

Building capacity to expand housing microfinance with IMF Hekima in DR Congo and Urwego Bank in Rwanda

1. DEVELOPMENT RELEVANCE

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 Democratic Republic of the Congo (DRC) never fully recovered from the 1996 - 1999 civil war, with conflict and violence continuing to hamper economic growth and development through 2018. 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.

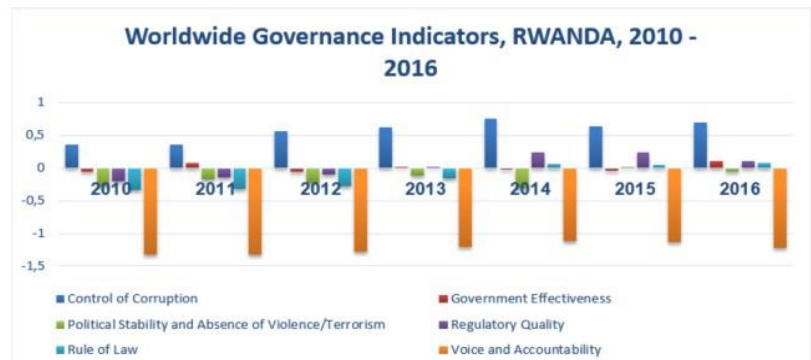
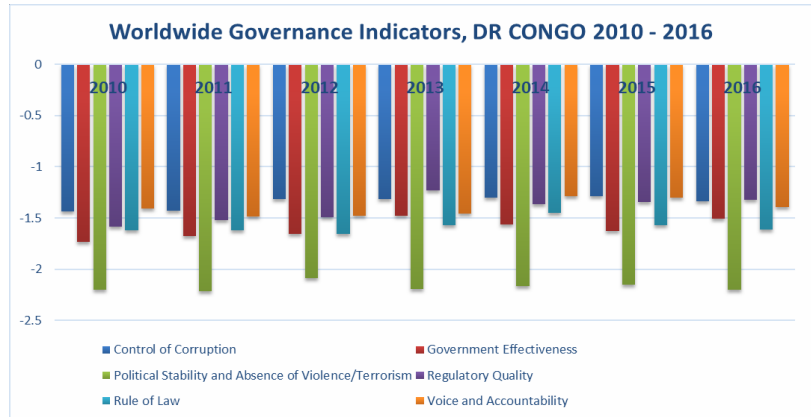


Figure 1: Governance Indicators¹

Table 1: Population and economic statistics for the DRC and Rwanda¹

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, 2016)	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 (DRC)

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 a monthly average income of only USD 8 and 53% living on less than USD 3.30 per day.ⁱⁱⁱ

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 relatively few clients, most of which are corporate clients with correspondingly large loans being included.

Financial sector context (Rwanda)

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

Rwanda considers financial inclusion an integral enabler for achieving its development and poverty reduction objectives. Rwanda targeted 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 and 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 USD 200M supporting USD 1 billion in assets.

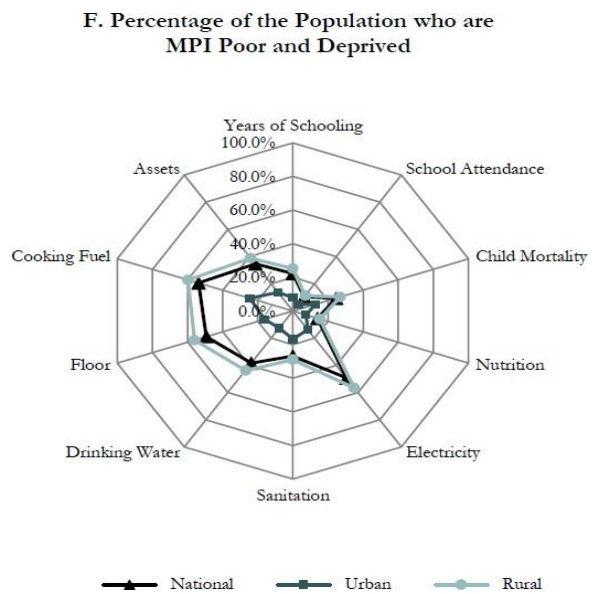
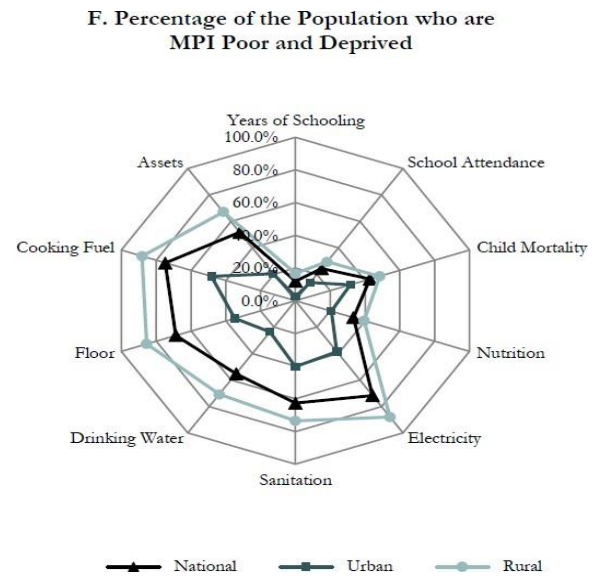
Partner financial institution – IMF Hekima

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 MFI in the Kivu region, with headquarters in Goma, the capital of North Kivu in Eastern Congo with an estimated population of 6 million.^v 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 a 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 operational constraints and the replacement of key staff in Letshego.

DRC (top) and Rwanda (bottom) multi-dimensional poverty charts^{iv}



UOB’s mission and vision is to “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 a range of deposit and savings accounts through which clients can gain access 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

Operating in a conflict-affected region such as the Eastern DRC substantially increases the 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 disasters, with very poor road and transportation networks, both of which further increases the cost of doing business. Loans are not covered by real estate collateral, so risk management is important to MFIs in this market.

In Rwanda, Habitat for Humanity perceived Letshego bank (and Urwego Opportunity Bank) to be a potential market pioneer by demonstrating how housing microfinance can work in Rwanda.

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 HMF prototype was to be developed through the typical process of market research and analysis, product testing and piloting, and finally evaluation and upscaling. The market research and subsequent design of the HMF prototype in accordance to the findings was completed in October 2015. In December 2015, a housing finance specialist conducted 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. The HMF product was validated in June 2016, the pilot launched in September 2016 and the evaluation of the pilot HMF product was completed in June 2017. Details about the categories of the HMF product and related housing support services are available upon request.^{vi}



For Urwego Opportunity Bank, the market research and subsequent design of the HMF prototype was completed in March 2016. The HMF product was 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).
- Following a workshop on housing products in April 2016 and a “Training of Trainers” workshop in August 2016, the HMF prototype was ready for launch in September 2016.



Unfortunately, the launch of the pilot never occurred as UOB went through an ownership change during this period. The board and top-level staff, including the CEO, saw significant changeover during this period and although the HMF project was presented and embraced, other tasks related to the organizational changes were ultimately prioritized and UOB was not able to commit to implementation of the planned activities. The final contact in November 2017 resulted in UOB stating that they were finalizing the strategic direction of the organization and had put on hold all product development for the next 12-18 months

4. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

For UOB, client level results are not available as the product was not piloted. Habitat waited one year for the partner to restructure and re-launch before deciding to terminate the SCBF project. Habitat will stay in touch with UOB to encourage use of the designed HMF product in their product portfolio.

IMF Hekima was far more successful. The evaluation found that the purpose for which the loan product was designed resonates with its clients' aspirations and the loan pricing was perceived to be reasonable. The loan targets low-income earners with a regular source of income, specifically staff of religious institutions such as hospitals and schools. These employees could not easily mobilize funds for critical home improvements before the Makao Bora loan. There were initial concerns about the loan amount being too large, but it has been demonstrated to be manageable for the target population.

A proposal was made to include personnel in the armed forces, finally deciding to initially target persons in private security companies. Other potential clients were members of the business community that earned at least USD 200 per month. Target clients came to be defined as (i) having a regular, secure source of income, (ii) demonstrate desire to build or improve their homes and (iii) are clients of IMF Hekima. Most of the clients found the delivery process appropriate and the marketing of the loan through visits to select institutions was effective. 67% of clients were satisfied with the process of acquiring the loan and the majority observed that the Makao Bora loan process was straight forward compared to other microfinance institutions.

The proposed loan range was from USD 300 to USD 3'000, and the majority of clients requested the maximum loan amount they could access. Client feedback indicated that the loan amount was lower than their housing construction needs and that clients sought loans from other sources as a consequence. A client was only eligible for a loan with a monthly installment not exceeding 30% of their income, although many clients argued that they had alternative means of income that would enable them to acquire a bigger loan. The Makao Bora loan product used the client's salary and the group as collateral. Most clients (82%) appreciated the collateral as it enabled them to acquire a loan – despite complaints that using salary as collateral reduced the available loan size.

The clients visited during the pilot evaluation were observed to have used the loan for the stated purposes during the loan application: 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 service providers for them, all respondents contracted masons that had been previously involved with house construction within their communities.

To date 4'690 housing loans have been disbursed totaling USD 2'309'518, with approximately 75% of the borrowers being female. While the branches of Hekima are located in urban areas, the distinction between rural/urban is not as clear in the Eastern DRC as in most developed or emerging economies: the majority of Hekima clients live in peri-urban areas.

Partner financial institution level (IMF Hekima)

Hekima saw a 10% increase in active clients, a 27% increase in the number of loans (due to multiple loans for some clients) and a 55% increase in the number of depositors compared to 2015, when the partnership was established. The data reviewed by Habitat for Humanity suggests Hekima is reaching some of the poorest and most marginalized groups in the DRC: 71% of borrowers are female and 75% of total clients have incomes below 2.5 USD per day. Hekima increased staff by 20% for the HMF products in the branches where these loans were piloted, focusing on penetration rather than expansion. While the total portfolio increased by 12%, and the average loan size by 20%, the average deposit decreased by 56% from USD 130 to USD 57, which was anticipated as the clients' deposits mature. Moreover, key performance indicators indicate that Hekima is

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)

sustainable: (i) the loan to deposit ratio is 4.8, (ii) Hekima serves 222 clients per staff, (iii) portfolio at risk rate (PAR) is 2.6%, which is low for industry standards in Sub-Saharan Africa.

Partner financial institution level (Urwego Opportunity Bank)

Habitat held an inception meeting with UOB's (as well as Letshego's) product development team. In late 2015, Habitat organized meetings with various housing chain actors from the private sector and civil society (Lafarge, SKAT, Mass Group Design, International Polytechnic Regional Centre) as well as government officials and local authorities of the city of Kigali. In early 2016, we organized meetings with UOB clients and other members of the local community to explore the housing needs of the (potential) clients in Kigali and Nyamata.

5. LESSONS LEARNT

IMF Hekima

Despite delays, all milestones were reached: the product was designed and launched, and staff trained, without major complications. Safety in DRC was a major challenge as during certain times it was prohibited to travel to the country. The product is in place with 4,690 clients having received housing loans, and 16% of the current portfolio of Hekima is dedicated to HMF. The critical success factors were committed senior management staff having aligned on a strategic plan that explicitly included the intervention. This commitment came from the fact that the intervention aligned with Hekima's strategic direction as an organization, ensuring the dedication of key decision makers within Hekima.

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 encountered during the initial capacity building and training, however once UOB went through important organizational changes, they were no longer positioned to launch new products. Habitat was perhaps overly optimistic with regard to the ability of UOB to implement organization changes and continue with the HMF development and pilot. Perhaps terminating the contract with UOB should have happened sooner, even at the very beginning of the transformation, to avoid unnecessary delay and administration.

This intervention highlighted the risk of starting a partnership with an organization with impending, drastic changes. In many cases organizations do not disclose this information until an agreement is reached, even though one would expect a maximum of transparency to increase the likelihood of successful product development, piloting and scaling. In the interest of avoiding similar situations it could be possible to include an article in the contract incentivizing partners to be transparent about such organizational changes.

ⁱ The World Bank Group (2018). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (04.02.2019)

ⁱⁱ Heritage Foundation, (2018) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (04.02.2018)

ⁱⁱⁱ <https://www.cia.gov/library/publications/the-world-factbook/geos/cg.html>

^{iv} The World Bank Group (2018). Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org>. Accessed (04.02.2018)

^v https://monusco.unmissions.org/sites/default/files/north_kivu.factsheet.eng_.pdf

^{vi} Please contact info@scbf.ch for more information.