Chairman Corker, Ranking Member Menendez, and Members of the Committee, Habitat for Humanity International is grateful for the opportunity to provide written testimony for this hearing on modernizing development finance. Habitat for Humanity International appreciates the opportunity to address the important role that development finance plays in achieving positive development outcomes, and to provide our views on how our successful engagement with the Overseas Private Investment Corporation (OPIC) has effected real change in the lives of over half a million individuals around the world. Habitat supports the proposed International Development Finance Corporation, as outlined in the Better Utilization of Investments Leading to Development Act of 2018. In addition to sharing our experience with development finance and OPIC, we have included below recommendations for the legislation and the proposed development finance institution.

Habitat for Humanity International’s vision is a world where everyone has a decent place to live. Anchored by the conviction that stable housing helps families achieve strength, stability and self-reliance, Habitat has helped more than 13.2 million people since 1976 meet their affordable housing needs through home construction, rehabilitation and repairs, and by increasing access to improved shelter through products and services. Habitat also advocates to improve access to decent and affordable shelter and offers a variety of housing support services that enable families with limited means to make needed improvements on their homes as their time and resources allow. As a nonprofit Christian housing organization, Habitat works in local communities across all 50 states in the U.S. and in more than 70 countries.

Habitat approaches housing in a holistic way, including by using finance tools to help create new markets in developing economies that lack housing finance products. We are constantly innovating ways to create opportunities for everyone to find pathways to create their own decent places to live.

We are grateful for the strong partnership we have developed with OPIC. We were delighted OPIC CEO Ray Washburne could meet with our colleagues on the ground in Peru a few weeks ago where we showcased our success at the local level. We are looking forward to further engagement with Mr. Washburne and his team in the future. We also appreciated that Ms. Ivanka Trump took the time during her stay in Lima, Peru to meet our colleagues and learn more about the impact that Habitat’s partnership with OPIC is having on the lives of women.
**The Importance of Impact Investing**

Habitat believes modern development finance can achieve a double bottom line – creating profit, and ensuring positive social impact for individuals, families and communities globally. Our belief in impact investing has resulted in the creation of investments that build inclusive economies and expand participation of low-income people as economically productive citizens. The goal is to generate social impact alongside financial return, and can be achieved in both emerging and developed markets. Globally, there is growing interest in impact investing, in light of the increasing complexity of some of the world’s most pressing challenges including renewable energy, access to water and sanitation services, and creating decent and affordable housing. We believe modern development finance can work to achieve this double bottom line by focusing on products that engage beneficiaries and create market opportunity for self-sufficiency and financial independence.

Habitat for Humanity International’s MicroBuild Fund is the first housing-specific microfinance investment vehicle dedicated to helping low-income families. It is a demonstration fund to prove the financial viability and social impact of housing microfinance, and to inspire further investment by commercial investors. To date, we have served more than half a million individuals through our loans, creating new opportunities for families to achieve stability and self-sufficiency through improved housing. Further, we have seen good financial returns over the life of the fund and are well within the parameters of our financial model. In addition to tracking the financial metrics of the fund, we also track social performance indicators, such as the number of women served, percentage of people served from rural settings, and the number of new dollars put toward housing as a result of our investments in microfinance institutions.

**The need for Housing Microfinance and Habitat’s MicroBuild Fund**

Globally, over 1.6 billion people live in inadequate housing, a need that far outstretches the capacity of governments and philanthropy to solve. The role of local markets is critical. While low-income people use available market options to improve their homes, these homes typically are expensive, poor quality, or simply do not serve their needs. Mortgages remain a privilege for the few. Only 20 percent of households in developing countries have access to the formal financial sector. To make ends meet, low-income families depend on informal mechanisms for savings and credit from microfinance institutions – or MFIs. However, most MFIs remain focused on income-generation or small business loans even though practitioners estimate that at least 20 percent of total microfinance loan disbursements are used for housing. While the microfinance movement has provided access to financial services for low-income people, the World Bank’s Consultative Group to Assist the Poor reports that microfinance institutions allocate less than 2 percent of their combined $45 billion (USD) lending portfolio toward housing.

Habitat for Humanity International aims to use all available tools to increase access to affordable, safe and decent housing. By understanding this market failure in affordable and effective financial housing products globally, Habitat decided to do something about it. Housing microfinance (HMF) shows promise both as a nimble tool to address substandard housing and as a viable financial product for institutions serving the unbanked. Housing microfinance products support low-income clients with loans for incremental construction, progressive building, and the addition of services including water, sanitation, and energy, serving as the starting point to a more vibrant housing value chain for the poor.
Habitat’s research into the housing microfinance sector revealed three key barriers for lenders who want to enter into housing finance: lack of longer-term capital; limited staff capacity for housing product development; and lack of secure tenure. Habitat expects housing finance providers to grow their lending operations, offering a combination of capital and advisory services, which will increase access to affordable housing loans for low-income households.

In 2012, in close coordination with the Overseas Private Investment Corporation, Habitat for Humanity International created the $100 million (USD) MicroBuild Fund. A demonstration of the financial viability and social impact of housing microfinance, MicroBuild addresses an important market need by boosting funding in innovative housing finance and tracking its progress to further influence investment in the sector. The MicroBuild Fund offers longer-term debt to institutions who offer larger size, longer-term housing microfinance products to their clients. In addition to funding, microfinance institutions receive institutional technical assistance to help take the product to scale. Finally, borrowing clients – individuals or families – receive housing support services including construction technical assistance and financial education to ensure the quality of housing structure and improvements.

The below two examples demonstrate the positive impact the MicroBuild Fund has had on both microfinance partners and individual beneficiaries, demonstrating a double bottom line of achieving economic returns and positive social outcomes.

In Cambodia, 10 million people lack access to decent housing. Habitat partnered with local microfinance institution Hattha Kaksekar Limited (HKL) to provide housing microfinance product development services, and capacity support to the institution. MicroBuild has invested $4 million (USD) in HKL for home improvement and housing loans. Since its launch, HKL’s housing portfolio has grown to nearly 9 percent of its overall loan portfolio, demonstrating the viability of housing microfinance products. As of December 2017, HKL’s housing portfolio had over 8,100 active borrowers, with an outstanding portfolio size of $54.7 million (USD) across all its branches. Habitat’s technical and financial support focused on economic and social returns, demonstrating to the sector the viability of housing microfinance products that serve the underserved as they seek to improve their housing.

Access to housing loans for incremental improvements can have a life changing impact on the families we serve. Marlon, from Ocotal, Nicaragua, took a loan from Habitat supported FUNDENUSE, the only microfinance institution providing credit for sewage catchment tanks. Before they received financing, Marlon’s family used a latrine and showered with a bucket outdoors. Their loan enabled the family to build a full bathroom with locally made adobe blocks. “Having a new bathroom had a great impact for our daughter,” Marlon told us, “Now she is not scared of going to the latrine [when] it is dark.” This simple improvement to their home has resulted in increased safety, and dignity, for Marlon’s family.

MicroBuild is funded by a $90 million (USD) line of credit provided by Overseas Private Investment Corporation and $10 million (USD) in equity. Habitat owns a majority stake of 51 percent of equity; and other investors include the Omidyar Network, MetLife Foundation, and Triple Jump, which is also MicroBuild’s Fund Manager. Habitat has committed 10 percent of the total fund size or $10 million (USD) in technical assistance to investee institutions. Additionally, through the support of its high net-worth donors, Habitat provides guarantees in the form of letters of credit totaling $10 million (USD) to OPIC. As of May 7, 2018, the Fund has approved $113.5 million (USD) to 55 microfinance institutions across 31 countries, and disbursed $95 million (USD) to 49 institutions across 30 countries. MicroBuild aims to lend the remaining capital to institutions by December 31, 2018. The scalability and sustainability of a dedicated housing microfinance product is evident among the MicroBuild investee
institutions - $88 million of investments as of December 2017 has resulted in leveraging an additional
$280 million by the MicroBuild institutions from other sources to grow their housing portfolio. The first
repayment to OPIC will come due in 2019.

Recommendations for the BUILD Act and the proposed IDFC

Habitat for Humanity International strongly supports the potential of development finance, and we
appreciate the bicameral and bipartisan support for the BUILD Act of 2018. From Habitat for Humanity’s
unique experience working closely with the Overseas Private Investment Corporation, we have
developed a list of recommendations for consideration in the development of the International
Development Finance Corporation (IDFC). Habitat’s technical recommendations are provided here in the
spirit of improving the legislation to ensure the future IDFC engages with a diverse set of actors to
promote impact investing, with positive outcomes for broad-based development. These
recommendations would assist the IDFC in achieving its objective of promoting sustainable growth in
the developing world through creative impact investments from a variety of private sector and non-
governmental actors.

Focus on Impact Investing

- We urge the IDFC to ensure that their programs, grants and funds focus on creating impact
  through investment, prioritizing investments that seek to build inclusive economies and
  expand participation of low-income people as economically productive citizens.
- Habitat for Humanity’s MicroBuild Fund has demonstrated the positive economic and social
  outcomes impact investments can have, and it is our hope that others can replicate this model
  in partnership with the proposed IDFC.

Include non-governmental organizations (NGOs) in “private sector” definition

- We feel NGOs and non-profit organizations can have positive development sector impact by
  creating new financial tools for low-income families. We ask that NGOs have the same level of
  access to capital and equity from the IDFC as private sector actors do.

Grants for Technical Assistance

- We urge the IDFC to provide grants to loan recipients as a complement to the credit and equity
  provided as a means of encouraging essential technical assistance to support market
  initiatives in developing country contexts.
- As Habitat has experienced through the MicroBuild Fund, grants for technical assistance are
  essential to ensure programmatic success. MicroBuild has provided technical support to lending
  MFIs, as well as provided learning opportunities for micro loan recipients to be educated about
  their financial opportunities and responsibilities when taking a micro loan from an MFI.

Remove Caps for Innovative Loan Products

- Habitat recommends removing caps on what can be considered a micro loan by the IDFC as
different sectors have various “micro” loan needs. “Across the board” caps on microloans are
restrictive in different markets (finance vs. agriculture vs. housing, for example). Needs in these
sectors, and across geographical settings, vary greatly. Housing loans in particular, are unique as
they are often longer-term loans which can be at potentially larger amounts.
- Currently, OPIC defines a Small and Medium Enterprise (SME) loan to be greater than $15,000.
  Habitat has endeavored to scale and expand the microloan housing products through its partner
microfinance institutions in response to increased capacity and demand for these financial products in various countries. However, OPIC’s cap of $15,000 has limited the scalability of the MicroBuild Fund and the potential impact of housing microfinance loans in these newly established housing finance sectors.

Make Political Risk Insurance More Accessible to Diverse Actors, Including NGOs
- An NGO trying to demonstrate scale opportunity or the benefits of an impact investment fund (focusing on economic and social outcomes) will not necessarily be making as much of return as a corporation. As a means to encourage investment in developing country contexts with various levels of political instability, we encourage the IDFC to provide political risk insurance to NGOs at reduced rates.

Ensure a Development Voice in Leadership and in Consultation
- We encourage leadership of the IDFC to include individuals with both development and finance backgrounds. The board of directors for the MicroBuild Fund is comprised of individuals from a variety of backgrounds, who prioritize creating impact through investment. This diversity and a focus on development outcomes have driven MicroBuild to achieve its resounding success both in terms of financial return and in terms of people served.

Habitat for Humanity International believes in the power of development finance to have real impact on the ground, as we have seen through our housing microfinance work globally. We are available to answer questions and provide supporting documents, should they be helpful to this Committee.

####

Habitat for humanity symbol