



MicroBuild
Expanding Affordable
Housing Markets



2014
ANNUAL REPORT



Demonstrating the impact of housing microfinance



EZRA MILLSTEIN

Even before the MicroBuild Fund began operations two years ago, we knew it would become an important new tool in Habitat for Humanity's work as we seek greater scale and impact toward our vision of a world where everyone has a decent place to live.

Today, MicroBuild fits squarely into Habitat's strategy to build a more effective marketplace to increase access to shelter. The \$100 million MicroBuild Fund is a demonstration to encourage the financial sector, especially those that serve low-income populations, to include housing finance as part of the overall services they provide to their clients. This proof of concept is meant to show that demand exists and that housing loan products can be designed to be a profitable part of microfinance institution portfolios and fill this void in the market. MicroBuild accomplishes this by providing both capital on terms suitable for housing loans and technical assistance in the design of housing products that respond to clients' needs, preferences and capacities to plan and build their homes incrementally.

In addition, MicroBuild is leveraging Habitat's resources for broader impact by bringing in partners and debt financing

to amplify the resources made available for affordable housing solutions. We are fortunate to have the Omidyar Network and Triple Jump join with us as equity partners and to have the Overseas Private Investment Corp. as our provider of debt financing for the first \$50 million phase of the fund.

MicroBuild strives to earn both a financial return, which is important for sustainability, and a social return, which is critical to Habitat's mission. The results of the first two years of operation have been encouraging. As of June 30, 2014, MicroBuild had provided longer-term wholesale debt financing to 16 microfinance institutions in 13 countries, totaling US\$23.35 million. From a social performance perspective, this financing to local institutions resulted in 19,484 families' receiving financing for better housing.

A recent annual survey of these microfinance institutions provides additional insights into MicroBuild's progress. On average,

51 percent of the housing microfinance loans are used by families for housing support services to perform basic home repairs; 23 percent of the loans go toward small construction; and 19 percent are used for full house construction. The remaining 7 percent of the loans are used to purchase land or acquire a title to establish a home at a later time.

Finally, I'd like to thank our lead donors whose support and vision have made this fund possible: Mr. Jim Stanard and the Stanard Family Foundation, Mr. Ron Terwilliger, and the Hilti Foundation.



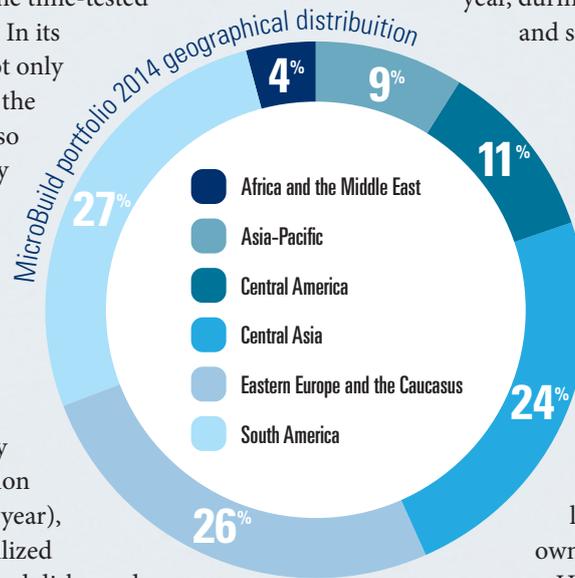
Michael E. Carscaddon
Executive Vice President, Habitat for Humanity International
Chairman of the MicroBuild Board of Directors

The Impact of Access

Doing well by doing good

Habitat for Humanity’s MicroBuild, a social investment fund with a target size of \$100 million, is rooted in the time-tested principles of self-help and sustainability. In its two years of operation, MicroBuild is not only beginning the process of demonstrating the viability of housing microfinance, but also spurring participation and innovation by brand-new market actors in affordable housing.

The MicroBuild Fund lends capital to financial service providers that in turn offer housing microfinance products to low-income families. For many of the fund’s investees, housing is a new product about which they are only now beginning to learn. From its inception until June 30, 2014 (the end of the fiscal year), the MicoBuild Fund approved and mobilized more than \$38 million in 18 countries, and disbursed more than \$23 million to institutions in 13 countries.



Much of that work was accomplished throughout the past fiscal year, during which nine new institutions were financed and seven countries were added to the portfolio.

In human terms, that translates to roughly 97,000 people in more than 19,000 households who have accessed small loans and housing support services to help repair their roof, expand their home, upgrade to a healthier toilet or perhaps replace a dirt floor with a more durable and healthy one.

Though these home improvements may appear humble, they provide households with significant social outcomes, from improved health and education to greater household pride, lower levels of stress, and an increased sense of ownership and security of tenure.

Habitat’s MicroBuild Fund fulfills a very specific need. Most of the world’s people acquire shelter incrementally,

building homes step by step as their families grow and as their limited finances allow. The vast majority of families in countries where Habitat works have no access to formal-sector housing options such as traditional mortgage products or developer-built housing.

Housing microfinance helps fill that enormous gap by empowering people to build better, more durable homes through a combination of capital and housing support services.

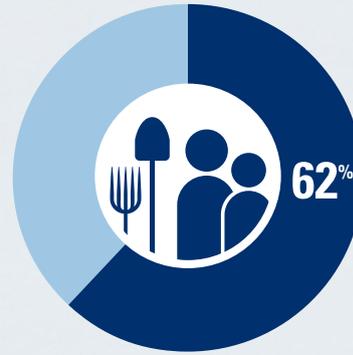
Worldwide, loans targeted to housing represent only 2 percent of overall microfinance products. Moving the number from 2 percent to 10 percent would result in \$3.6 billion of affordable housing, serving 15 million households — 75 million people.

That potential impact is what drives Habitat’s MicroBuild Fund. Developing and expanding this market should open up new business opportunities for the finance sector while allowing access to capital for people who have never been part of the process, and thus had no hope of finding a path out of the poverty that has trapped their families for generations.

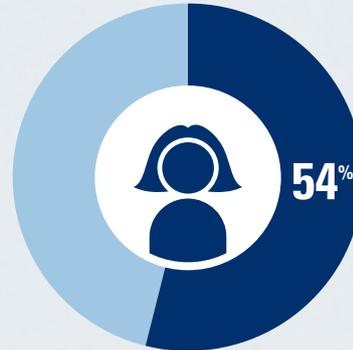
How can housing microfinance make such a difference?

Mirian Janeth Palma Varilla and her husband shared one small room with their toddler son in a relative’s house before they borrowed \$1,250 from Comixmul, a local finance institution in Honduras, to begin building their own house on family-owned land.

“We are building the foundations of our house with our own



Rural borrowers in 2014



Female borrowers in 2014



Upgraded roofs are just one of the many improvements that small construction loans can help make possible.

hands,” Varilla said. “Someone has deposited trust in us, and with their help, we will realize our dream.”

Varilla and her husband have always worked hard: She runs a small grocery store, and he is a farmer. But they didn’t make enough income to qualify for traditional loans, making their dreams of homeownership utterly unattainable.

In its first two years, Habitat’s MicroBuild Fund has opened that door for this family and more than 19,000 others. The ripple effect of that access is evident in 13 developing countries, where families have built new homes or made existing homes healthier and safer. Once their shelter problems are solved, people are free to focus on

improving their livelihoods, getting a better education, and making their communities stronger and more livable.

Vit Kdan and his wife, Leang Houch, borrowed \$7,000 from Hattha Kaksekar Limited, a local microfinance institution in Cambodia that partners with Habitat for Humanity and receives financing from MicroBuild. With the services of an engineer, provided as part of the loan, Kdan built a large, durable house to replace a one-room wooden structure that now serves as a kitchen and animal shed.

Now the couple and their five children live comfortably as they build their farming enterprise — raising pigs and cows in addition to fish — and continue to improve their house.

“Without a loan, we wouldn’t have been able to build our house,” Kdan said. “Now we are happy.”

In Kdan’s case, Habitat builds happiness. So too for Sevda Akhundova, of Bilajari, Tajikistan.

Akhundova lives with her husband and two sons in a house they were able to renovate with a \$2,000 loan from VF AzerCredit. The money was used to renovate a bedroom, the living room and a hallway, but what it actually bought was peace of mind.

“If you could see our house before, it was in mess,” Akhundova said. “But now that we’ve been able to create a safe and welcoming home, I can receive the guests in our house.”

The family runs a small supermarket that is attached to the house, so the loan has allowed them to create not only a safer and

COURTESY HABITAT TAJIKISTAN



COURTESY HABITAT TAJIKISTAN

The Akhundova home before (left) and after improvements made possible through a housing microfinance loan in Tajikistan.

more livable home, but also a more secure and inviting store.

Akhundova and her husband now have plans to take out another loan to begin construction on a home for their younger son, continuing a long-held tradition in Tajikistan of parents setting up their children in their first home.

Inspired and empowered by his parents' success, the younger son also is planning to start his own business, establishing himself as a young entrepreneur.

"The loan brought us fortune," Akhundova said. "Happiness

entered our home."

Since the close of the past fiscal year, happiness has entered many more homes. The fund has disbursed an additional \$12 million to seven new microfinance institutions in four new countries. As a result, an additional 10,819 families have been helped by MicroBuild Fund loans. The lessons from these early experiences in housing microfinance should be leveraged for years and become accessible to many more households as financial services for incremental housing solutions become more available.

Fund manager's comments

Triple Jump, an investment manager and adviser in the microfinance sector, serves as a bridge between developed capital markets in the West and financial sectors in developing countries. It was founded in 2006 to support the expansion of microfinance institutions through the provision of capital and advisory services. Triple Jump specializes in advising and managing funds that benefit micro-, small- and medium-sized entrepreneurs in developing countries. Our funds generate competitive financial returns and also aim to have an effective social impact on underserved segments of society. We aim to manage our funds in such a way that the goals of both our investors and our investees are achieved, with consistent focus on integrity, transparency and professionalism.

MicroBuild was established jointly by Habitat for Humanity International, Omidyar Network and Triple Jump in 2012. MicroBuild is the first global microfinance investment focusing on housing, and therefore the first for us at Triple Jump. The fund embodies a unique opportunity to increase or jump-start the housing portfolios of financial service providers while enhancing their housing product through the technical assistance component with Habitat for Humanity International. We are also confident that the experience of expanding housing microfinance with the investments of the fund will contribute to learning and developing best practices about financing affordable housing among low-income groups.

We are happy to have this chance to briefly discuss some highlights.

Fund portfolio evolution

2014 was a year of high growth and increased country diversification for the MicroBuild Fund. As of June 2014, the total portfolio stood at US\$23.3 million, almost half of the US\$50 million fund size, invested in 16 microfinance institutions across 13 countries. The regional allocation was distributed among Eastern Europe and Central Asia (53 percent), Latin America and the Caribbean (28 percent), Asia/Pacific (11 percent) and Sub-Saharan Africa (8 percent). Tajikistan, Azerbaijan and Cambodia were the largest country exposures. Ninety percent of the portfolio is denominated in U.S. dollars, which is the fund currency. Using available hedging instruments, MicroBuild disbursed its first local currency loan to a microfinance institution in Kazakhstan in April 2014.

Fund highlights

The fund finished the 2014 fiscal year making an operating income of US\$471,000, thereby narrowing the gap between net asset value (US\$3.2 million) and invested equity (US\$3.5 million). The average interest rate on U.S. dollar loans weighted by the invested amount was 6.9 percent, slightly above initial expectations of around 6.5 percent. The average maturity of MicroBuild investments was 46 months, in line with the longer tenor of housing microfinance loans. As of June 2014, the fund complies with all financial covenants.

Housing microfinance and social performance

The total housing portfolio of MicroBuild investees was US\$130 million disbursed to over 74,000 end clients. Twenty-six percent of these clients are reached by MicroBuild investments. The average housing microfinance loan size was US\$1,753, exhibiting the deep outreach that MicroBuild investees have in their markets. The social performance of MicroBuild Fund partner institutions is strong, with 45 percent of the portfolio being A-rated and 55 percent B-rated, according to the Triple Jump Social Performance Score. Outreach to rural areas reached 62 percent of total clients, and over half of all clients are women (54 percent).

Outlook 2015

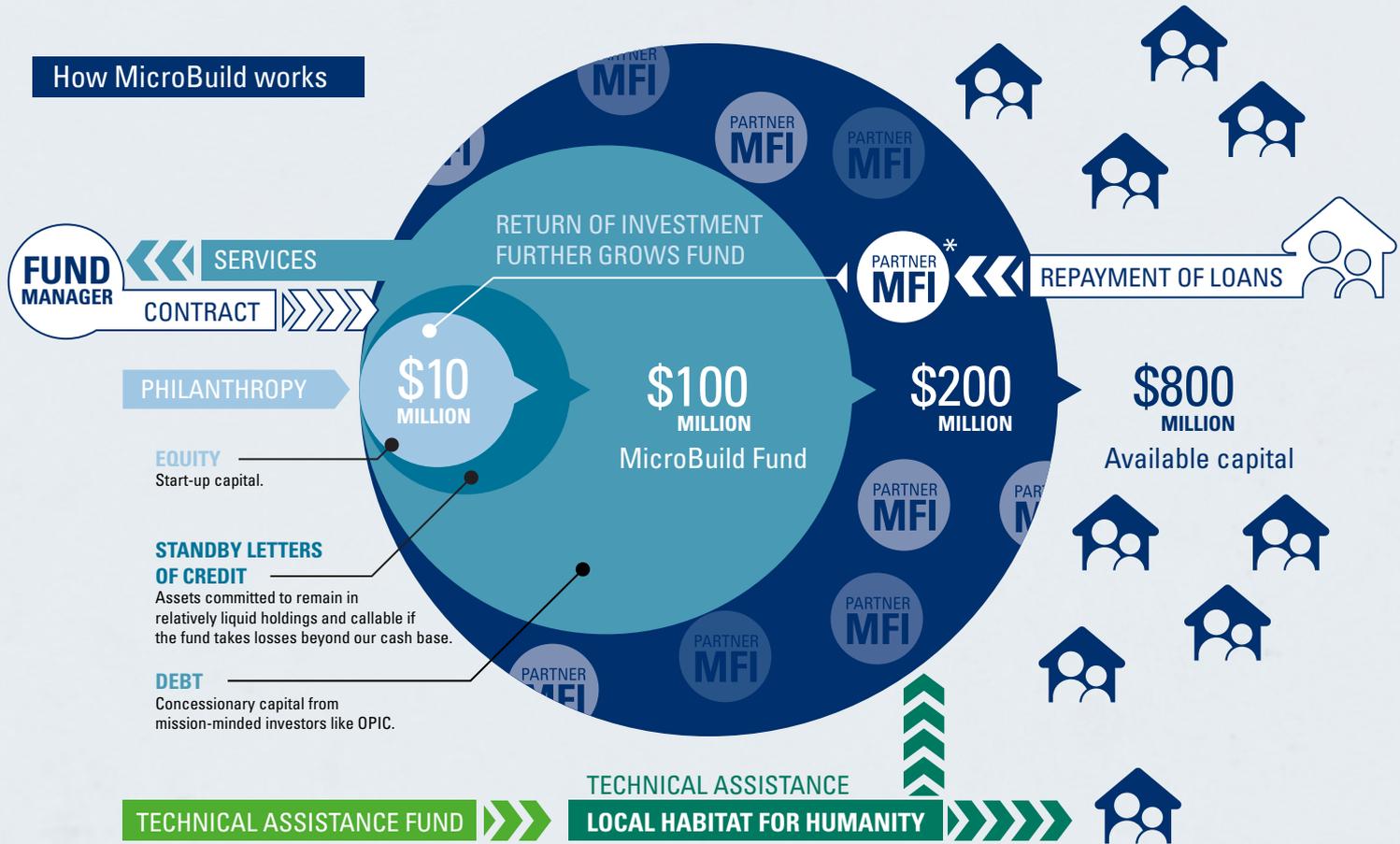
The share of the Eastern Europe and Central Asia region of the total fund portfolio is expected to decrease. While we continue to plan investments in this region, we are monitoring closely the unfolding macroeconomic situation, which may be affected unfavorably by Russia's worsening relations with Western Europe and the United States after the unrest in Ukraine. We expect continuous strong growth with investments planned in new countries, including Kenya and Peru, that will further diversify the fund's geographic distribution.

For more information on Triple Jump and our work as a social and impact investment fund manager, please visit triplejump.eu.

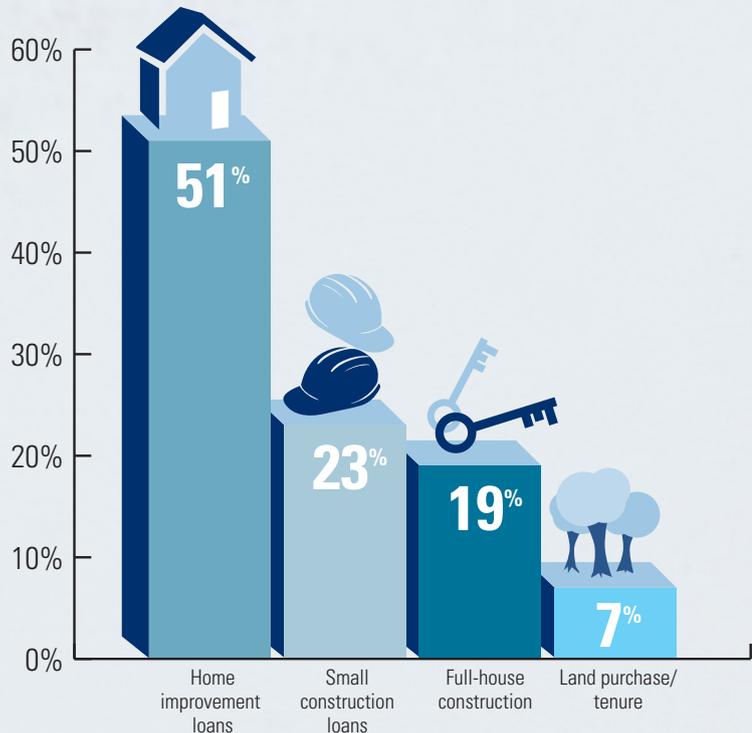
Portfolio statistics: 2013-14



How MicroBuild works



Use of housing microfinance loan proceeds 2014



Board composition

Habitat for Humanity International

- Mike Carscaddon, Executive Vice President, International Operations
- Ed Quibell, CFO
- Hillary Harp, General Counsel

Omidyar Network

- Peter Rabley, Director of Investments, Property Rights

Omtrix Inc.

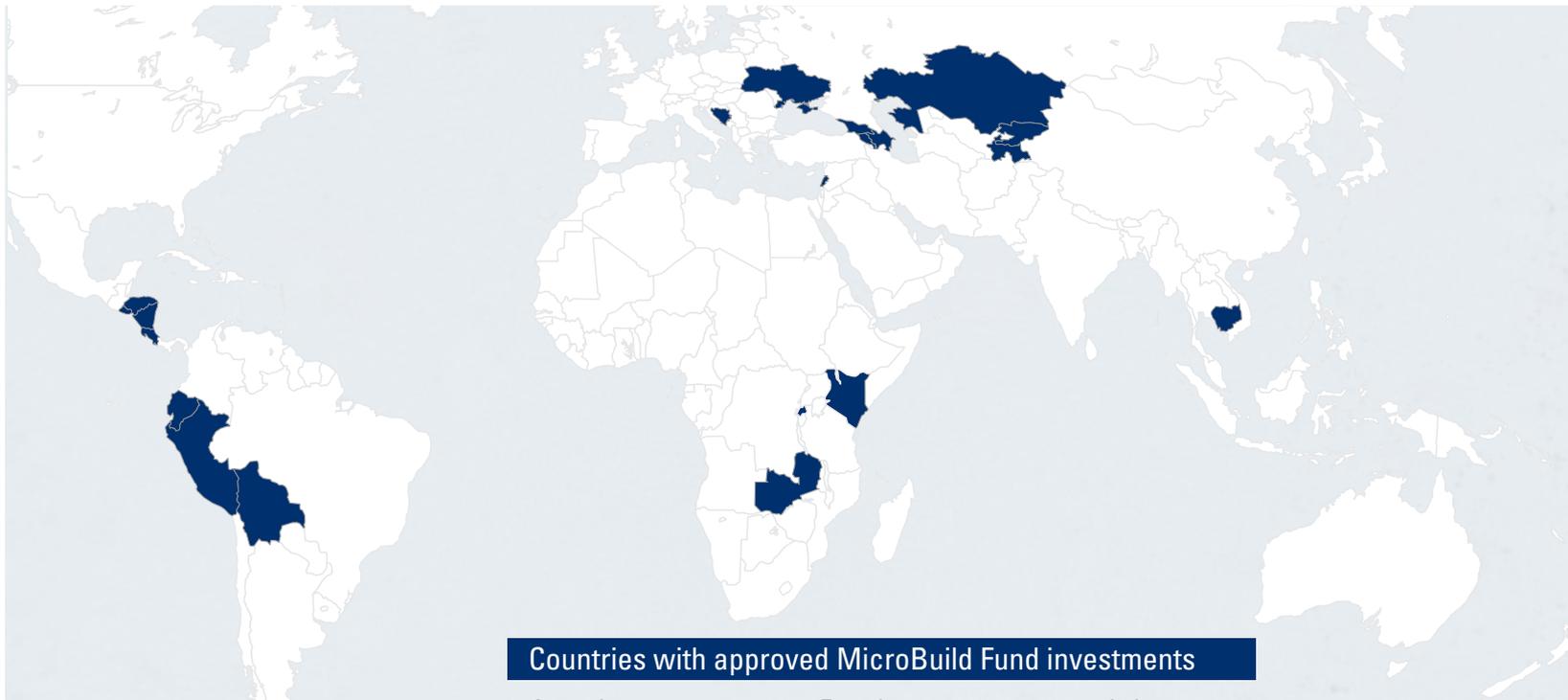
- Alex Silva, Founding Partner

University of Michigan School of Law

- Deborah Burand, Professor of Law

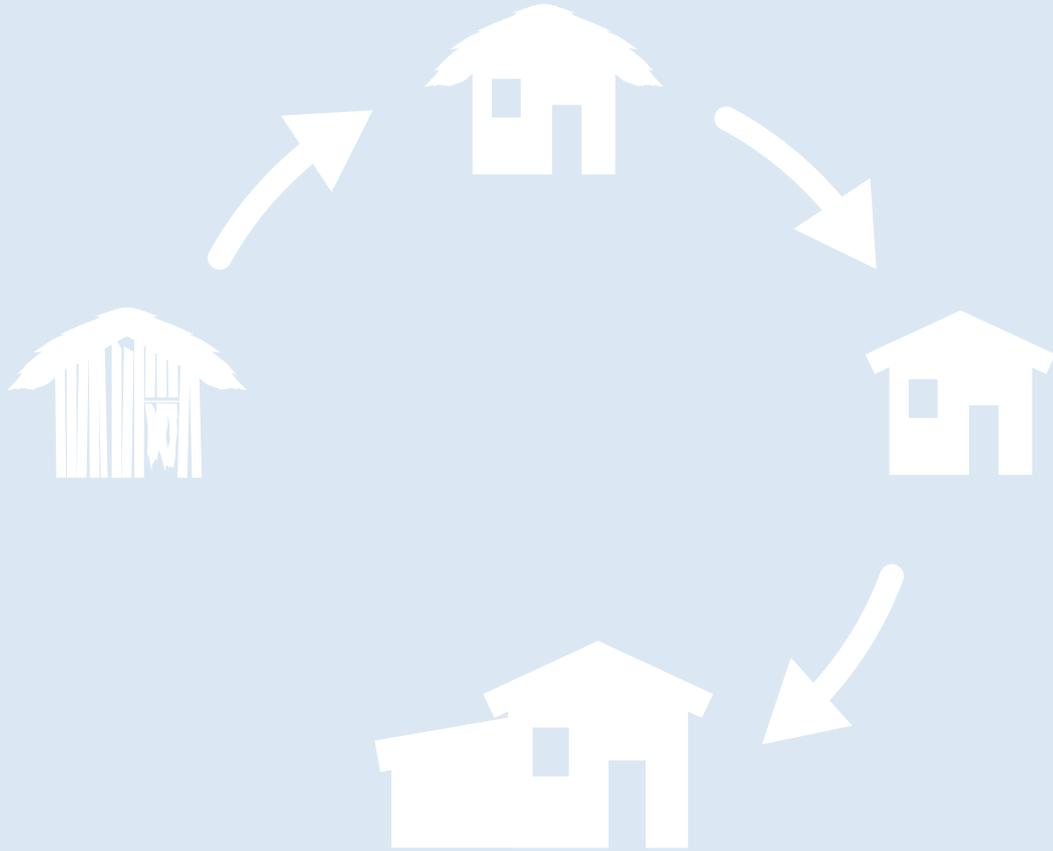
AfriCap Microfinance Investment Company

- Anne-Marie Chidzero, CEO



Countries with approved MicroBuild Fund investments

- | | | |
|--------------------|-------------|------------|
| Armenia | Ecuador | Lebanon |
| Azerbaijan | El Salvador | Nicaragua |
| Bolivia | Georgia | Peru |
| Bosnia-Herzegovina | Honduras | Rwanda |
| Cambodia | Kazakhstan | Tajikistan |
| Costa Rica | Kenya | Zambia |
| | Kyrgyzstan | |





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