SCBF SWISS CAPACITY BUILDING FACILITY
Association for Income and Employment Generation

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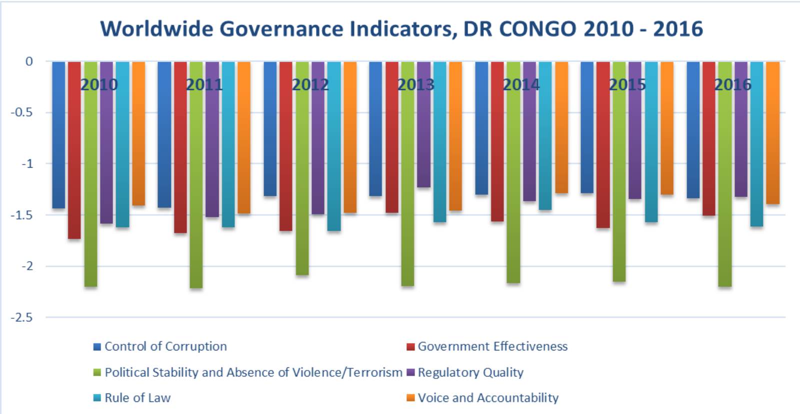
Building Capacity to expand Housing Microfinance in the Great Lakes Region – IMF Hekima in DR Congo and Urwego Bank in Rwanda

1. DEVELOPMENT RELEVANCE
2.

Economic and poverty context

In Sub Saharan Africa, changes in policies and regulations related to the microfinance sector are increasing financial inclusion among low-income people. Currently, financial institutions are implementing strategies to align their products and services with the needs, preferences and capacities of the target population.

The DR Congo never fully recovered from the civil war that officially ended in the 1990s. Conflict and violence continuing into 2018 hamper economic growth and development. Rwanda has seen recent economic growth and political stability, yet poverty and lack of access to financial products and services remain serious issues. This intervention was designed to bring innovations in housing microfinance to Rwanda and the DR Congo as one avenue to improve the economic and financial situation of vulnerable people.



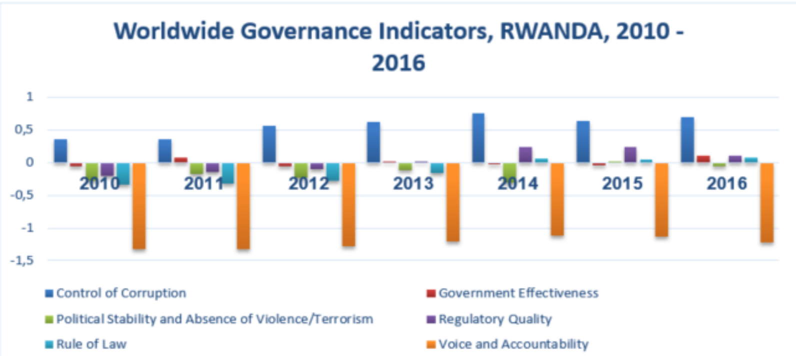


Table 1: Population and economic statistics for the DRC and Rwanda		
Indicator	**DR Congo**	**Rwanda**
Population in millions (2016)	78.74	11.92
GDP growth (2016)	2.4%	5.9%
Inflation (2016)	5.5%	4.9%
Trade balance (% of GDP) (2016)	29.0%	36.3%
FDI Received (net as % of GDP, 2916	3.4%	3.0%
Net ODA received (% of GNI) (2016)	6.0%	13.7%
Remittances received (% of GDP) (2016)	0.05%	2.1%
Economic Freedom Index[ii] (Rank among 186 countries) (2018)	52.1	69.1
Poverty indicators		
GDP per capita (USD) (2016)	449	703
Gini Index (0= equality 100= inequality) (2012)	42.1	50.4
International poverty rate (2010; at 1.90 USD/day)	77.1%	60.4%
National poverty rate (2010)	63.9%	39.1%
National rural poverty headcount rate	n/a	n/a

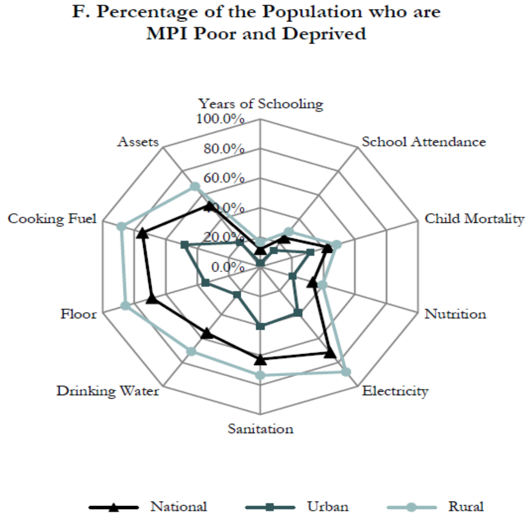
Financial sector context (DR Congo)

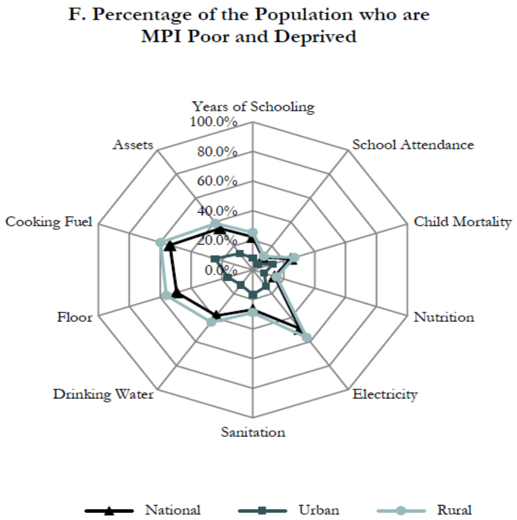
The DRC is emerging from decades of conflict. Almost half of all adults live in rural areas where they are all but cut off from the outside world. Poverty is widespread with an average income of only USD 85 per month; 53% earn less than USD 3.30 per day.

In this situation of economic hardship and social exclusion, there are structural challenges to connecting people to resources. Risks and financial shocks reinforce the poverty cycle. There is currently no consolidated policy on financial inclusion, but elements of financial inclusion are present in other policy documents.

The DRC has one credit bureau, supervised by the Central Bank, but its operation is manual and widely viewed as ineffective, with only relatively few clients and mainly corporate clients with large loans being included. Financial Inclusion data available upon request.

DR Congo (top) and Rwanda (bottom) multi-dimensional poverty charts





Financial sector context (Rwanda)

The Rwandan Financial Sector is still quite young. The sector consists of 7 commercial banks, one development bank, saving and credit schemes and microfinance institutions. There is a capital market and non-financial services like insurance companies and pension funds.

Rwandan considers financial inclusion as an integral enabler for achieving its development and poverty reduction objectives. Rwanda targets achieving 80% financial inclusion by 2017 and 90% by 2020. The National Bank of Rwanda (BNR) is the sole regulator and supervisor for the entire financial sector. BNR is the regulatory and supervisory authority of the banking and microfinance systems, non-bank financial institutions, SACCOs as well as the payment systems. The banking sector has seen tremendous growth over the past 5 years and seen increased participation by multinational banks. The market capitalization of the banking sub sector is US$200M supporting US$1 billion in assets. Financial Inclusion data available upon request.

Partner financial institution – IMF Hekima

IMF Hekima SC was established in 2003 as a program of World Relief and was spun-off as a separate company in 2007. Hekima is incorporated as a Société Civile (a private company active in the social sector) and registered as a microfinance enterprise with the Central Bank of Congo. Hekima is the largest and most successful MicroFinance Institution in Kivu, a region in Eastern Congo with an estimated population of 1 million (as of 2011). Its Head office is located in Galerie de la Bénédiction, Avenue Touristes, Goma, North Kivu, in the eastern Democratic Republic of Congo. Hekima's vision is to expand activities in urban centers and some rural areas in the provinces of eastern DRC, to serve a total of 25,000 credit clients and 22,000 savings clients, through expansion of existing channels and introduction of new products while also attaining operational self-sufficiency. Therefore as credible and innovative microfinance institution, its mission is to contribute to the transformation of the economic, social, and spiritual lives of the economically active poor of the Democratic Republic of Congo (DRC).

Partner financial institution – Urwego Opportunity Bank

The 1st institution selected was Letshego Rwanda Ltd., which was replaced with URWEGO OPPORTUNITY BANK (UOB) in October 2015 due to constrains of the FSP side and replacement of key staff in Letshego.

URWEGO Bank mission and vision: “provide access to financial solutions empowering people living in poverty to transform their lives, their children’s futures and their communities”.

Founded in 1997 by World Relief, the bank joined the HOPE International network in 2005. In 2007, the bank merged with Opportunity International Bank of Rwanda and since 2016 HOPE is a 99% shareholder with World Relief continuing to own 1%. Urwego offers range of deposit and savings accounts. Savings accounts allow our clients to investment opportunities and insurance. The loan products include traditional group loans through Trust Group/Community Banking Group lending.

3. INTERVENTION APPROACH

Capacity building needs

In the DR Congo, operating in a conflict-affected region increases cost of delivering financial services to borrowers. Other constraints include the fact that Hekima operates in a region known to be at risk of natural disaster, which increases the cost of doing business. As loans are not covered by real estate collateral, risk management is of particular importance. The MFI has a focus on women and outreach to vulnerable populations living in post conflict environments. Hekima has successfully balanced its social mission with sustainability.

In Rwanda, we felt that Letshego bank (and Urwego Opportunity Bank) can be instrumental in demonstrating how housing microfinance can work in Rwanda to reach populations that are not currently being served.

Main activity areas and outputs

The main output was to design a **Housing Microfinance Product (HMF)** for IMF Hekima in DR Congo and for Urwego Opportunity Bank (UOB). **For IMF Hekima,** the activities envisioned to achieve the goal was to support Hekima in designing the Housing Microfinance product prototype in line with the market research findings and analysis, product testing / piloting, evaluation and capacity building. During the course of the project the following activities been achieved: Design of the Housing Microfinance product prototype in accordance to the market research findings was completed by 3rd week of October 2015. Details about the categories of the designed housing product and related Housing Support Services are available upon request. **The HMF product prototype designed was validated in June 2016.** Final evaluation of the HMF product prototype included interviews with loan officers and sample of clients and assess housing quality standards of the home improvements made with the loan.

Workshop took place in December 2015 and involved the Housing Finance Specialist conducting a participatory workshop with Hekima staff responsible for the HMF product. The workshop involved designing and finalizing the HMF product with Housing Support Services (HSS) incorporated, thus both the financial and non-financial component was concluded. Launch of the pilot product and evaluation of the pilot: product was launched in September 2016. Pilot evaluation consultant was contracted and the evaluation of the pilot product was completed during the first week of June 2017.

For Urwego Opportunity Bank, design of the HMF product prototype in line with the market research was completed by mid-March 2016. The housing product was proposed to be categorized into two sub-products: a) Housing Microfinance (small amounts – up to $6,000 and short term) and b) Micro-mortgages (loan size 6,000+ and medium term). **The HMF product prototype designed was validated from 22/8/16 to 2/09/16.** The 4-days Product Prototype Workshop took place on April 4–7, 2016 with 6 attendees and the senior management. The ToT Workshop on the HMF product prototype was held in August 2016 that also reviewed the client’s feedback from the validation exercise by the consultant. The HMF product was adjusted based on feedback from the clients. Launch of the pilot product and evaluation did not happened as in the midst UOB went through ownership change. New board and C-level staff including CEO were appointed, the project and implementation plan was presented and embraced but due to the other priorities (organizational changes, re-branding, new strategy, staff on-boarding) UOB was not able to commit to implementation of the planned activities. The last contact was in November 2017, and their response was that they are finalizing the strategic directions of the organization and put on hold all new product development for the next 12-18 months. Beyond the scope of the SCBF grant we aim to continue pursuing this and build up on what has been achieved thanks to SCBF.

4. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

Community meetings in Kigali and Nyamata

For UOB, Client level results are not available as the product was not launched, nor piloted although an HMF product prototype was designed and validated and UOB staff were trained on HMF products.

More details about the activities implemented and performance indicators are available in the implementation plan report. Main outputs include: feasibility report prepared, summary literature reviewed and submitted to FSP, Market Research Report (with results and recommendations for product design), HMF product prototype created**,** Process mapping of HMF product prototype elaborated, Create HSS level-1 information kits and form market-led partnerships, HMF product prototype validated. Unfortunately, due to organizational changes at the UOB, we did not manage to get the product piloted, fine-tuned and fully rolled out. We have waited a reasonable time (i.e. a year) for the partner to restructure and re-launch the project, but this has not been achieved, hence we decided to terminate the SCBF project. Nevertheless we will still stay in touch with the partner and do our best to have UOB include the designed HMF product in their product portfolio as both the client needs and the institution´s strategy proves there is interest for this.

IMF Hekima was far more successful than UOB in this intervention. The evaluation found that the beneficiaries of the Makao Bora loan pilot were staff of religious institutions. It was also found that the purpose for which the loan product was designed resonates with the aspirations of all the clients. The pricing of the loan was confirmed to be reasonable and lower than other microfinance institutions.

The loan targets low-income earners with a regular source of income, specifically staff of religious institutions such as hospitals and schools. This was an appropriate target group as they are low-income earners who could not easily mobilize funds for critical home improvements before the Makao Bora loan. There were initial concerns about the loan amount, but it has been demonstrated it is manageable for the target population.

A proposal was made to include personnel in the armed forces during the discussions with the staff, finally settling on a consensus that the initial target should be those persons that are in private security companies. Other potential clients were members of the business community that earned at least $ 200. Target clients came to be defined as having a regular secure source of income, desired to build or improve their homes and were clients to IMF SC HEKIMA. Most of the clients found the delivery process appropriate and found that marketing of the loan through sensitization visits to the schools was effective. There was however, a need to develop a checklist that staff would use before submitting loan applications to the loan assessment committee. There was an overall appreciation of the process that clients went through to acquire the loan. Overall, 67% of clients were satisfied with the process of acquiring the loan and the majority observed that the Makao Bora loan process was more straight forward and simple compared to other microfinance institutions. Clients also drew comparison with loan process for other microfinance institutions and concluded that the HEKIMA process was better (see box on right).

The proposed loan range was 300 to 3,000 US Dollars, with the lowest loan amount that a client had taken being 500 USD and the highest being 3000 USD. The majority of clients registered their reservation on the maximum loan amount they could access through the Makao Bora loan. Respondents noted that the loan amount was lower than their housing construction needs. Indeed, there are number of clients that had sought a loan from other sources to top up their loan requirement.

The HEKIMA loan officer observed that a client was only eligible for a loan whose monthly payment instalment would not exceed 30% of their income. It was therefore against this background that a loan amount was agreed. Clients however argued, that whereas, this was a fair assessment, many of them had alternative means of income that would guarantee that they acquire a bigger loan.

The Makao Bora loan product used the client's salary and the group as collateral. This collateral provided an opportunity for people in the targeted category to access the loan. The majority (82%) of the clients appreciated the collateral in so far as it could enable them to acquire a loan. There were, however, concerns that using the salary as collateral reduces the available loan size.

The only marketing and promotion activities through which clients learnt about the Makao Bora was the visits made to the eligible institutions. All respondents reported that they had gotten to know about the Makao Bora through HEKIMA visits to their institutions. The approach used for the pilot phase was appropriate given the fact that the clients targeted were all institutionalized and therefore easy to reach. All the clients visited for the pilot evaluation had used the loan for the purposes for which they had borrowed the money: to buy land, construct perimeter walls and build houses.

As witnessed by observation of clients' construction sites, the home improvements were of good quality. Although HEKIMA had not recommended any masons or service providers for them, all respondents contracted masons that had been previously involved with house construction within their communities.

Client testimony

"HEKIMA staff visited the school and sensitized us about the loan, this was very good" (Teacher, EP Karibu)

"I needed 1,800 US Dollars, but only got US Dollars 1, 300 and the rest I got from another source at a 5% interest" (Teacher, Institut Maendeleo)

"I had to sell my other piece of land, to raise the money needed for constructing this house." (Teacher, Lycee Anuarite)

"My biggest problem with the Makao Bora was that you are given less money than you asked for."
(Staff, CBCA – Virunga)

"We compute the amount of money that a client will be able to pay monthly for the loan period and this assists us in deciding how much to lend an individual" (Staff, HEKIMA)

TO DATE 4,690 HOUSING LOANS HAVE BEEN DISBURSED TOTALING 2,309,518 USD for better, healthier and safer homes. About 75% of the borrowers are female. Breakdown for rural vs. urban is not tracked. The branches of Hekima are located in urban areas, but the distinction between rural/urban is not that clear in the region (compared to Europe). As per the site visits, the majority of clients are living in peri-urban areas.

Partner financial institution level (IMF Hekima)

Hekima has a 10% increase in active clients and 27% increase in number of borrowers (some clients have multiple loans) and 55% depositors compared to 2015 (when partnership was established). 71% of the borrowers are female. 75% of total clients have income below 2.5 USD per day or 35% are below the national poverty line. Average loan size is 200USD. They have 20% increase in staff and still operating from 2 branches, they focus on penetration from braches rather expansion. Their outreach strategy is reaching the poorest and marginalized groups, which the data presented is supporting.

- As mentioned above there is a positive trend in increase of the borrowers and depositors, including female/male borrowers/depositors. The total portfolio increased by 12% and average loan size by 20%. They are still focused on the poorest segment consisting 75% of the loan portfolio and 60% of depositors. The average deposit decreased for 56% from 130 USD to 57 USD, which was anticipated as the clients deposits mature and needs of using the savings with this population occur.
- The loan to deposit ratio is 4.8 times.
- The current OSS is 99.7%.
- Hekima serves 222 clients per staff which is considered a high rate compared to the industry.
- Portfolio at risk rate is 2.6% again considered low to the industry standards especially for African context.

Partner financial institution level (Urwego Opportunity Bank)

We have done an inception meeting with the UOB (as well as the Letshego) product development team. In late 2015, we organized meetings with potential providers of Housing Support Services and various housing chain actors and linked them with UOB (Lafarge, SKAT, Mass Group Design, International Polytechnic Regional Centre) as well as government officials / local authorities of the city of Kigali (to discuss primarily the process of obtaining construction permits). In early 2016, we organized meetings with UOB clients and other members of local community to help UOB better understand the housing needs of the (potential) clients in Kigali and Nyamata.

5. LESSONS LEARNT

IMF Hekima

The design and implementation of the intervention was as planned. While some activities were delayed over the course of the intervention, all of the milestones were reached, the product designed and launched, and staff trained, without major complications. No problem was anticipated during the capacity building intervention. Staff was committed, workshop and training were well organized, people participated actively. Safety in DRC was a major challenge as during certain times it was prohibited to travel to the country.

The product design, validation and capacity building were fully achieved. The product is in place with 4,690 clients having received housing loans, and 16% of the current portfolio of Hekima being dedicated to HMF.

In the case of Hekima nothing would be done differently. The approach of both partners (HFHI and Hekima) proved to be appropriate. All steps of the process were planned, organized and fully executed. All staff was on-board with introduction of the loan product and embraced the process. The critical success factors are committed senior management staff having aligned on a strategic plan that includes the intervention. In our case, the intervention aligned with Hekima's strategic direction and enjoyed the dedication and commitment of senior management staff.

Urwego Opportunity Bank

The design and implementation of the intervention up until the transformation was efficient and staff assigned to the project were committed and responsive. Part of the implementation up to the launching the pilot project was as planned but the last step of the implementation plan was never implemented: launching the pilot product and evaluation of the pilot phase, the main reasons are the organizational change (ownership and strategic directions) which put the project on hold.

No problem was anticipated during the capacity building intervention: Staff were committed, the workshops and trainings were well organized, and people participated actively. The problem took place once the partner went through important organizational changes and was not in a position to launch new products.

Anticipating the time it takes for the restructuring of an organization to be complete, and ensuring the HMF loan product remained at the top of the institutional priority list were important challenges. We were hoping the changes would have been implemented by the partner faster, which did not happen. Perhaps terminating the contract with partners should happen sooner (very beginning of the transformation), so does not inflict any further delays in the implementation plan.

The critical success factors are committed senior management staff who have agreed upon a strategic plan to implement the intervention and carry it forward once it finishes. In our case both the senior management changed and the strategic plan changed. Starting a partnership with an organization with impending, drastic changes should be avoided, if possible. In many cases organizations do not disclose this information until the terms and agreement are negotiated, even though one would expect that they would be transparent to maximize the likelihood of success. In the interest of avoiding similar situations we can include an article in the contract to incentivize partners to be transparent with such organizational changes.
