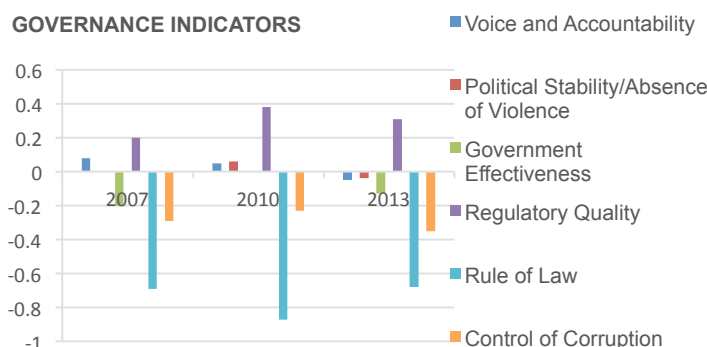


Expanding Housing Microfinance in El Salvador

CrediCampo & Fundación CAMPO

1. Development Relevance

Economic and poverty context:¹ After the peace treaty of 1992 ended the devastating civil war of the 1980's, El Salvador has made significant progress towards the consolidation of peace and democracy. The political transformation of the country has led to major structural reforms and stable macroeconomic policies that led to solid economic performance. After an average growth rate of approximately 2% over the last 15 years, the economy recorded an increase of 4,7% in 2007. However, the global financial crisis of 2008 had local consequences. In recent years, the economy has begun to recover at a slow pace. Many challenges remain and crime rates and violence threaten social development and economic growth (see governance figure). A truce between street gangs in March 2012 has helped reduce violence to an average of 39,6 homicides per every 100'000 residents (versus 71/100'000 in 2009). The country is also vulnerable to adverse natural events that are exacerbated by environmental degradation and extreme climate variability, which jeopardizes sustainable development and economic growth over the long term.²



Population and Economic indicators	
Population (2013) – in million	6,340
GDP growth (average: 2011-2013)	1,93%
GDP growth (average: 2004-2013)	1,86%
Inflation (average: 2011-2013)	2,53%
Inflation (average: 2004-2013)	3,41%
Trade balance (% of GDP) (2012)	-18,18%
Foreign Direct Investment (net) (% of GDP) (2013)	0,81%
Net ODA & official aid received (% of GDP) (2012)	0,97%
Workers' remittances (% of GDP) (2013)	16,4%
Economic Freedom Index ¹ (Rank among 185 countries)	59
Poverty indicators	
GDP per capita (current USD) (2013)	3'826
Gini Index (0= equality 100= inequality) (2012)	41,8
Multidimensional Poverty Index (1=poor 0=not poor)	n/a
International (at 1,25 USD/day) (2012), national (2013) and rural poverty headcount ratio (2013)	2,5%; 29,6%; 36%

Between 2007 and 2008, the percentage of poor people rose from 34,6% to 40%. In 2012 the poverty rate was 34,5% and declined to 29,6% in 2013. 175'038 residents live in extreme poverty. Morazán is one of the two departments with the highest poverty rates; 17,5% are living in extreme poverty.³ The total

housing deficit in the country is at 360'300 units, with 316'000 having qualitative deficits (requiring improvement, repair or extension) and 44'300 that need to be built. Around 10% of the qualitative deficit is concentrated in the department of San Miguel, where the pilot was carried out.

Financial sector: El Salvador has one of the lowest levels of use of formal financial services in Latin America. Only 14% of people aged 15+ had an account at a formal financial institution in 2011. Out of the 40% of the population with the lowest incomes, just 6% have accounts at financial institutions. Although financial access has expanded in recent years, most credit and deposit-taking activities still occur in the capital of San Salvador. 4% had a loan from a financial institution in 2011 and 6% had a loan from family or friends in the same year.

The microfinance industry continues to comprise of a wide variety of institutions, including banks, cooperatives, credit unions, non-regulated finance companies and non-governmental organizations. The industry accounts for around 15% of total lending. All types of institutions must meet international standards and hire recognized internal and external audit firms, facing significant sanctions if these requirements are not met. Credit bureau coverage is a relative strength and continues to improve, although non-regulated microfinance institutions (MFIs) have limited access to credit information. Client protection standards vary widely and are often weak. The policy framework for financial transactions through agents is poor, but gradually improving. There has been some progress in regulating services such as remittance transfers, but, in other areas, such as mobile phone transactions, progress has been much slower.

¹ <http://www.bancomundial.org/es/country/elsalvador/overview>

² <http://www.adepto.biz/espanol.php?id=8&cat=2&art=16>

³ <http://www.adepto.biz/espanol.php?id=8&cat=2&art=16>

⁴ <http://www.buenastareas.com/ensayos/Municipios-Con-Extrema-Pobreza-De-El/6167600.html>

The industry is facing important short and medium-term challenges, in particular after the adoption of a Usury Bill that came into effect in August 2013. The Bill sets strict interest rate limits for all financial institutions, including regulated and non-regulated MFIs. These restrictions could make certain MFIs non-profitable or make lending standards much stricter, hurting the poorest customers the most. It could weaken the entire microfinance sector and potentially even lead to political tensions. A more positive development has been the strengthening of the consumer protection, including a reform that has abolished all commissions related to credit extensions. Although this may be a financial challenge to certain institutions, it contributes to greater transparency. However, the impact of these measures is yet to be seen. The changes require increased capacity from existing institutions to take up new tasks (such as verifying the timely and accurate dissemination of interest rates). Microfinance supervision capacity exists, but its scope and effectiveness are limited, and there is a need to give greater regulatory guidance for all categories of regulated institutions.

Partner Financial Institution: Campo Foundation's mission is to promote the development of rural communities, strengthen their economic and social organization and to empower and improve the quality of life of residents in rural communities. It operates in 72 townships distributed in Usulután, San Miguel, Morazan, La Unión and Cabañas departments. The foundation coordinates its activities focused on strengthening local economies together with "CrediCampo", its strategic partner, which is a group of cooperatives providing financial services adapted to the needs of micro businesses in rural areas. According to MIX Market, CrediCampo ranks sixth in terms of portfolio size, with 17 million USD for 2013, while Procredit has the largest portfolio with over 290 million USD.ⁱⁱ In terms of number of clients, CrediCampo ranks 4th with over 12'000 clients and ENLACE is the largest with 44'000 clients. CrediCampo offers a wide range of products and services, such as: loans for microbusinesses, home loans, Credi-Mujer (loans for women), consumption loans, family remittances, rural credit programs, extraordinary assets, and fixed term deposits.ⁱⁱⁱ Housing loans are directed to purchase a home, a lot, remodeling, construction and extension of infrastructure of the residence or where commercial activities are carried out. The target group for housing loans is comprised of individuals, informal traders, regular employees and ADESCO (community development associations)⁴ members.

Partner financial institution (data in USD)				
	2010	2013	2014	2017
Total assets	10,5 Mill	19,6 Mill	22,6 Mill	45,3 Mill
Gross loan portfolio	8,8 Mill	17,6 Mill	20,5 Mill	38,9 Mill
Total deposits value	0	0	0,5 Mill	4 Mill
Total staff	44	88	100	121
Women staff	14	28	31	42
Women staff (%)	31,82%	31,82%	30,76%	35%
Total offices	4	10	12	15

2. Intervention Approach and Additionality

Prior to the SCBF intervention, CrediCampo offered a housing product, but it wanted to increase the number of loans disbursed and include housing support services such as construction technical assistance. In March 2013, CrediCampo received a grant of one million USD from the MicroBuild fund, with a capacity building component funded by the SCBF and provided by the Center for Innovation in Shelter and Finance (CISF) of Habitat for Humanity International (HFHI). CrediCampo actively participated in the entire capacity building process, which started in September 2013 and included:

- Market and customer satisfaction survey to understand needs, preferences and abilities of potential clients
- Redesign of the pre-existing housing microfinance product (HMF), including technical assistance for construction
- Planning, implementation and monitoring of a six-month pilot in two agencies within Morazan township

- Training: Key operations staff participated in a training workshop related to the product offer as well as the fundamental concepts of HMF and construction technical assistance. The methodological design and the training contents were adapted by CrediCampo and will be shared by loan officer "champions" or product leaders, and 4 technical specialists from Campo Foundation in each branch. Furthermore, methodological guides related to basic housing improvements are being used as a fundamental input for providing training to clients and masons of ADESCOs.

Staff	Loan Officers	Branch Managers	Project Managers CREDICAMPO & FUNDACION CAMPO	Members of Credit Committees	Members of ADESCOS	Total
Main Office	0	0	15	0	0	15
Gotera Branch	7	1		6	15	29
Osicala Branch	4	1		8	12	25
Total	11	2	15	14	27	69

⁴ The ADESCO are associations supported by the same standards established by the Constitution of the Republic of El Salvador, which expresses the right to peaceful assembly, without arms, to carry out lawful actions for the benefit of the communities.

- Adaptation of the information systems to collect and classify information and reports that enable trend analysis and therefore the preparation of financial projections and a more realistic cash flow.

The CISF methodology incorporates Construction Technical Assistance (CTA) to housing loans. This includes: defining the fundamental aspects of an individual improvement plan for each client, and the planning/prioritization of their "dream home"; estimated costs for the improvement, the design of technical handbooks for the most common types of improvements, and training materials such as "flip charts" to promote the product within the communities throughout the ADESCOS, who were identified as key participants in the promotion of the improved product.

3. Results Achieved

3.1 Client level

Access to services: By the end of September 2014, 320 credits were delivered with a balance of USD 455'000. These results surpass the goals for the project pilot (set at 300 credits) by 7%.

CREDICAMPO- Housing Microfinance Product Placement

CREDICAMPO PILOT BRANCHES		2014																Total		
		Jan		Feb		Mar		Apr		May		Jun		Jul		Aug				Sep
		# Loans	Amount	# Loans	Amount	# Loans	Amount	# Loans	Amount	# Loans	Amount	# Loans	Amount	# Loans	Amount	# Loans	Amount	# Loans	Amount	
Gótera Branch	30	\$ 40,624	32	\$ 49,300	20	\$ 25,500	17	\$ 27,325	15	\$ 28,900	12	\$ 14,757	9	\$ 22,309	8	\$ 13,500	9	\$ 12,800	152	\$ 235,015
Osicala Branch	24	\$ 26,300	26	\$ 26,800	25	\$ 20,875	19	\$ 32,750	15	\$ 25,498	14	\$ 17,325	12	\$ 12,800	15	\$ 22,018	18	\$ 35,700	168	\$ 220,061
Total	54	\$ 66,924	58	\$ 76,100	45	\$ 46,375	36	\$ 60,075	30	\$ 54,398	26	\$ 32,082	21	\$ 35,109	23	\$ 35,518	27	\$ 48,500	320	\$ 455,076

According to the ADESCOs, CAMPO is considered a leader in housing on a national level and is recognized for offering a housing product specially designed for a population in need. Thanks to progressive credits along with technical assistance in basic construction processes, both the institution and clients are managing to overcome the barrier of progressive construction. The pilot revealed that guidance has been well received by clients who want to improve their housing conditions as well as by those who are starting to build their own house. The design of basic technical tools has supported the construction process and clients have appreciated the time CAMPO spent helping them.

Quality of life and client satisfaction: The monitoring and evaluation visits revealed that some families have completed the basic construction process of their houses. Other families are moving forward in the construction process and are expecting to apply for a loan that allows them to finish their houses. Others have already moved into their new house and therefore were able to stop paying rent.

The credit committee of the "El Jobo" ADESCO, located in the canton of Agua Sarca, department of Morazán, and a key player in the pilot, stated that "the families of the communities feel good about the housing product because they have been able to fulfill their dreams of having homes that are in better condition, with the support provided by CAMPO through successive loans".

Outreach	2010	2013	2014	2017
Number of overall borrowers	6'948	12'382	15'400	22'000
% of female borrowers	39	44	45	50
Average loan balance per borrower (in USD)	1'169	1'263	1'200	1'270
Number of short term deposits	0	0	75	500
% of female depositors	0	0	n/a	50
Average deposit balance per depositor (in USD)	0	0	5'000	5'000
Rural clients	4'156	9'586	10'000	13'000

During the pilot, significant changes in clients' life conditions have been identified, particularly in a) *safety*: in a country where violence is an issue, building additional rooms allow family members to continue living together and provide security; b) *health*, by improving roof conditions to protect from harsh weather conditions, such as rain and wind, which result in respiratory and skin illnesses; c) *wellbeing*, by building additional private spaces diminishing overcrowding conditions; and d) *increase of family income*, clients who had to use a great part of their income for rent have now invested in their own house. Clients expressed "their satisfaction for living independently" and of "being extremely happy to live in their own home instead of paying rent". Additionally, it was found that due to the housing improvement loans, several families now have access to electricity, which seemed an unattainable dream for many. Furthermore, there have been changes in the houses' conditions, such as concrete floors instead of soil floors, fences (cyclone type mesh), toilets and other improvements.

Mrs. Mayra Mirtala Argueta Díaz: “I am a single mother with a 2 year old child. We both live together with my mother, sister and niece in my mom’s very small house. I have lived here for many years, but I find it very hard to live in such limited space. Therefore, I decided to build my own room. Thanks to God I can now work as a secretary at the City Hall in Morazán for two years and I received a loan of USD 800 from CrediCampo for the construction of a new room. I started with the foundation and then slowly finished the walls thanks to the mason who has helped me with the work. With the support of CrediCampo, I’m fulfilling my dream and improving the quality of life for my daughter.”



Mrs. Yolanda Marisol Ticas is 31 years old. She lives with her husband, who works as a security guard at a bank, and their two children in San Jose. Mrs. Yolanda works as a seamstress and earns additional income from selling meat pastries within the community. She is a good client of CrediCampo and has been granted two loans: the first was granted to improve the roof of their house, as rainwater was leaking into the home. Today, the family is able to sleep in peace because of that loan. The second loan of USD 2'205 was awarded for continued improvements to the house, including the construction of a separate kitchen.

Mrs. Yolanda is grateful to CrediCampo for trusting her, whereas other institutions did not support her home improvement projects. For that reason, she feels responsible and dedicated to being punctual for her commitment. Following the construction of the kitchen, she would like to further improve the infrastructure of her home through the acquisition of a new loan.



3.1. Partner financial institution level

Improved product and services: CrediCampo has developed a distinctive and strengthened HMF product that aims to be sustainable for clients and can offer improved housing conditions to families. The product design required an innovative and strong process within the institution, but the efforts in terms of time and resources have been worth it. It contributed to strengthening CrediCampo’s capacities in product development. This will allow it to continue offering demand-driven products and do adaptations where/when needed.

According to the members of the credit committee the most important aspect of the HMF is loan verification, (i.e. that the client actually uses the money for the purpose it was requested), and the speed of disbursement (3-5 days) compared to competitors that offer similar loans.

Loan officers are making additional efforts with a self-training initiative to provide clients with technical guidance. Based on personal experiences with construction and taking advantage of the improvements that are under way in the office facilities, loan officers have learned a lot about different materials and their costs from providers, construction workers and foremen, and therefore can provide their clients with better service and guidance. They have created an atmosphere of constant knowledge-sharing among themselves and have established a space where they can share and learn together called “quality circles”.

The pilot has enhanced a paradigm shift: “We have learned to give a credit with recommendations, not just a credit. Before, we only made sure that clients pay, now we advise people to only spend on what they really need”, *Martín Sánchez, Osicala Branch Manager*

Key performance indicators ^{iv}	2013	2014	2017/2018
ROA	6,43%	2,7%	2,9%
ROE	21,23%	13,3%	15,3%
Operational Self Sufficiency	137,58%	109,8%	113,1%
Capital/asset ratio	30,26%	20,78%	18,40%
Borrowers per staff member	141	180	234
Borrower per Loan Officer	364	411	525
PAR 30	3,03%	4%	4%
PAR 90	1,82%	6%	6%
Loan Loss rate	0,44%	1%	1%
Compliance with Smart Client Protection Principles	YES	YES	YES
Percentage of female borrowers	43,85%	45%	50%

New partnerships: An alliance with the Gerardo Barrios University (San Miguel) focuses on training CrediCampo personnel and community construction workers, to update tools that focus on clients, and to leverage other medium and long-term alliances with other stakeholders.

4. Lessons Learnt and Further Challenges

- The intervention showed the importance in establishing partnerships with key stakeholders from the beginning of the pilot – not only during its execution – and align expectations.
- **Construction Technical Assistance (CTA) requires specific conditions and preparation to be successfully implemented.** Planning and preparation need to be initiated in the pre-pilot stage. CTA needs to be implemented by suitable human resources (construction professionals) capable of providing support on technical aspects such as design, budget, and supervision. Similarly, alliances with other stakeholders (e.g. building material suppliers) are key and need to be developed from the beginning in order to enhance quality, efficiency and construction cost improvement. Otherwise, as in Campo's case, CTA is limited to providing information and basic guidance to families as technical responsible of their constructions and continual improvement plans.
- **Training to loan officers must be continuous.** Loan officers face challenges in terms of the variety of improvements that clients plan. This has resulted in an internal initiative of basic technical self-preparation. Besides this, technical training to promote sales should be ongoing. Having at least one loan officer focused on HMF and housing specialists (nonexclusive) per agency will allow them to appropriately focus on the portfolio, provide adequate follow-up to credits and training for new loan officers.
- **It is crucial to customize the management information system and to carry out previous tests.** Besides efforts regarding form design and data compilation (improvement plan record, house evaluation, etc.), preparatory work for parameterization and tests related to data processing are required, as specific indicators may be essential for the analysis of the social performance or as a baseline for other strategic paths.
- **Importance of the financial institution's active participation** throughout the formulation and implementation of the HMF intervention. A multidisciplinary team that actively participates in each of the phases strengthens ownership and awareness for the relevance of providing access to a suitable house.

Brígido García, Chief Executive CAMPO: “With a strong commitment to the creation and strengthening of a housing product with support services (including training, CTA and financial literacy), focused on CTA, I visualize Fundación CAMPO as a point of reference on housing at a national level, leveraging from ADESCO structure and other resources such as the Unity of Community Development. This would allow integrating the HMF product to the expansion plans at a national level, according to the 5 year strategic plan”.



Along with the SCBF intervention, improvements and changes have been included in the technical assistance approach of Habitat (e.g. technical orientation brochures to loan officers and clients, data collection forms and training workshops for loan officers, coaching product specialists and others to better serve clients regarding the product), in order to provide advisory services to other institutions in the region.

ⁱ Heritage Foundation, 2013 Index of Economic Freedom, <http://www.heritage.org/index/ranking>

ⁱⁱ <http://www.mixmarket.org/mfi/credicampo>

ⁱⁱⁱ <http://www.credicampo.com.sv/index.php/productos-y-servicios/credito-para-vivienda>

^{iv} Source: Mix Market / Y+1 and Y+4/5 provided by CrediCampo.