.^{13, 14}

Most Georgians live in poor-quality housing constructed during the Soviet era. Such housing stock is past its life span and in very poor condition. In rural areas, households have less access to basic amenities, with only a small percentage having access to gas central heating systems or a tap water supply.¹⁵ Most microfinance institutions recognize the natural demand for housing loan products, but few offer dedicated housing microfinance loans to their clients, instead opting to provide only a few general-category products.





ABOUT JSC MFO CRYSTAL

- Gross loan portfolio of US\$96 million
- 69 branches
- 100,000 active borrowers

One institution that has created a dedicated housing product to address the housing demand is JSC MFO Crystal, or Crystal. The institution began as an NGO but transformed over time. Today, it operates as a commercial microfinance institution that targets low-income households in remote and rural areas. As of June 2019, over 60% of its portfolio was allocated to rural clients.

The MicroBuild Fund initially invested in Crystal in 2016, bundled with a full technical assistance package. Habitat's Terwilliger Center undertook assessment and refinement of Crystal's existing product, development of a new product, creation of light-touch housing support services, and training of loan officers. These activities helped Crystal expand its housing microfinance portfolio by nearly 125% since the initial appraisal by Habitat's Terwilliger Center, from US\$3.8 million to US\$8.5 million as of June 2019. Moving forward, the institution will likely align its housing microfinance portfolio growth to its general portfolio growth.

CLIENT STORY

Marika lives in Tbilisi, Georgia. She is a single woman who operates a sewing salon. Crystal financed a loan for Marika for GEL 10,000 (US\$3,300) toward home renovation so that she could rent rooms to tourists and increase her income, a common renovation purpose in Georgia's budding tourism sector. With this loan, Marika has prepared two individual rooms to host guests. These room rentals will result in an additional average monthly net income of GEL 3,600 (US\$1,200) during the summer and GEL 1,500 (US\$500) during the off-season. Such an income boost will make a huge difference to Marika. ■



Marika's loan through Crystal allowed her to renovate her home. Now she can rent rooms for additional income.

– Tbilisi, Georgia

Latin America and the Caribbean

Spotlight on COAC Jardin Azuayo, Ecuador

COUNTRY CONTEXT AND HOUSING CHALLENGES

Since 2014, Ecuador has worked to adapt its economy to shifting global realities, including lower oil prices, appreciation of the U.S. dollar, increasing external financing costs, and growing trade conflicts.¹⁶ The country's economy receives a boost from money transfers from thousands of Ecuadorians employed abroad, but this is not sufficient to address the high poverty rate, which stands at 26% nationally and 43% in rural areas (as of June 2019). With such significant poverty levels, it should come as no surprise that there is also a large housing shortage for over 2 million people, or approximately 10% of Ecuador's population. To address this issue, some microfinance institutions offer loans to low-income clients for housing purposes.

ABOUT COAC JARDIN AZUAYO

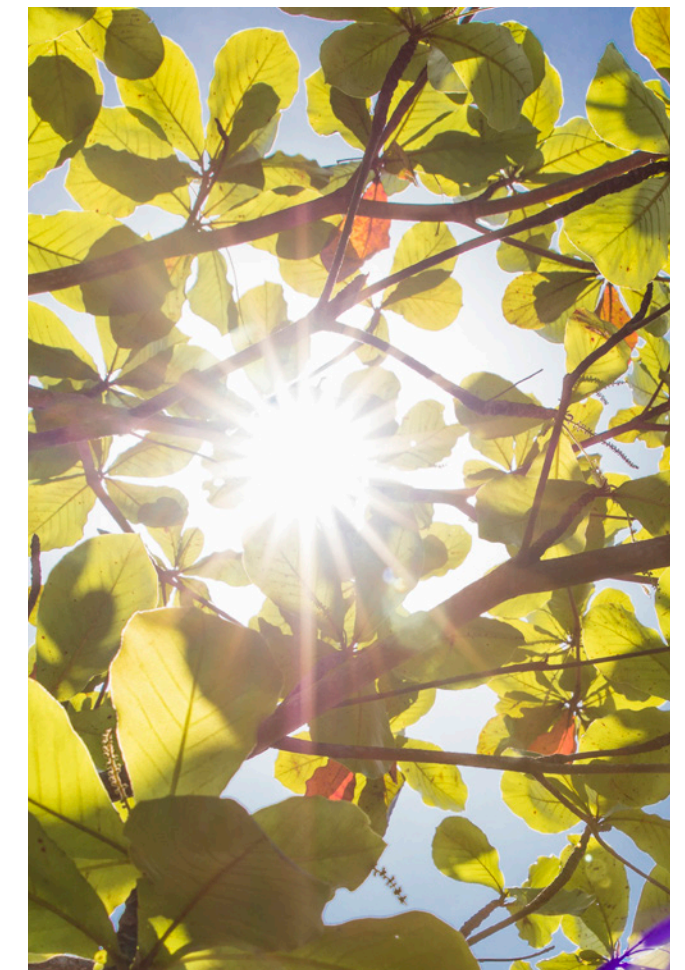
- Gross loan portfolio of nearly US\$746 million
- 48 branches
- 100,000 active borrowers

COAC Jardin Azuayo, or COAC JA, is the second-largest cooperative in Ecuador, with over 100,000 active borrowing clients. It has demonstrated remarkable financial and social performance over the years, and mainly focuses on serving rural clients (73% of its gross loan portfolio).

Since December 2016, the MicroBuild Fund has disbursed US\$3 million to COAC JA to strengthen its housing microfinance program. Habitat's Terwilliger Center bundled its investment with institutional technical assistance activities,

including supporting a commercial strategy, capacity building and monitoring. The Terwilliger Center also worked with the Frankfurt School's external consulting services to design a micromortgage product.

As of June 2019, COAC JA's housing portfolio had reached US\$289 million, accounting for 39% of its total gross loan portfolio. From the MicroBuild Fund's initial appraisal to June 2019, COAC JA's housing portfolio grew by 65%. ■





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About Habitat's Terwilliger Center for Innovation in Shelter

To bring about change within housing markets, Habitat for Humanity's Terwilliger Center for Innovation in Shelter directs attention to the needs and growing profitability of the low-income homebuilder market segment. By testing new business models for reaching this underserved group and encouraging market actors to adopt them, the center hopes to dramatically influence

the way in which the private sector addresses the affordable housing gap. To date, the Terwilliger Center has pioneered the use of microfinance and impact investment for incremental homebuilders and business accelerators for shelter-related startups. It also works with established companies to better design and target products for the low-income market. ■

Citations

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2. The region of Europe, Middle East and Africa was selected as the region of study because Habitat's Terwilliger Center had previously worked to increase awareness of the MicroBuild Fund and housing microfinance in the region through presentations at regional conferences.
3. Georgia was selected because it maintained large country exposure within the MicroBuild Fund's portfolio; MicroBuild Fund investees (Credo and Crystal) held sizable market share among all microfinance institutions and grew their housing microfinance portfolios over time. There also was a large degree of openness in the country.
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