

Building capacity to strengthen access to housing microfinance in Nicaragua

1. DEVELOPMENT RELEVANCE

Economic and poverty context

After hitting a record 5.1% growth in 2011, Nicaragua’s GDP growth slowed to 4.7% and 4.5% in 2016 and 2017, respectively. Nicaragua is expected to experience a contraction in 2018 of 3.8% due to the social and political unrest the country has experienced since April 2018. However, due to the high degree of uncertainty over the outcome of the crisis, this forecast is subject to changes upward or downward. The ongoing protests, reported violence, job losses, and a fall in consumer and business confidence, have taken a social and economic toll. The country’s economic and social situation is expected to deteriorate in the second semester, threatening recent efforts in poverty reduction.

According to the 2016 Standard of Living Survey by the National Development Information Institute, general poverty in Nicaragua dropped from 29.6 to 24.9% between 2014 and 2016; while in the same period extreme poverty fell from 8.3 to 6.9%. Despite this progress, poverty remains high. Nicaragua is still one of Latin America’s least developed countries, where access to basic services can be a daily challenge. Political risk remains high as the president, Daniel Ortega, continues to deal with social unrest against him and his government. However, given Mr Ortega's strong hold over all state institutions, a negotiated resolution to the crisis is unlikely and we expect the domestic opposition to weaken over time. In this context, growing international sanctions are unlikely to bring about regime change, but will continue to pose downside risks to fiscal stability and to economic recovery.ⁱ

Table 1 ⁱⁱ : Population and economic indicators	
Population in million (2017)	6,217,581
GDP growth (2017)	4.861%
Inflation (2017)	3.851%
Trade balance (% of GDP) (2017)	-14.197%
Foreign direct investment (net) (% of GDP) (2017)	6.4%
Net ODA received (% of GNI) (2017)	6.49%
Remittances received (% of GDP) (2017)	10.096%
Economic Freedom Index ⁱⁱⁱ (Rank among 186 countries) (year)	107
Poverty indicators	
GDP per capita (USD) (2017)	2221.806
Gini Index (0= equality 100= inequality) (2014)	46.2
International poverty rate (2014; at 1.90 USD/day)	3.2%
National poverty rate (2014)	24.9%
National rural poverty headcount rate (2014)	50.1%

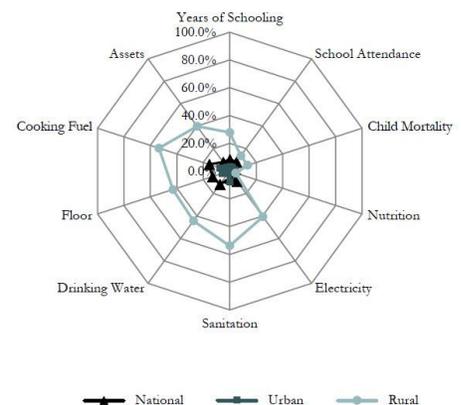
Financial sector context

Nicaragua has made significant strides in consumer protection and financial inclusion since 2005. According to Global Findex 2014, around 19% of the population in Nicaragua has a bank account, more than 14% of the population has borrowed money from a financial institution and 43% of the population has borrowed money from any source.^v Mobile penetration reached 82% in 2015 and is expected to reach 90% by the end of 2017. Financial inclusion in Nicaragua is mainly driven by microfinance institutions (MFIs). The country has improved its payments infrastructure with the creation of an Automatic Clearing House in 2016. However, the lack of coordination between the government and the private sector and the introduction of transaction fees has hindered the development of electronic payments.

In December 2016, the Sistema Financiero Nacional (SFN, the national financial system) and the Nicaraguan Central Bank (BCN) formed a working group to promote the use of electronic payments and increase the level of bank use, but the group excludes private-sector members. Cooperation between the public and private sector is

Multidimensional Poverty Index Chart Nicaragua, 2017^v

F. Percentage of the Population who are MPI Poor and Deprived



still low. There is no regulatory framework for fintech in Nicaragua; however, the financial regulator, the SIBOIF, allows non-financial institutions to register. Furthermore, MFIs have access to payments systems. According to World Bank, in 2017 CPIA financial sector rating is 3 in Nicaragua.

Partner financial institutions

FUNDENUSE – FUNDENUSE’s mission is to “Provide financial services in a flexible, timely and efficient manner to micro, small and medium entrepreneurs; so, they can contribute to the socioeconomic development with social and environmental responsibility”. As of Sept 2018, FUNDENUSE has 31'232 clients, 59% of which are rural and 54% of which are women. This represents an estimated 6% of market share (in terms of number of clients). The average loan amount is USD \$ 1'430, while for housing microfinance (HMF) the average loan amount is US \$1'039. The portfolio at risk (PAR 30) is 13,23% for all loans and 0,80% for housing loans.

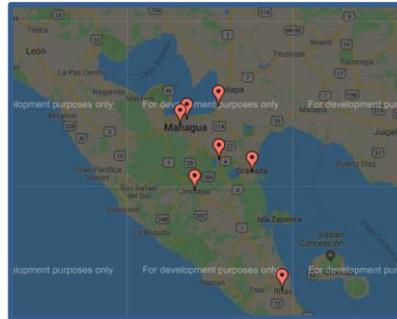
FUDEMI - 64% of FUDEMI’s current clients are women, 20% of the total portfolio of FUDEMI is rural, and the average loan amount is USD \$ 540. The portfolio at risk (PAR 30) is 5,02% and is expected to be at 3% by the end of the year. For HMF loans the current PAR 30 is 1,51%.

Photo of the branch network map

FUNDENUSE



FUDEMI



2. INTERVENTION APPROACH

Capacity building needs

The partner financial institutions (PFIs) in this proposal are currently offering HMF products but need to scale up outreach within the low-income target group. A technological tool to facilitate the HMF product delivery was developed to support access to HMF products for low-income families. In addition, the tool was designed to increase their knowledge of related housing construction methods, and increase the quality of the home improvements that are carried out. Loan officers are focused on loan appraisals, but demonstrate a clear lack of skills to identify, prioritize and evaluate housing needs in correlation with the loan amounts requested by clients.

Additionally, the PFIs clearly lack expertise regarding the decision-making processes of housing improvements: work design, labour hiring, materials purchasing, work scheduling, etc. Therefore, HMF loans are delivered as consumer loans, providing minimal added value for the customers. The critical value added in this proposal is the implementation of a virtual tool to offer a better focused and targeted “customer experience” in the form of access to knowledge that can help them in the decision-making process as they embark in their home improvement project. Despite correctly identifying these capacity building needs, it has not been possible to implement the virtual tool due to the socio-political crisis that Nicaragua.

Main activity areas and outputs

A virtual tool is under development to support (1) the sales forces in delivering HMF products and (2). Families receiving HMF loans to manage their housing improvement such as purchasing the right materials, information on different service providers, tips on home improvements, and appropriate financing sources. By using the virtual tool, HMF customers would be able them to make better decisions around their housing improvements. The time frame of the project was planned for 18 months, and main activity areas were:

- A. Project Preparation and Partnerships:** This component focused on developing and strengthening partnerships with the housing value chain actors, including technical assistance providers and PFIs. Additional, information was gathered that pertained to adaptation of home improvement products and services for improved delivery of construction technical assistance. Results: 1) Two PFIs were incorporated into the project to offer HMF through the virtual tool; 2) Two agreements were signed with building material

companies and/or providers to incorporate their construction products and store information in the virtual tool.

- B. Development of technological tool and pilot test in real-life scenario.** This component focused on development of the technological tool and implementation of the model in a controlled environment. Result: the technological tool prototype is under construction and could not be pilot tested due to the social and political crisis
- C. Implementation of the technological tool.** The basic platform has been developed, nevertheless some adjustments still need to be made. Three audiovisuals are under development, and are planned to be uploaded once the production is complete. During August 2019 an internal exercise will take place to finalize the functionalities of the platform.
- D. Dissemination and Scaling.** Not implemented due to the social and political crisis.

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

Habitat Nicaragua (HPHN) found in this project the opportunity to pilot the delivery of Housing Support Services (HSS) through technology. Despite the socio-political crisis gripping the country, Habitat Nicaragua was determined to use their current web portal and a virtual tool in collaboration with private sector partners to pilot test virtual HSS service delivery with end users and prove its functionality and operational effectiveness. For Habitat Nicaragua the development of the web portal "My house, My habitat" – developed with SCBF funding – meant transitioning to a business strategy intended to expand exponentially technical assistance services and education through the internet. The intention of this project was to contribute to improving Habitat's branding position - which facilitates partnerships with market actors through this portal (IFIS, construction material suppliers, technical assistance services, academia, etc.).

Despite the country's instability, HPHN intended to conclude the programming and development of the virtual tool considering that even in the current socio-political crisis this represents an opportunity to move forward into the transition towards the use of technology in the delivery of HMF products and technical assistance services. Once the tool is fully developed, and the country recovers from the current crisis, its implementation will be analysed from Habitat Nicaragua's own infrastructure, and the intention is to promote its use in a more modest environment. - MFIs, construction material suppliers, which remain committed to this project.

It was expected that the tool would also articulate the market participation of the supply side actors involved in the home improvement process. The tool was designed to be efficient, user-friendly and to increase the use of information by all the actors in the housing value chain from families, to construction service and material providers and financial institutions. During the first years of implementation of the web portal "My house, My habitat", Habitat Nicaragua will be able to accumulate experience, and validate the virtual tool. If successful, this will contribute to the financial sustainability of Habitat for Humanity in the country.



Focus groups were consulted by Habitat Nicaragua to adapt the HSS online tool and HMF products to meet the needs of Nicaraguans

Since the virtual tool could not be implemented due to the socio-political crisis, there are no client satisfaction, change of quality of life, client testimonies and change of client business performance results.

Partner financial institution/s level

The project aimed to implement a new delivery model/channel for the provision of non-financial services (bundled with affordable housing finance) to low-income families to improve their living conditions. The focus on using technology, which has been a pivotal and successful enabler of financial inclusion. The technological tool will build up the clients with the capacity needed to make informed decisions about financing available, and on products and services. Through technology, low-income families would receive advice for building their homes, in a step by step process. However, the implementation of this project will not be possible under the current circumstances due to the current crisis. The socio-political crisis prevented the implementation of the project from being implemented, however, in the previous stage the following was achieved:

- ✓ Six MOUs were signed with MFIs and other non-financial housing value chain actors
- ✓ One MOU was signed with HFH Nicaragua as HSS specialist and an initial map of HSS informational services has been prepared.
- ✓ Focus groups and client interviews to identify HMF needs and preferences
- ✓ Informational sessions were conducted with potential partners to the project such as local material providers
- ✓ HFHI Nicaragua hired a local IT developer
- ✓ Virtual Tool's design, content and information were validated with the FIs and a sample of its clients.

During the rest of 2019, HFH Nicaragua plans to continue working on the platform and once done, will create a marketing strategy to launch and promote the virtual tool, incorporating the platform into HFH Nicaragua's business plan. Despite a number of constraints, especially related to the socio-economic crisis in Nicaragua, the platform launch is expected in early 2020 for HFH Nicaragua clients. Once the economic situation stabilizes, Habitat will reach out to PFIs again to expand the platform.

FUNDENUSE BRANCH



FUDEMI BRANCH



Financial sector level

No results at the financial sector level due to the crisis.

4. LESSONS LEARNT

The client centre design and the active participation of the institutions and their clients made the process of designing the tool effective. However, the social instability caused by the socio-political crisis impeded the implementation of the pilot.

Challenge 1: Try to develop the planned activities despite the serious crisis that Nicaragua is going through.

Challenge 2: Replace a traditional HMF product delivery model with a new virtual tool.

Challenge 3: Efficient customer service in rural areas with a tool that depends on at least limited internet access.

Challenge 4: Limited human resources capacities to develop and implement a virtual tool for delivery of construction technical assistance and HSS.

The design of the technological tool was implemented as planned until June 2018. It was at that time where the socio-political crisis hits Nicaragua. This situation prevented the financial partners from implementing and piloting the technological tool with their clients. This crisis kept the country almost in a serious situation of economic and social paralysis, so the priority of the financial institution was focused in collecting repayments of its clients' loans to ensure their survival.

Without a doubt, the key challenge in this project was to try to develop all the implementation activities with partners despite a national crisis environment involving unemployment and general social insecurity. This explains the reason why it was not possible to develop the project in such critical conditions when the main focus of the partner institutions was their own survival. Additionally, replacing a traditional HMF product delivery model with a new virtual technological tool was a challenge. The change from a manual activity to a virtual technological one implies knowledge, training and practice but most of all people need time to get used to it and adopt it. Another important limitation is the dependence of a tool of this nature on the internet since in rural areas from Nicaragua makes complex its use and efficient customer service. Also, due to the complexity of the tool, there are limited human resources capacities to develop and implement a virtual tool for delivery of construction technical assistance and HSS.

It is important to mention that a greater amount of time should have been planned in the technological tool parameterization stage, since the testing processes of each module consumed time and caused some delays. Also, any country can be exposed to this type of crisis, especially in Latin America. For this reason, we recommend implementing these projects in at least two regional countries in order to diversify the risk. In this way, if one country presents critical problems, another country can meet the commitments and meet the objectives.

The critical factors of this project can basically be summarized in the timing estimation. This is key in the development of the different stages, especially in the virtual tool design stage. In addition, to ensure an optimal final result, we consider that especially in the development of a virtual tool, the involvement of qualified and specialized staff with construction knowledge is key. This definitely contributes to the achievement of the objectives in the established times.

One factor that should require special attention is to avoid accelerating the design stage. This phase is critical and must be carefully planned, coordinated, implemented, piloted and adjusted. Any acceleration in this stage can generate important consequences and delays in subsequent stages.

Even though the partner institutions did not achieve what was expected, HPHN nonetheless developed a powerful technological tool that will be piloted in the future. Once stability in Nicaragua improves, this tool will significantly enhance the delivery of HSS and construction technical assistance. The possibilities of piloting it in other countries of the region in the future will be explored.

ⁱ The Economist (2018). Economist Intelligence Unit: Nicaragua, <http://country.eiu.com/nicaragua>, Accessed (22.07.2019)

ⁱⁱ The World Bank Group (2018). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (22.07.2019)

ⁱⁱⁱ Heritage Foundation, (2018) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (22.07.2019)

^{iv} Oxford Poverty and Human Development Initiative (2017). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford.

^v Demirgüç-Kunt, et al. The Global Findex Database 2014: measuring financial inclusion around the world. The World Bank Group. Published 15.04.2015.