Case Study Series 8

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Centre for Affordable Housing Finance in Africa

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Sustainable NGO Microfinance of Poor and Low-income Housing in Egypt

A case study of Habitat for Humanity, Egypt

Executive Summary

This case study presents the strategy and approaches, structure and partnerships, clientele and loans portfolio, and microfinance performance of Habitat for Humanity Egypt's (HFHE) housing assistance to poor and low-income households.

Since 1989, HFHE has successfully supported over 25,000 poor and low-income households in selected rural and urban communities by providing "no-profit, no-interest" loans for needed housing improvements, renovations and replacement home construction. In Egypt's emerging microfinance industry, HFHE is the sole provider of micro loans that are exclusively targeted at housing related activities.

HFHE micro loans are all short term loans; the average loan size being EGP 7,000 (US$ 890), repayable in monthly instalments over a 24-30 month period. The first instalment is payable one month after receipt of the loan. All "no-profit, no-interest" loans carry an "inflation adjustment" to help protect the value of HFHE's loan capital and support the direct lending costs of implementing NGO partners.

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Across Africa, practitioners are grappling with the challenge of creating an enabled housing finance environment. While these challenges may seem insurmountable, there is a growing track record of novel solutions and initiatives, pioneered by policy makers, financiers, developers and households themselves, suggesting that there are new opportunities for making the housing finance sector work for the poor in Africa. This case study is part of a broader series that CAHF has commissioned in order to support professional development and inform a broader research and dialogue process. The case studies vary, addressing themes as diverse as housing microfinance, mortgage liquidity facilities, cement block-banking, home loan guarantees for the informally employed, and infrastructure financing, highlighting experiences from countries across the continent. We hope this series contributes to more precise and successful endeavours that realise the opportunities in this market.

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF's mission is to make Africa's housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a market-based approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor.

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HFHE is a national intermediary NGO that does not disburse loans directly. Instead, HFHE provides loan capital, technical support and training, monitoring and follow-up to partner NGOs and participating community-based organisations (CBOs), who are then directly responsible for the management of the loan. This "distributed network" of independent non-profit organisations disbursed 2,393 HFHE loans, totalling EGP 20.2 million (loan principal plus inflation adjustment, US$ equivalent - $2.6 million) to needy families in 22 rural and provincial urban communities in FY2015. HFHE uses two approaches when making housing microfinance loans, i.e. normal lending and wholesale lending.

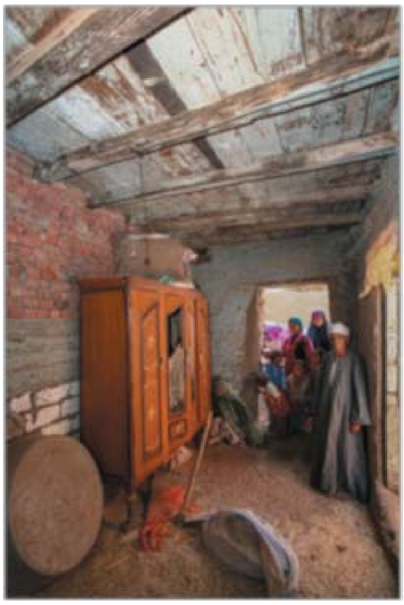
HFHE's partner NGOs and participating CBOs charitably assist poor households to make vital housing repairs and improvements. Each year they commit to aid a specific number of poor families. This usually equates to 7% of the total number of micro loans disbursed that specific year. HFHE has aided over 1,100 poor families with housing improvements (at no cost to HFHE), and since 2006, has successfully assisted those who cannot repay even the smallest of loans.

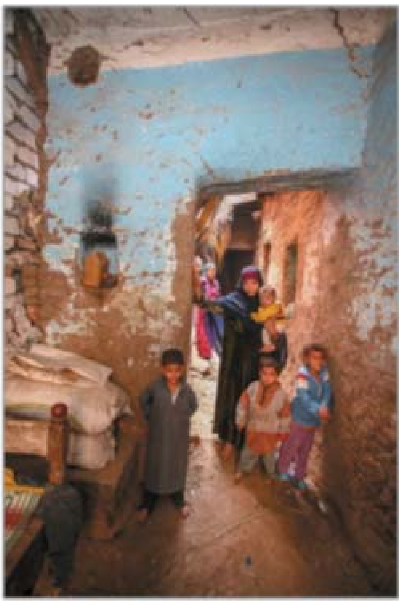
On standard measures of microfinance performance, HFHE scores well to high. In its latest year (FY2015), more than 98% of borrowers were current with their repayments, its gross loan portfolio rose 12.8% to US$3.6 million, its clientele grew 7.1% to 6,846 active borrowers, the number of new borrowers increased 10.3%, only 1.3% of its gross loans portfolio (GLP) was more than 30 days late, total operating expenses were 10.1% of GLP, write-offs of bad loans were less than 0.05% of GLP, and its GLP was over 83% of total assets (17% cash on hand and cash reserves).

Acknowledgements

The invitation to research and prepare this case study about housing microfinance, extended by the Centre for Affordable Housing Finance in Africa (CAHF), came as I was researching and writing an external situational analysis for strategic planning by Habitat for Humanity Egypt (HFHE). These concurrent research projects afforded me the opportunity to closely appraise key contexts, strategy, approaches, management, participants, and performance of HFHE's micro lending for housing improvements from different perspectives and in depth. It has been a rich opportunity for shared learning, reflection and collaboration. I wish to especially thank Ms. Felicity Kitchin at CAHF and Ms. Fungai Mukorah at Habitat for Humanity International in South Africa for facilitating my participation in this case study.

Both this case study and the external situational analysis of HFHE programming owe a debt of gratitude to Dr. Nabil Samuel Abadir, chairman of HFHE's Advisory Committee, who first proposed my involvement. It is to the senior management of Habitat for Humanity Egypt, Mr. Hany Kamal, National Director, Mr. Ayman Awny, Financial and Administration Manager, and Mr. Sherif Samir, Team Leader, that I am most sincerely grateful for their full and ready cooperation, their openness and transparency in sharing information, their good cheer and warm welcome, and keen readiness to facilitate this research. Together, they have made this an effective and successful collaboration for which I am indeed appreciative. I hope that these analyses and reports will be of considerable use and utility to them in growing HFHE's role and significance for Egypt's poor and low-income citizens.





Part 1: Introduction and Overview

Since 1989, Habitat for Humanity Egypt (HFHE) has successfully dispersed "no-profit, no-interest" loans for needed housing improvements, renovations and replacement home construction[1] to more than 25,000 poor and low-income households in selected rural and urban communities. In Egypt's nascent microfinance industry, HFHE is the sole provider of micro loans which exclusively support housing improvements.

HFHE micro loans are all short term loans, the average loan size being EGP 7,000 (US$ 890)[2], repayable in monthly instalments over a 24-30 month period. The first instalment is payable one month after receipt of the loan. All "no-profit, no-interest" loans carry an "inflation adjustment" to help protect the value of HFHE's loan capital and support the direct lending costs of implementing NGO partners. The current inflation adjustment is 7% per year. These housing credits, disbursed as cash, are exclusively for housing improvements by poor and low-income families.

In its latest year (FY2015), its five NGO partners disbursed 2,393 HFHE loans totalling EGP 20.2 million (loan principal *plus* inflation adjustment, US$ equivalent - $2.6 million) to needy families in 22 rural and provincial urban communities, chiefly in Middle Egypt (Beni Suef and al-Minia governorates). The number of new borrowers in FY2015 rose by 10% over FY2014, and was the second highest in HFHE history. Over 98% of active borrowers are current or ahead on their loan payments.

For those poor households that may be unable to repay even the smallest of loans, HFHE leverages small *grants* from its partner NGOs and assisted communities to make essential housing improvements for them. Since 2006, more than 1,120 of these households have benefitted from this charitable housing assistance.

This case study discusses:

- HFHE's strategy, objectives and different approaches to sustainable housing microfinance for poor[3], low-income[4] and the poorest families[5];
- The role of NGO partnerships, local CBOs and their housing committees, government, and HFHE management of its loans;
- The business models, costs and financing, loans portfolio and risk management, and sustainability of HFHE microfinance for housing improvements and renovations;
- A profile of borrowers, beneficiaries, loan terms, and their housing improvement projects;
- HFHE's nonfinancial technical services to borrowers and their costs;
- Challenges and opportunities for HFHE housing microfinance and
- Priority issues, lessons learned and leading questions from this case study.

In sum, this case study provides a broad understanding of the contexts and approaches of HFHE housing microfinance, a detailed understanding of how these approaches function and how they are managed, and lessons learned for the possible adaptation or replication of key program elements in other contexts.

Table 1: Key Features of HFHE Housing Micro Loans at a Glance

Loan Sizes	Minimum: EGP 2,000 (US$ 255), Maximum: EGP 12,000 (US$ 1530) Mean loan size: EGP 7,000 (US$ 890).
Loan Terms	Maximum duration: 36 months. Most loans: 27-30 months. Repayment begins 30 days after receipt of loan.
Interest	7% annual inflation adjustment.
Collateral	All loan recipients have loan guarantor and sign promissory notes for the full value of loan principal plus inflation adjustment.
Delivery Method	Cash disbursement by intermediary partner NGOs and their local CBO in each of 22 assisted communities (rural and provincial urban).
Growth of GLP and Borrowers	Gross Loan Portfolio: EGP 28.2 million. Total borrowers: 6,846 (June 30, 2015 – US$ 3.60 million). Year-on-year change in: GLP: +12.8% Borrowers: +7.1%
Repayment Rate	98.1% of Gross Loan Portfolio (GLP) current (June 30, 2015)
Arrears	0.6% of GLP less than 30 days late. 1.2% of GLP over 90 days late.

[3] Poor refers to those households/individual borrowers who earn less than EGP 800 per month— i.e. less than US$ 3 per day. Poor households with steady incomes can repay micro loans

[4] Low income refers to those households/individual borrowers who earn monthly incomes of EGP 1500-1999.

[5] The poorest households have no stable or dependable income and are unable to repay even the smallest of loans. They are given grants for home improvements.

Table 1: Key Features of HFHE Housing Micro Loans at a Glance

Clientele	Poor self-employed, wage-workers and micro-entrepreneurs able to repay loans and low-income households. Average monthly salary of borrowers: EGP 1170 (US$ 150). Married: 83%, Single: 15%, Widow: 3%. Gender: 36% female borrowers, 64% male. Residence: 56% rural, 44% provincial urban[6].
Loan Purpose	Over 80% of loans are for home renovations and improvements. 15% of loans are for demolition of decrepit homes and building new ones. Less than 5% of loans are repeat loans for incremental construction.[2]
Other Services	Small grants to poorest-of-poor for essential home improvements. Technical assistance to borrowers for home improvement engineering design and specification.

1.1. HFHE's Purpose and Partnership Approach to Improve Poor Housing

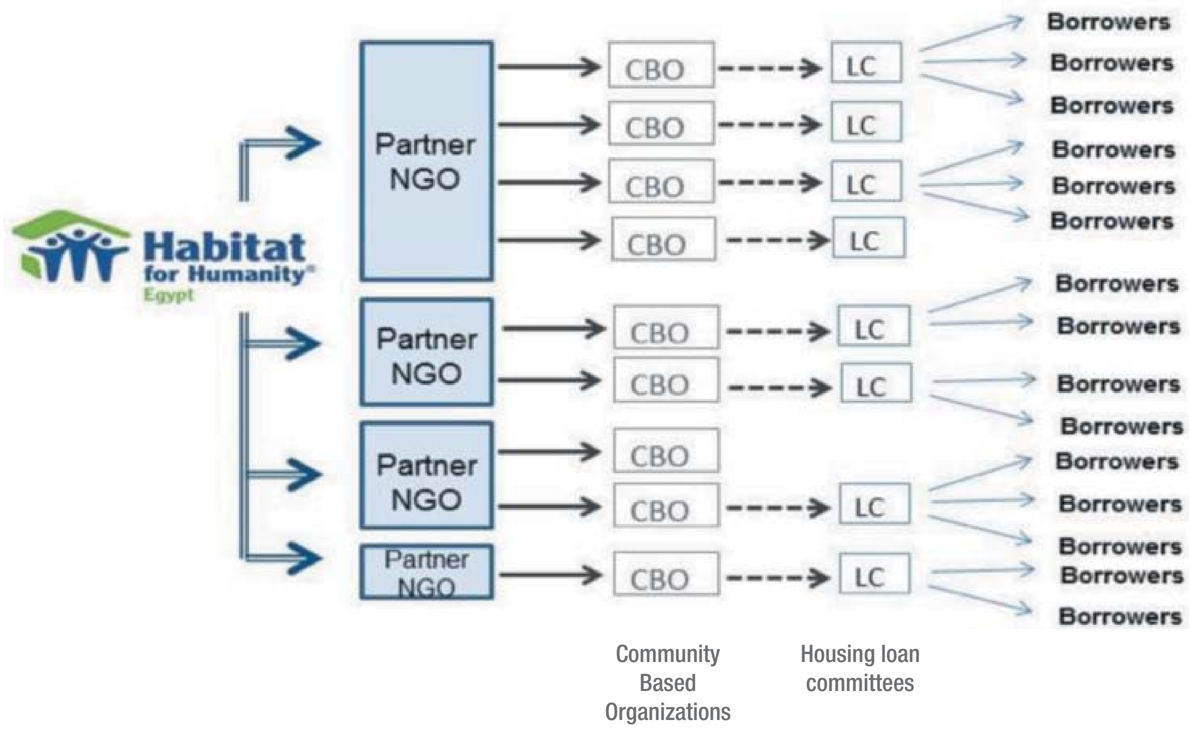
Habitat for Humanity Egypt aims to alleviate poverty and raise living standards among poor and low-income households through improved housing:

> *"A simple, decent and affordable home fulfills the basic need of shelter and directly affects the well-being of families and communities, encouraging stability in all areas of life."*

Their premise is sound: shelter is a *basic human need,* the home is a personal asset that generally appreciates in value over time, and for many self-employed and micro-entrepreneurs, their home is also a *productive asset* where goods are produced, inventory stored and business conducted.

To achieve its purpose, HFHE collaborates with intermediary NGO partners and their local, community-based partner organisations and loans committees in select communities. HFHE does not disburse loans directly. Rather, it provides loan capital to NGO partners exclusively for housing micro loans, specifically to assist poor and low-income households in selected communities. In turn, its NGO partners assist and supervise local, community-based organisations and loan committees to disburse and manage these housing micro loans. HFHE provides training and technical support to the partner NGO staff responsible for these loans, and the participating CBOs and loan committee members in each community (see Figure 1).

Figure 1: A Schematic of Participating Organizations in HFHE Housing Microfinance



[6] Client profile averages and percentages from stratified sample of all HFHE borrowers in FY2015. See Annex 1.

1.2. How HFHE Works with Partner NGOs and Community-Based Organizations in Housing Microfinance

HFHE is registered as an Egyptian national NGO and maintains a small office in Cairo with less than 10 staff members. It does not directly disburse loans to borrowers. Instead, HFHE collaborates with community-based organizations and intermediary partner NGOs to reach needy borrowers in multiple communities:

Community-Based Organizations (CBOs): Borrowers receive their loans directly from a local, community-based organization (CBO) in their specific community. There are currently 22 CBOs—one in each of the 22 communities (see Annex 1)—that actively manage HFHE housing loan funds. All CBOs are formal, non-profit organisations registered with the national ministry that is responsible for NGO regulation and oversight. The CBO is typically a community development association or a Muslim or Christian social welfare association. None of these are specialised lending organisations, nor do they provide housing micro loans as their only activity. All CBOs provide other community services and program activities apart from managing housing loans. Some participating CBOs also provide micro credit for small business as a separate activity.

Partner NGOs: The CBO is not, however, a "partner" with HFHE in housing microfinance. There is no partnership or loan program agreement between HFHE and participating CBOs. In order to extend its loan outreach to more communities and borrowers, HFHE partners with a small number of intermediary NGOs. HFHE has signed partnership agreements and contracts with these NGOs that specify roles and responsibilities in implementing these loans. Partner NGOs are also registered with the responsible national ministry. Currently, HFHE has partnership agreements with five intermediary NGOs. Each intermediary NGO then has a housing loan project agreement with one or more CBOs. The NGO is the responsible intermediary between HFHE and the CBOs. HFHE's largest and oldest NGO partner, CEOSS[7], supervises and supports 14 CBOs in housing microfinance and other CEOSS development programs. Another partner NGO works with four CBOs, a third partner assists two CBOs, and two other intermediary partners each support one CBO. Based on the selection criteria established by HFHE, the partner NGOs identify and propose CBOs to implement HFHE housing micro loans. Candidate CBOs are approved jointly for participation by HFHE and the partner NGO.

Housing Loan Committees: Each CBO has a housing loan committee of 7 to 11 members. This committee is directly responsible for reviewing and approving or declining applications for loans, signing loan agreements with borrowers, and managing the disbursement and collection of housing micro loans in their community. The members of the housing committee are selected by both the CBO leadership and partner NGO. HFHE then orients and actively trains the housing committee members and partner NGO staff person to ensure that they are able to manage the housing loans capably. They are trained on how to announce loans, receive and review loan applications, take decisions, approve or decline applications, and monitor and follow-up on construction and repayment.

Figure 2 presents the specific roles and responsibilities of HFHE with partner NGOs, participating CBOs and their housing loan committees in their financial and nonfinancial services to borrowers:

Figure 2: HFHE Roles and Responsibilities to Participating Organizations

Habitat for Humanity Egypt
■ Sets criteria for the selection of partner NGOs, CBOs and borrowers. ■ Sets housing loan terms and conditions. ■ Obtains annual program funds from Habitat for Humanity International and solicits program grants from other international donors as well as companies and organizations in Egypt. ■ Reports to Egyptian government authorities on its program activities and financing. ■ Liaises with and reports to Habitat for Humanity International and other supporting agencies on its programs and activities. ■ Contracts and pays for engineering technical services to borrowers in most communities.

7 The Coptic Evangelical Organization for Social Services (CEOSS), one of Egypt's largest and most experienced community development and social welfare associations. Habitat for Humanity International first supported housing microfinance in Egypt in a project partnership with CEOSS from 1989 to 2003 before establishing HFHE as a separate entity in 2003.

Figure 2: HFHE Roles and Responsibilities to Participating Organizations

With its partner NGOs, HFHE:	With participating CBOs, HFHE:
■ Signs multi-year agreements to implement HFHE housing microfinance and small housing improvement grants for the poorest households who cannot repay loans. ■ Provides loan capital for housing microfinance. ■ Negotiates indirect costs to be retained by partner NGOs from housing loan repayments to cover implementation costs. ■ Trains responsible staff of partner NGOs to manage and report monthly to HFHE on implementation, finances and outputs of its housing microfinance activity. ■ Approves the selection of and orients participating CBOs. ■ Monitors loan portfolio progress and compliance with HFHE loan terms and eligibility criteria for borrowers.	■ Assists partner NGO to form, orient and train housing loan committees to receive loan applications, inspect homes and plans for improvement, select eligible borrowers, help borrower set an appropriate loan size, disburse loans and collect loan payments. ■ Together with partner NGOs, monitors loans management performance of loan committees and CBOs. ■ Together with partner NGOs, monitors CBO charitable assistance to poorest households for essential home improvements.

1.3 HFHE Relationships to Government and Banks

As a registered Egyptian NGO, HFHE is supervised by the Ministry for Social Solidarity which is responsible for overseeing the finances and varied programs of nearly all local non-governmental organisations in Egypt. As a microfinance provider, HFHE is also subject to oversight by the Egyptian Financial Supervisory Authority under Law 141 of 2014. However, the Authority has not yet begun executing its new responsibilities, i.e. to support and monitor microfinance lending and compliance. Microfinance is newly established as a recognised business activity in Egypt; government licensing and oversight of this financial sub-sector is also just emerging. The government's initial priority will be to support microfinance lending to micro- and small enterprises – not micro loans for home improvements in which HFHE is currently the sole exclusive provider. No institutions except banks are permitted to accept deposits in Egypt.

HFHE has never borrowed loan capital from an Egyptian bank and has no microfinance relationship with a local bank. Egyptian banks are not keen to provide banking or home improvement loans to the poor and low-income households that are HFHE's clientele. Most of these homes are not registered and families lack the property ownership documents to secure bank loans. Egyptian banks do not view HFHE as a competing financial institution, and HFHE clients do not view Egyptian banks as an alternative lender. Annual interest rates on personal loans from Egyptian banks have fluctuated between 10.5% and 12.5% since 2008, a rate much higher than the 7% annual inflation adjustment now applied to HFHE micro loans.

1.4 Three HFHE Approaches to Poor and Low-income Housing Improvements

HFHE supports housing improvements for poor and low-income households and the poorest families in participating communities through 3 approaches: normal lending, wholesale lending and home improvements for the poorest households.

Figure 3: HFHE Approaches to Improve Poor Housing

Normal Lending

HFHE and partner NGOs share the risks of ongoing lending in participating communities for an indefinite duration with lending targets (numbers of loans) set annually. Loan management costs of all partner NGOs and CBOs are reimbursed at a fixed percentage of loan value. All NGOs and CBOs are reimbursed at the same rate from new loans disbursed.

Wholesale Lending

HFHE and CEOSS, its strategic NGO partner, implement this pilot lending approach in 3 communities. CEOSS commits to annual targets for lending over 5 years and to return 100% of loan capital to HFHE by end Year 8. CEOSS bears all risk of bad loans and non-payment but receives a higher annual fee for all years, including the final 3 years (Years 6-8) of loan collection only (no new loans disbursed).

Home Improvements for the Poorest Households

In their partnership agreements with HFHE, partner NGOs commit to make essential home improvements for the poorest households that are unable to repay loans. Costs are shared by partner NGOs and CBOs. The number of poorest households assisted is 7% of the total number of housing loans disbursed in each community.

- **Normal Lending:** In its normal lending approach, HFHE receives annual plans from partner NGOs that specify the number of micro loans to be disbursed in each community the next fiscal year. These annual plans currently budget for an average loan size of EGP 7000 (US$ 890). HFHE agreements with partner NGOs are for three years, which is the maximum duration for an HFHE micro loan. However, the expectation is that the HFHE partnerships will be ongoing and that loan capital and housing micro loans will continue to be dispersed in participating communities for an indefinite period[8]. Indeed, a characteristic of HFHE's current "normal lending" approach is that there is no end-date for micro lending to a specific community *(see Part 3: Challenges and Opportunities)*[9]. Both HFHE and the partner NGOs share the risk of bad loans and non-payment by borrowers. In this regard, partner NGOs withhold an annual loan management fee of 6% of the total value (including the 7% inflation adjustment) of all micro loans disbursed in each community. The monies are taken from the loan repayments collected and shared with participating CBOs to cover salaries and other direct expenses[10].

- **Wholesale Lending:** Wholesale lending is currently a pilot initiative between HFHE and CEOSS, HFHE's strategic partner. This approach is being implemented with just three CBOs, each situated in a large rural community. HFHE and CEOSS will evaluate the success of this approach before expanding to other interested partners. Initiated in 2013, wholesale lending differs from normal lending in just three key features:

  1. **An End Date:** Wholesale lending has an end date for lending in each community. These micro loans will be disbursed for only five years. After Year 5, collection of loans will continue until Year 8, when the last loans (i.e. those disbursed in Year 5) will be due and fully repaid.
  2. **Partner NGO bears all risk:** I: In this wholesale lending pilot, the partner NGO bears 100% of the risk of non-repayment of loans. (In the normal lending approach, HFHE shares this risk with partner NGOs but it is HFHE that bears the larger share of any losses and write-offs). In this pilot, CEOSS has committed to return 100% of the HFHE loan capital plus inflation adjustments not allocated for CEOSS's loans management expenses (fee). CEOSS will return this loan capital to HFHE annually after Year 5 from the loan repayments that it collects.
  3. **Higher Fees for Partner NGO, including Repayment Period:** To manage this wholesale lending pilot, CEOSS receives a higher annual fee (9% in each of Years 1-4, 10% in Year 5) than the 6% fee received by partner NGOs for normal lending[11]. It also receives a smaller annual fee during the repayment years (Years 6-8) when no new loans are disbursed. In normal lending, partner NGOs earn their management fee solely for new loans disbursed.

  But apart from these three features, wholesale lending and normal lending share identical loan terms and conditions. Minimum loan size is EGP 2,000, maximum loan size is EGP 12,000, maximum loan duration is 36 months, loan size determination for each client is that monthly repayments are not to exceed 25% of borrower's monthly income, and clientele selection and eligibility criteria are identical for both approaches. Both approaches assist poor and low-income households to make essential home improvements.

- **Home Improvements for the Poorest Households:** HFHE's third approach charitably assists the "poorest of the poor" in supported communities with vital home improvements. These households are unable to repay even the smallest micro loan, i.e. EGP 2,000 (US$ 250). Their daily income is too precarious, too uncertain, and rarely exceeds their immediate expenses on food, rent, utilities, and medical essentials. For these households, a day's income of even EGP 30-50 (US$ 4-6) is a blessing. Since it began this third lending approach in FY2006, 1,120 households (to June 30, 2015) have been helped with small home improvements and renovations that markedly enhance their life quality. Home improvements for these poorest families cost EGP 500 – 2,000 and typically comprise: installing a window and door, cementing earth floors, connecting homes to a potable water network, a new wood roof, cement mortar on interior walls to seal them against insects, interior walls to provide separate sleeping space for parents and/or adolescent daughters and to separate farm animals from human inhabitants inside peasant homes. The improvements are chosen by the beneficiary family together with the partner NGO / CBO responsible for executing and paying for the work. These households do not receive cash.

  Since initiating this third approach, HFHE has tried different schemes to pay for these charitable home improvements. In some communities, CBOs and partner NGOs solicit donations from higher income families. HFHE itself solicits contributions from multinational and local corporations in Egypt and charitable donors in the West[12]. Today, partnership agreements between intermediary partner NGOs and HFHE stipulate that the partner NGO will, together with its participating CBOs, execute housing improvements for poor families at the rate of 7% of the total number of loans, not 7% of the value of

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8 The loan capital remains HFHE property and HFHE can request return of the loan capital. HFHE does withdraw and reallocate loan capital from one CBO or community to another if the capital is not efficiently used.

9 Of the 22 rural and urban communities with active HFHE micro lending, 3 communities have been served by HFHE loans for more than 15 years, 4 communities for more than 10 years, and 11 communities for 8-9 years. Just 5 communities are new to HFHE lending in the past five years (since 2011).

10 In FY2015, most participating CBOs disbursed 110-140 HFHE loans at an average value of EGP 7000 per loan (not including the 7% annual inflation adjustment). No community loans committee approved more than 155 loans in 2015 and none less than 40 loans.

11 It is important to add that both the current rate (6%) for partner NGO management expenses of normal lending and the current annual inflation adjustment (7%) on micro loans have slowly increased over the years of HFHE lending in Egypt. Wholesale lending is a recent initiative. The 6% annual management fee for partner NGOs and the 7% annual inflation adjustment on loans could also be increased.

12 Multinational corporations have also contributed to HFHE loan capital.

loans that it disburses in that community that year. For example, if a partner NGO will disburse 120 micro loans in community "A" next year, it will also make home improvements for eight poorest families (7% of 120 loans) next year in community "A". The 7% target was set in 2010, an increase from the previous requirement of 5% and the initial 3% requirement which was set in 2000 at the start of HFHE's support to these households. Some partner NGOs use their share of the annual 6% management fee for micro loans to help pay for these home improvements. Partner NGOs commit to these home improvements and are responsible to finance them themselves or through local donations. HFHE itself has no "investment" in home improvements for poorest families.

The financing and sustainability of these three approaches are considered in Part 2 below.

1.5 Technical Services to Borrowers

Most borrowers also receive free engineering technical services for their planned home improvements; the cost is not added to the loan value for repayment and HFHE pays the full cost of the engineering services from its own budget. Experienced and trained engineering graduates are contracted on a part-time basis to assist CBOs and loan applicants with the specification of construction requirements, preparation of engineering designs (if needed), estimation of actual costs for planned home renovations and new construction, and inspection of the completed works. These engineering graduates are contracted annually; there are currently four engineering graduates with part-time contracts with HFHE.

The benefits of these engineering services are considerable. First, this ensures that the loan is sufficient to complete the planned renovation or construction. The loan for a completed home project is much more likely to be repaid on time and in full. Second, this ensures that the renovation or construction is properly planned and designed and, if executed properly, will be sound construction and a successful project. HFHE must protect its reputation against the publicity of a failed home construction and a building collapse, injuries or death that might ensue from an HFHE micro loan. Third, this provides greater assurance to the CBO loans committee that the proposed loan will be used for home improvement and not diverted to another use (wedding, small business, consumption). Fourth, this provides the technical inspection and approval for borrowers to receive the second tranche of their loan. Nearly all HFHE micro loans are disbursed in two tranches, with the second tranche disbursed by the CBO only after the engineer certifies that the construction work paid from the first tranche has been satisfactorily completed. In sum, these engineering services provide HFHE and its partner NGOs and CBOs with the assurance that housing micro loans are achieving their intended purpose. The engineers schedule their field visits directly with the CBO loan committees, but they report directly to HFHE each month on the services provided and the progress of home construction and renovations.

What does this service cost? Engineers are not HFHE staff. They are paid for their actual services to each borrower on a "piece work" basis. In FY2015, the total costs of engineering services provided to a single borrower (from start to finish of the engineer's design, cost estimate and follow-up inspections of construction) averaged just EGP 58.85 (US$ 7.50). This cost is less than 1% of the value of an average micro loan (EGP 7000). Engineering services to borrowers are a valued form of insurance and offer peace of mind to HFHE.

In FY2015, engineering services benefitted 1,980 borrowers, i.e. 83% of the 2,393 micro loans disbursed that year. Many urban homeowners renovating their apartments are generally not served by these contract engineers. Their planned renovations (wall and floor repairs, plumbing and electric works) generally do not require engineering design or inspection. With training and experience, the CBO loan committees are able to estimate costs and inspect these apartment renovations themselves. CBO loan committees also perform cost estimates and simple design tasks of home improvements for the poorest families.

For HFHE, it is important that borrowers feel a sense of ownership towards their housing loan and improvement project. For this reason, homeowners and engineers collaboratively prepare and agree on the engineering designs for the planned work. Engineering designs are custom made for each borrower's home. The design and cost estimate prepared by the engineer and homeowner must be signed by the loan applicant; they are essential supporting documents in the loan application.

1.6 Selecting CBOs, Eligible Homeowners and Setting Loan Values

HFHE has clear and specific criteria for the selection of CBOs, eligible homeowners and the loan value that borrowers may receive. Detailed criteria are stipulated below:

- **Selection Criteria for CBOs:** The management experience and capacity of the local CBO is the most significant factor in the selection of participating communities. The target communities that benefit from HFHE loans were all selected chiefly because they have a capable CBO. The CBO is key to the success of HFHE micro lending for housing improvements; the high loan repayment rates and low levels of HFHE portfolio risk are both largely due to capable CBOs. It is the CBOs and their loan committees who select borrowers, loan values and collect loan payments. The importance of selecting capable CBOs cannot be overstated.

  What are the chief criteria for selecting CBOs? First and foremost, the CBO must have strong ties to its community. The CBO must have the community's respect and show active support of the community. The CBO should include natural leaders of the community and include members from leading families and different neighbourhoods or quarters of the community. It is essential that the CBO be committed to serving the entire community with particular priority for its poor and low-income households. The CBOs "standing" and reputation in its community are very important in both its selection and its successful management of HFHE lending.

  A second major criterion for CBO selection is that the CBO should be officially registered with the responsible government ministry. This is typically the Ministry of Social Solidarity that regulates and oversees the large majority of nongovernmental organizations in Egypt. Registered CBOs are subject to official regulation, inspection and oversight and are legally responsible to government authorities for their actions. Registered CBOs are also required to have basic administrative competency.

  Additional criteria for CBO selection include: i) the CBO should have the management (including financial management) capacity and commitment to capably implement the housing micro loans, and ii) the CBO should have previous experience of managing small loans. The last criterion stipulates that previous experience of loan management is preferable but not mandatory. An experienced CBO that is perceived to have sound overall management and financial management systems can be trained to manage HFHE loans and closely monitored and assisted by the partner NGO over the duration of the first year to assure its loan management capacity.

- **Selection Criteria for Borrowers:** HFHE insists that partner NGOs and participating CBOs apply specific criteria for the selection of borrowers. HFHE criteria fall under three categories: i) the borrower's need for adequate shelter, ii) the borrower's ability to repay the loan, and iii) and the borrower's willingness to partner. Other criteria stipulate that all borrowers must be homeowners and live in the community. Apart from these criteria, there must be no discrimination in the selection of borrowers due to age, gender, religion, employment, or residence.

  - **Need for adequate shelter:** HFHE micro loans are to assist only poor and low-income households who have "inadequate shelter". An eligible home is considered "inadequate shelter" based on its structural soundness, general state of disrepair, size of living quarters, lack of sanitation, security and safety, and cost of housing (as a percentage of gross monthly income).

  - **Ability to repay the loan:** To be eligible to receive an HFHE micro loan, the borrower and their household must be financially poor or low-income. Households that are able to take bank loans are not eligible for HFHE micro loans, but the poor and low-income borrower must also be able to repay the loan. Borrowers must demonstrate a stable source of income for at least 6 months prior to their loan application. Borrowers must have a sound financial reputation in their community and not be burdened with other debts that might keep them from repaying the HFHE loan. Applicants must also demonstrate ownership, inheritance or building rights to the home.

  - **Willingness to Partner:** Habitat for Humanity International and HFHE are keen for borrowers to contribute materially to the costs of their home improvement, renovation or construction. HFHE loans should not cover more than 90% of the planned work costs. Loan applicants are also evaluated for their readiness to participate in training and engineering design activities, their demonstrated responsibility for the care and maintenance of their home, their general welcome and cooperation in inspection visits, and their reference and credit evaluations.

Complete HFHE criteria for borrower / homeowner selection are included in Annex 2. Also included in Annex 2 are HFHE criteria for the selection of poorest households to receive charitable assistance for vital home improvements.

Finally, although it is important that there be no discrimination in the selection of borrowers, HFHE does give priority (in order) to the following social categories:

- Orphaned or deserted children,
- Widowed, divorced, separated, or deserted women with dependants,
- Married couples with dependants,
- Widowed, divorced, deserted, or separated women without dependants,
- Married couples without dependants,
- Prospective husbands or wives within six months of marriage.

- **Setting Loan Values:** The minimum size of an HFHE micro loan for housing improvement is EGP 2,000 (US$ 255); the maximum size is currently EGP 12,000 (US$ 1,530)[13]. Between these limits, CBO loan committees set the size of each loan. The criteria they use in setting the loan size include:

  - Borrower's ability to repay the monthly instalments. Instalments should not exceed 25% of the borrower' monthly income.
  - The engineer's report on the technical requirements and the cost estimate of the planned work.
  - The borrower's ability to cover at least 10% of the cost of the planned work from his/her own resources.

  The loan size distribution of actual HFHE micro loans for a large sample of borrowers for 2015 is provided in Annex 1. The average (mean) loan size (EGP 7,003 before inflation adjustment) for this sample of borrowers was nearly identical to the budgeted average of EGP 7000.

1.7 The Process of Loan Application, Approval and Disbursement

Step 1 - The Loan Application: The loan application process begins with the applicant submitting a simple one-page Loan Request Form to the CBO loan committee. The form asks the applicant's name, address, contact information, ID information, and a general description of the home improvement or renovation work to be done. The form also asks the applicant to describe why this work is necessary. Lastly, the applicant specifies the size of loan requested and the proposed value and frequency (monthly, quarterly or semi-annually) of their loan payments. Applicants must present their application to the CBO in person.

Step 2 - Completing the Loan Request Review Form: The CBO loans committee may either accept or reject the Loan Request Form[14]. The committee then contacts the HFHE-contracted engineer to schedule a home inspection and to prepare, together with the "accepted" loan applicant, the engineering design and cost estimate of the proposed work. At the time of the engineer's visit, the CBO loans officer or a loan committee member will also attend and, with the applicant, complete a Loan Request Review Form. This 4-page form collects brief information on the applicant's employment, income, other household income, other loans, and reputation in community. It confirms the size and frequency of the loan repayments that the borrower can pay, and identifies the borrower's collateral and/or guarantor for the loan[15]. Page 2 of the Review Form collects general information on the physical household and its occupants (human and farm animals, if any) and provides a general description of the home's construction and contents. Pages 3-4 specify the proposed renovation / construction work and include cost estimates for the major work components. Lastly, the Form records the recommendations of the engineer and CBO loan officer / loans committee member regarding the proposed work and loan application. If the applicant is not well known to the loans committee, the committee will check the applicant's references and inquire in the community to confirm the applicant's employment, income, financial standing, reputation, and trustworthiness.

Step 3 – Approving the Loan: The CBO loans committee meets periodically, typically monthly or quarterly, to review completed loan applications for approval. All applications include a copy of the engineering design and a cost estimate for the work, all signed by the homeowner/applicant and engineer. For each loan review meeting, the committee completes a standard form of Loan Committee Minutes that identifies all attending committee members and separately lists: i) all loans approved at the meeting (including the name of borrower), the type of construction work to be done, and the loan value; ii) the applications of all rejected loans and the reason for rejection; and iii) completed loan applications for which a decision is postponed (and reason for postponing). Importantly, it is the CBO loans committee – not the HFHE contracted engineer – that determines the loan size. The minutes are then signed by each attendee and by the CBO president. The loan committee minutes are important supporting documents for the loan review process, its transparency and accountability.

[13] Before 2013, the maximum HFHE micro loan was EGP 10,000. Together, this maximum loan size and preference that most households not receive multiple HFHE loans (maximum 3 loans per household) help to ensure that the micro loans chiefly benefit poor and low-income families.

[14] If the loans committee knows the applicant to be not trustworthy or ineligible for any reason (including the size of loan requested or the household's higher income / wealth), the application is dropped from the start. Only "accepted" applicants proceed through Step 2.

[15] In practice, all borrowers provide the CBO with signed promissory notes – legal guarantees – for all of the loan repayments of their loan.

Step 4 – Loan Disbursements and Follow-up: All loans are disbursed in two tranches; typically, each tranche is 50% of the loan amount. To receive the second tranche, the borrower must satisfactorily complete construction work to the value of the first tranche payment. The partial work is inspected by the HFHE-contracted engineer who reports on the work's progress and quality. Based on the engineer's report and the inspection by the committee (if necessary), the loan committee completes a brief summary report for the CBO, and then makes recommendations for the payment of tranche two (the recommendation may be either to delay the next payment or terminate the loan altogether). Rarely is a loan terminated at tranche one; this is a good indicator of the soundness of the loan application, approval and disbursement processes.

For loans repaid monthly, repayment begins 30 days after receipt of the first tranche; nearly all HFHE loans (~95% in 2015) are repaid monthly

Final Step: The HFHE-engineer inspects the completed work to certify that the construction work is technically sound and of satisfactory quality. The engineer's report is confirmation to the CBO, partner NGO and HFHE that the loan was "successful" and achieved its intended purpose.

Files of completed loan documents are maintained by the partner NGO for HFHE audit and inspection. Loan documents for loans "in progress" are maintained by the CBO until the second tranche is disbursed. The CBO's registers of loan disbursements and all payments for each borrower are maintained at the CBO for as long as the HFHE program is active.

Finally, it is important to make clear that the average per-loan cost (EGP 58.85 in 2015) of the HFHE-contract engineer includes the cost of the initial visit, the engineering design and costing, and the two follow-up visits and inspections of the renovation / construction work.

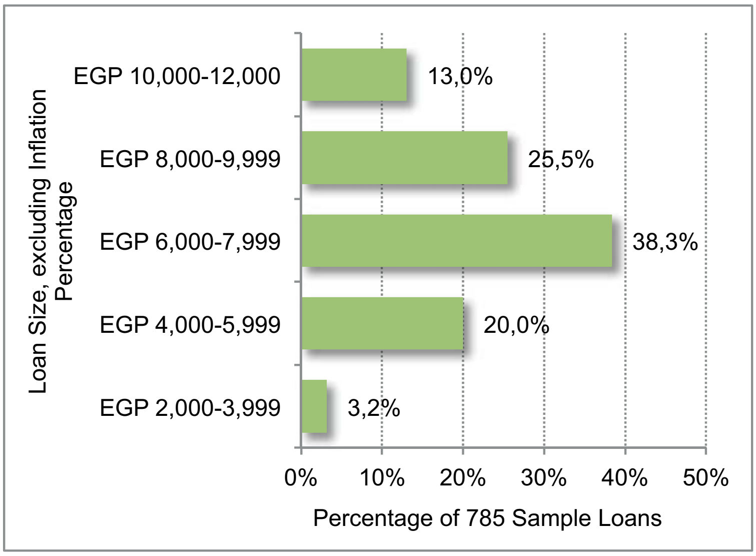
1.8 A Brief Sample Profile of HFHE Clients and Micro Loans

Figure 1 makes clear that HFHE is an "apex intermediary" organisation in housing microfinance. It is one level removed from partner intermediary NGOs and two levels of hierarchy from the CBOs who approve loans and maintain loan records. It is not surprising that HFHE does not maintain a loan tracking system for its micro loans. Its priority is the financial performance and reporting of loan disbursements and repayments by CBOs.

HFHE does however, receive monthly reports from all partner NGOs, with separate financial and borrower lists for each community; borrower lists include basic information on each loan.

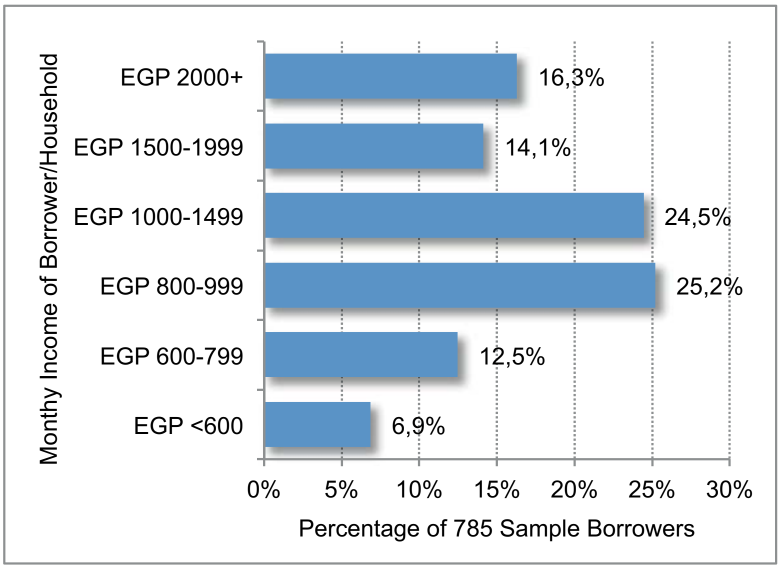
Annex 1 reports the sample profile of HFHE clients and micro loans compiled for this case study. It profiles a stratified sample of 785 HFHE loans disbursed in FY2015. These were all (100%) loans disbursed in 7 of the 22 communities actively managing HFHE micro loans in FY2015. This sample of 785 loans are nearly one-third (32.8%) of the 2,393 HFHE micro loans disbursed last year. The profile is representative of all HFHE loans in FY2015.

Figure 4: Size Distribution of HFHE Loans, FY2015 Sample



The average loan size in this sample, i.e. EGP 7,003, represents the most common loan size and the largest category of HFHE micro loans. The sample includes a greater percentage (38.5%) of above-average size loans than below-average loan sizes (23.2%). This is expected as CBOs typically prefer to give "significant" loans that will result in significant construction work and a more impressive and satisfying result.

Figure 5: Income Distribution of HFHE Borrowers, FY2015 Sample



The income distribution closely resembles the distribution of loan sizes (Figure 4). The majority of loans are to households in the mid-range of borrower / household monthly income[16]. These are monthly incomes of poor and low-income households in Egypt today: EGP 800-1,400 (US$ 100-180). The overall average monthly income of sample borrowers is EGP 1169 (US$ 150).

Although this is poor, these borrowers are still able to repay a micro loan. Nearly one in five HFHE loans went to these borrowers who managed to repay their loans. Households with monthly incomes of EGP 1500-1999 are "low income", especially those households with more than five members. Monthly incomes of EGP 2000 and above are considered "middle-income" households in Egypt today; these households are a small minority (i.e. 16%) of the sample of borrowers. HFHE is however, fully aware of the challenge of disbursing 100% of loans to the target clientele of poor and low-income households. This challenge and outcome are discussed in Part 3.

More profile characteristics of the FY2015 sample of HFHE loans and borrowers are presented in Annex 1.

[16] Income data must always be treated cautiously. The HFHE Loan Request Review Form asks). The recorded income may often, however, be the borrower's monthly income and exclude other income sources.

Part 2: Financial Performance

Part 2 examines the growth and sustainability of HFHE housing microfinance, including the program's outreach (number of borrowers) and loan portfolio value, it also highlights the management of HFHE micro lending and select indicators of portfolio sustainability. We apply standard "metrics" (measures and indicators) used in appraising microfinance performance. Where information is available, we compare performance with other MFIs.

2.1 Growth in Borrowers and Gross Loan Portfolio

Table 2 presents the annual growth in total borrowers, new borrowers and gross loan portfolio (GLP)[17] in the past five years – from FY2011 through FY2015.

Table 2: HFHE Total Active Borrowers, New Borrowers and Gross Loan Portfolio – on June 30 of FY2011 through FY2015

Metric	FY2011	FY2012	FY2013	FY2014	FY2015
Total Borrowers	6,164	5,863	6,032	6,391	6,846
Change in Total Borrowers (Y-Y)		(4.9%)	2.9%	6.0%	7.1%
Total Borrowers	6,164	5,863	6,032	6,391	6,846
Change in New Borrowers (Y-Y)		2.9%	15.1%	(2.2%)	10.3%
Gross Loan Portfolio (EGP)[18]	16,749,531	18,295,549	22,699,226	25,012,953	28,215,822
Change in GLP (Y-Y)		9.2%	24.1%	10.2%	12.8%

We must begin with history. Two key events in Egypt and HFHE history are essential background to appraising management performance on these metrics and later analyses. The first event occurred mid-FY2011: Egypt's January 2011 Revolution that violently deposed the 30-year regime of President Hosni Mubarak. In the months of insecurity and societal chaos that followed, partner NGOs halted or slowed new HFHE lending. Fewer new loans were granted over much of the following year, leading to a 4.9% drop in total borrowers from FY2011 to FY2012. Client outreach actively resumed late in FY2012 with strong increases in both the numbers of new borrowers (+15.1%) and gross loan portfolio (+24.1%) in FY2013.

The second event, the abrupt replacement of senior HFHE management, occurred early in FY2015 (September 2014). Yet despite this sudden management burden, outreach to new borrowers, total numbers of borrowers, and GLP growth all increased over FY2014. This was a commendable achievement and prospects are strong for significantly increased client growth and portfolio performance over the next few years. HFHE is rightly proud of these achievements and the performance rebound in a difficult period.

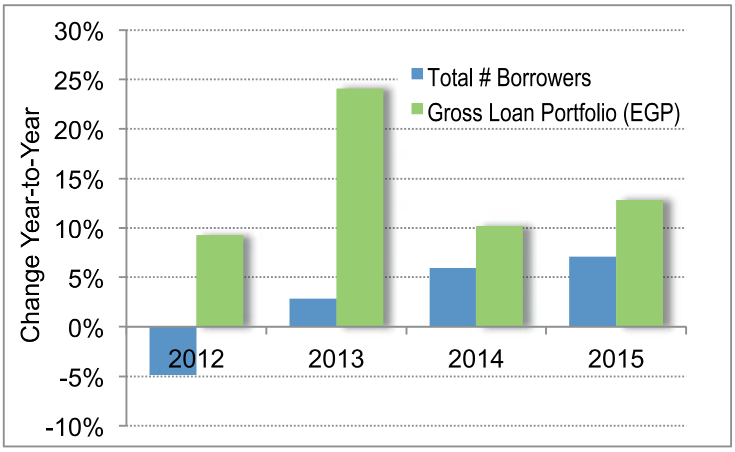
The rapid resumption and growth of lending after both events affirms the importance of HFHE's distributed network of micro lending. Today, HFHE microfinance is completely distributed across five partner NGOs and their 22 CBOs. HFHE partners and their CBO "affiliates" remain close to communities and maintain effective loan management that is responsive to the specific circumstances of each locale. Lending performance does not require that HFHE itself be fully functional. Both the January 2011 Revolution and the abrupt replacement of HFHE management occurred in Cairo, where HFHE has its national office. Yet partners and affiliates could continue or resume active lending. Major interruptions of HFHE lending and loan repayment did occur in a few communities after January 2011. The significance and impact of this are discussed in section 2.3 below.

Year-to-year change in total borrowers and GLP for this period is also shown graphically in Figure 6. On the outreach metric – change in total borrowers – it is useful to compare HFHE performance with microfinance institutions (chiefly micro- and small-enterprise lending, not housing) in other contexts. Annex 3 provides annual growth in borrowers for MFIs in Asia in the previous decade (2004-2008).

[17] The gross loan portfolio (GLP) is the total balance of loans outstanding (loan principal + inflation adjustment) – held by borrowers and to be repaid – on a specified date. The figures in Table 2 are at the close of each HFHE fiscal year on June 30. Growth is reported year-to-year (Y-Y).

[18] GLP is reported only in local currency (EGP). Successive devaluations of the Egyptian pound over this period preclude a valid analysis of gross loan portfolio change in U.S. dollars.

Figure 6: Annual Change in Total HFHE Borrowers and Gross Loan Portfolio, June 30 of FY2011 – FY2015



These HFHE results show that annual GLP growth of 15% and annual increase of 10% in total borrowers are both possible in the near term. In its strategic planning, HFHE should aim to achieve or exceed these target growth rates in at least two years between FY2015 and FY2018.

2.2 Financing Structure

The financing structure of HFHE is limited to its gross loan portfolio (i.e. the total value of loans outstanding) and its cash balance and cash reserves. HFHE cannot accept deposits and has no other sources of equity. HFHE's total financial assets include its GLP and cash balances.

A standard metric for an MFI's financing structure is the value of its GLP as a percentage of total assets. HFHE has no significant assets other than its financial assets and owns no property or vehicles.

Table 3 presents the ratio of HFHE's gross loan portfolio to total assets (GLP to Assets) for the past 5 years. Total assets include the GLP plus total cash balances with partner NGOs and CBOs and cash reserves with HFHE on June 30 of each year. These ratios are calculated from audited figures prepared annually for HFHE balance sheets and end-of-year accounts.

Table 3: Ratio of Gross Loan Portfolio to Total Assets, FY2011 – FY2015

Metric	FY2011	FY2012	FY2013	FY2014	FY2015
Ratio of Gross Loan Portfolio to Total Assets (EGP)	74.6%	74.1%	80.7%	78.8%	83.1%

Lower GLP to Asset ratios in FY2011 and FY2012 reflect the pull-back in lending consequent to the January 2011 Revolution. The highest ratio of this period occurred in the latest year, i.e. FY2015, and reflects renewed program momentum and increased lending by HFHE, partner NGOs and CBOs. This trend is positive.

Table A-3 (in Annex 3) provides comparable ratios for Asian MFIs in 2008. These are small- and micro-enterprise MFIs, not housing MFIs, but the comparison is useful. The aggregate ratio for all MFIs in Indonesia that year was 76.3%; in the Philippines, 71.2%. MFIs in Sri Lanka reported the highest ratio of GLP to Assets at 90.0%. The median national ratio for this group of countries was 77.8% (Bangladesh). HFHE performance on this metric is comparable and strengthening.

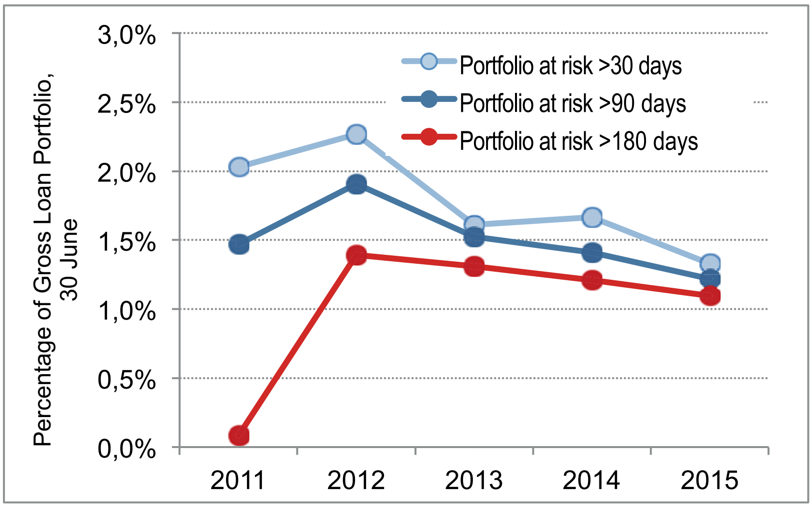
2.3 Loan Repayment and Risk Profile

The sustainability of any microfinance program depends first and foremost on timely repayment and successful collection of loans from borrowers. Loan repayment rates and calculations of portfolio at risk are key metrics of lending sustainability and HFHE's risk profile.

Since FY2011, HFHE has maintained an above 97% loan repayment rate; that is, at least 97% of the gross loan portfolio (GLP) is current or ahead of schedule in repayment. At the end of FY2015, 98.1% of the GLP was current. These are strong results. The percentage of borrowers who are current or ahead in their payments is slightly more variable, ranging between 95.3% (FY2012) and 99.1% (FY2014).

Analyses of the HFHE "portfolio at risk" (PAR) are especially revealing. Figure 7 compares three measures of PAR: i) the percentage of GLP more than 30 days late in repayment, ii) the percentage of GLP more than 90 days late in repayment, and iii) the percentage of GLP more than 180 days late. The portfolio at risk is the total value of all outstanding HFHE loans (including inflation adjustment) for which the borrower is late in repayment. When repayment is delayed, the entire remaining loan value is said to be "at risk". High PAR levels indicate large numbers of loans with delinquent (late) payments. High PAR levels signal the possibility of a deteriorating repayment situation and greater risk.

Figure 7: HFHE Portfolio at Risk, FY2011 to FY2015



Before examining the recent trends for these three metrics, the summary appraisal is that HFHE has successfully maintained a "low to low-moderate" level of portfolio risk throughout this period[19]. This is an impressive achievement considering the specific circumstances of Egypt.

It is useful, however, to compare the three trends in Figure 7. From FY2011 to FY2012, two of the three measures of portfolio risk (i.e. the percentage of GLP more than 30 days overdue, and the percentage more than 90 days) rose moderately by 0.5% to 1.0%. But the share of GLP more than 180 days late rose sharply: from 0.1% in FY2011 to 1.4% (FY2012).

What happened here? In the breakdown of social order, civic values and police services in Egypt, especially in metropolitan Cairo, after the January 2011 Revolution, many HFHE borrowers in poorer metropolitan communities of Greater Cairo stopped repaying their loans. Within several months, their delinquent loans were more than 180 days late. In FY2012, these very delinquent borrowers made up only a small percentage (1.8%) of active HFHE borrowers who held just 1.4% of GLP. They were however, concentrated in three to four metropolitan communities served by HFHE and its partner NGOs and they were a significant and growing percentage of all borrowers in these communities. In response, HFHE ceased all lending in these communities and directed its partner NGOs and CBOs to ensure prompt loan repayment and timely collection in all other HFHE-assisted communities. New loans continued to be disbursed in other communities and the aggregate results were very positive. Since FY2012, delinquency rates have fallen steadily on all HFHE loans. At the end of FY2015, only 1.1% of GLP was still 180 days late and just 0.1% of loans were 30-90 days late. The EGP value of these very delinquent loans (more than 180 days overdue) has increased slowly but steadily over this period: from EGP 263,000 at end FY2012 to EGP 314,000 on June 30, 2015. But the PAR measure of portfolio at risk (more than 30 days) has declined steadily: from 2.3% in FY2012 to 1.3% at FY2015.

It is again useful to compare HFHE portfolio risk with PAR rates for the Asian enterprise MFIs. Annex 3 presents similar line graphs of PAR rates for microfinance institutions in South Asia, East Asia and Pacific between 2003 and 2008.

In conclusion: Through a difficult and challenging period, HFHE successfully maintained a satisfactory risk profile for its housing loan portfolio. The fact that it did so while lending to poor and low-income households – without promise of successive loans— is impressive[20]. It is also testimony to the significance of community and civic values in sustaining strong repayment rates and loan portfolio stability even in periods of serious social disruption. This last point is important. We will return to it in Part 3.

[19] For loans more than 30 days overdue, the portfolio at risk (PAR) is considered "very low" if 0.5% or less of the GLP is late in repayment. International benchmarks for microfinance consider a PAR of 1-5% of GLP more than 30 days overdue as a "low to moderate" level of portfolio risk. The comparable PAR for HFHE in this period never exceeded 2.6% (FY2012).

[20] Only a small percentage (<5%) of HFHE borrowers, those building "in stages", receive a second loan. The overwhelming majority (84+%) of HFHE loans are single loans for home renovations. These borrowers are ineligible for repeat loans. See Annex 1.

2.4 Costs and Efficiency of Loans Management

Historically, reducing the costs of loans management was not a HFHE priority. HFHE measures its indirect costs (i.e. all expenses other than the value of loan capital) as a percentage of its total budget for a given year. Its total budget includes the planned total value of new loans to be disbursed that year ("direct costs"), plus all other costs and operating expenses ("indirect costs") of the HFHE national office and its partner NGOs and CBOs administering these micro loans.

These percentages are however, budgeted (planned) expense ratios; they are not actual ratios. The actual value of new loans disbursed may differ from the budgeted value. Likewise, actual costs will differ from planned costs. Hence, the ratio of actual indirect costs to actual new loans disbursed might differ significantly from the budgeted ratio.

Table 4: Budgeted versus Actual Costs, FY2014 and FY2015

All figures are EGP	FY2014		Actual as % of Budget	FY2014		Actual as % of Budget
	Budget	Actual		Budget	Actual	
Value of New Loans Disbursed (principal only)	13,455,750	14,474,940	107.6%	16,814,700	17,195,765	102.3%
Loans Management Fees of Partner NGOs + CBOs	1,322,850	1,096,725	82.9%	1,422,191	1,121,460	78.9%
HFHE National Office Expenses (total)	3,080,767	2,331,131	75.7%	3,171,159	1,714,345	54.1%
Partner NGO + CBO Fees as % of New Loans	9.8%	7.6%		8.5%	6.5%	
HFHE Natl Office Expense as % New Loans	22.9%	16.1%		18.6%	10.0%	
Total Indirect Costs as % of New Loans	32.7%	23.7%		27.1%	16.5%	

Table 4 compares the budgeted and actual costs, direct and indirect, of HFHE lending for FY2014 and FY2015. Direct costs are the value of new loans disbursed each year. Indirect costs include the loan management fees paid to partner NGOs (a percentage of the inflation adjustment on loans disbursed that year) and all the expenses of HFHE's national office[21]. HFHE makes no provision for loan losses in its budget or expenses.

Let's first compare actual to budgeted expenses in Table 4. In both years, actual expenses were significantly below budgeted expenses—especially the expenses of the HFHE national office. The dramatically lower (54%) expenses of the national office in FY2015 chiefly reflect a reduction in total salary expenses following the departure of senior management. Lower actual expenses in both years provided HFHE with cash reserves to cover loan write-offs (see section 2.6 below) and provide loan capital for lending in new communities.

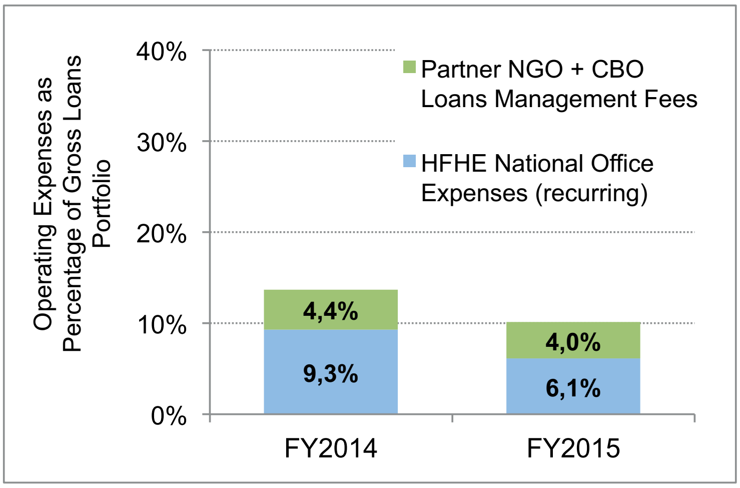
In presenting budgets, it is useful to present indirect costs as a percentage of planned new loans. This percentage provides a quick "reality check" of the ratio of indirect to the planned direct costs (new loan values) for that year[22].

It is not, however, a valid indicator of microfinance efficiency. It does not include the management burden of existing loans.

International benchmarks for MFI efficiency report operating expenses as a percentage of GLP. Figure 8 shows the total operating costs of HFHE lending as a percentage of GLP in FY2014 and FY2015. These are total actual expenses (Table 4) as a percentage of the gross loan portfolios each year (from Table 2).

[21] FY2015 expenses in Table 4 exclude specific, nonrecurring indirect costs of the HFHE National Office that resulted from the abrupt management change. Expenses for these two years are normal, recurrent expenses.
[22] This is especially useful if the budget presents the ratio of planned expenses for the new year against actual expenses from the previous year.

Figure 8: Increasing Efficiency of HFHE Microfinance, FY2014 and FY2105



HFHE markedly increased efficiency and reduced the burden of operating expenses on GLP in FY2015. Loan management fees paid to partner NGOs (and NGOs to CBOs) dropped by 0.4 percentage points to 4.0% of GLP in FY2015, and the HFHE national office's expenses fell to 6.1% of the gross loan portfolio. This is a total expenses-to-GLP ratio of 10.1%. This is a low ratio that indicates efficient management of HFHE lending operations.

Comparable levels of lending efficiency (i.e. operating expenses as a percentage of GLP) for Asia MFIs in 2008 were 20.7% for all Indonesian MFIs, 26.7% for all Philippine MFIs and 10.8% for all Nepal MFIs surveyed. See Table A-3 for more comparisons. The median efficiency ratio for the ten Asian countries was 12.7%, these are aggregate percentages for all surveyed MFIs in each of the ten countries; the comparison is favourable for HFHE. However, lower expenses by other MFIs also indicate the potential for more efficiency. Greater operating efficiencies can best be achieved by HFHE increasing its GLP while maintaining sound management and controlling costs.

2.5 Additions to Loan Capital

Habitat for Humanity International has long been the chief source of HFHE loan capital. Before FY2014, the annual budget presented by HFHE to Habitat for Humanity International included a line item for additions to loan capital[23].

These additions to loan capital were in U.S. dollars. Since FY2014, Habitat for Humanity International has not provided HFHE with additional loan capital. HFHE has, however, obtained minor additions to its loan capital from local corporate donations and grants from other donor agencies. HFHE has not approached a commercial bank to borrow loan capital for on-lending.

2.6 Loan Guarantees and Loan Write-offs

HFHE leaves the choice of loan guarantees to partner NGOs. These guarantees are maintained at the CBO and audited by HFHE during periodic site visits to supported communities. Microfinance insurance is not yet available in Egypt.

Egyptian regulations governing NGOs prohibit the “write off” of bad debts, inactive loans or other association property and assets without a court ruling or a death certificate for the borrower. Table 3 reports total loan write-offs in the 5 years from FY2011 through FY2015 in absolute value and as a percentage (write-off ratio) of GLP.

Table 5: Loan write-offs of bad debts, FY 2011 – loans

Metric	FY2011	FY2012	FY2013	FY2014	FY2015
Gross Loan Portfolio (EGP)	16,749,531	18,295,549	22,699,226	25,012,953	28,215,822
Value of Loan Write-offs (EGP)	73,611	12,928	112,514	20,620	13,100
Write-offs as % of GLP	0.439%	0.071%	0.496%	0.082%	0.046%

This was a turbulent period in Egypt that severely slowed economic growth, fostered widespread insecurity and forced many small businesses and microenterprises to close. In this context, an increase in nonperforming loans would be expected. The results reported in Table 4, however, attest to considerable HFHE success in sustaining loan repayments. In only two years this period did loan write-offs exceed 0.1% of the gross loan portfolio (GLP) and less than 0.5% of the GLP was lost in each of the two years (FY2011 and FY2013) of marked write-offs. In its latest year (FY2015), HFHE had a very low write-off ratio of 0.05%.

23 Additions to HFHE loan capital were, however, budgeted as needed for increased outreach and were not annual additions.

The write-off ratio (i.e. the total value of loan write-offs as a percentage of GLP) is a standard metric for measuring MFI risk and liquidity. In 2008, aggregate write-off ratios for MFIs in Asia ranged as high as 2.7% in Bangladesh to 1.7% in Indonesia and 0.1% in India.[24]

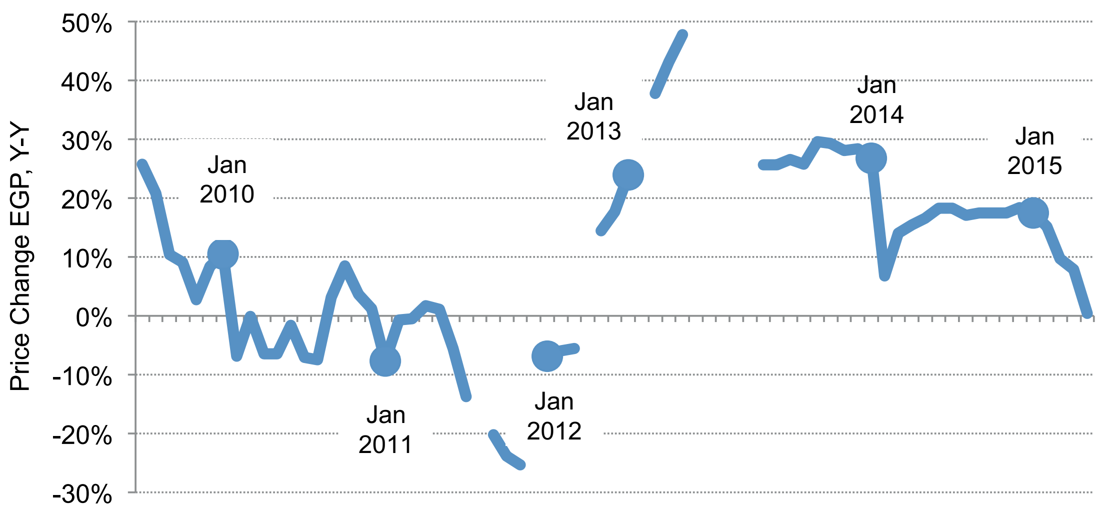
HFHE seeks court judgment and if necessary, threat of police enforcement to force repayment of non-paying loans. Even in communities where new lending ceased years ago, partner NGOs and CBOs continue to slowly collect instalments on non-paying loans from borrowers wishing to avoid legal punishment. Neither HFHE nor its partner NGOs has renegotiated an overdue micro loan.[25]

2.7 Interest Rates and Preserving the Value of Loan Capital

As previously mentioned, HFHE housing micro loans are "no profit, no interest". Over the past decade, however, HFHE has slowly raised the percentage inflation adjustment applied to all loans—the current rate is 7% annually. The large majority (79% - Annex 1) of HFHE loans are repayable over 24-30 months and the total inflation adjustment paid for each loan is 14-19%. From this amount, partner NGOs implementing HFHE "normal lending" debit 6% total for their (and CBO) costs of loan management. The balance of the inflation adjustment augments the total value of loan capital.

Does this inflation adjustment protect HFHE loan capital against inflation? No. The local price of cement, a commonly-used building material for home renovation and new construction, has swung wildly in recent years.[26] Figure 8 shows the year-to-year change in Egyptian cement prices since September 2009. Clearly, an inflation adjustment of 7% does not fully protect loan capital in this context.

Figure 9: Percentage Change in Egypt Cement Prices, Year-on-Year from September 2009



Source: Central Bank of Egypt, Monthly Statistical Bulletins, Table 09. Indicators (Real Sector). Missing values are monthly figures that were not reported (missing) in CBE statistical reports.

But is it necessary that a NGO micro lending program that aims to improve inadequate housing for poor and low-income households seek to fully protect its loan capital by charging higher, burdensome interest rates? Unlike for-profit microfinance institutions or non-profit MFIs that serve lower-middle income borrowers and their small enterprises, HFHE is well positioned to solicit charitable additions to its social loan capital. Significantly higher interest rates could sharply reduce demand, initiative and investment by poor and low income families to make vital improvements to their households and realise a basic quality of home life. The current inflation adjustment on loans slows the decline in loan capital value without deterring this priority clientele from making valued home improvements. HFHE will likely continue to slowly increase its inflation adjustment in response to market conditions. However, it is not necessary that HFHE apply higher interest rates as its sole means of preserving and growing loan capital.

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[24] "Aggregate write-offs" are the total write-offs of all reporting MFIs in these countries as a percentage of their total (aggregate) GLPs in 2008. See Annex 3. It is important to make clear that these national write-off ratios are for microfinance programs supporting small- and micro-enterprise – not housing microfinance. The comparison does, however, point up the relative success of HFHE in managing its portfolio risk in this difficult period.

[25] Additional interest does not accrue on bad loans that partner NGOs and their CBOs continue to collect even several years beyond scheduled repayment in communities where new lending has been terminated. Repayment of loan principal with the original inflation adjustment is all that can be expected.

[26] The cement prices shown are average prices for Greater Cairo. HFHE does not monitor prices of key building materials – red brick, limestone block, cement, steel rebar, wood – purchased by borrowers in assisted communities. Yet these prices are well known to CBO loan committees. To monitor the actual inflation of building materials and home improvement costs, HFHE is encouraged to begin monthly recording of building materials prices in Beni Suef and al-Minia. This would be a valuable contribution to sector monitoring and HFHE professional reputation as a housing MFI. HFHE might report these monthly prices, trends and year-on-year price changes on its new Facebook profile. This cost data would be useful to many parties. Local prices could be collected and recorded monthly by 2-3 selected CBOs in each governorate, so that price differences in different locales may be noted.

Part 3: Management Challenges and Opportunities for Growth and Sustainability

This final part considers key challenges and opportunities to sustaining HFHE microfinance for housing improvements. The most significant challenges and opportunities are external to the HFHE organisation itself. Today, there are few significant challenges to HFHE internal operations and capable management.

Senior management is well able to lead and direct HFHE growth and professional development. As the sole significant provider of exclusively housing micro loans to poor and low-income households in Egypt, HFHE has a very large and growing market that will far exceed its loan assets and outreach for decades to come. It is a high priority niche in Egypt's housing sector and value chain that HFHE occupies nearly alone. This is both an enviable and challenging position.

3.1 The Importance of "Community" to Sustained Micro Lending

In the wake of the January 2011 Revolution that deposed President Hosni Mubarak and defeated the police forces that defended him, social disorder and indiscipline soon prevailed across Egypt's metropolitan centres, especially Greater Cairo, and Delta region (Lower Egypt). The police disappeared for months. In the resulting security "vacuum", criminality surged and social order waned. In many of the poor and low-income neighbourhoods of the capital, citizens sought private, personal gain unrestrained by law, regulation, public regard, or community leadership. Others lost jobs and small businesses, suffered injury, or fled in fear of arrest or retribution. Many HFHE micro loan borrowers in these more transient communities stopped repayment. In response, HFHE and its partner NGOs and CBOs halted all new lending in these metropolitan districts and communities. However, the CBOs continued to collect current and overdue loans (with court injunctions, if necessary) to compel able but uncooperative borrowers.

This experience has highlighted the importance of "community" (the social bonds of shared identity and solidarity, personal reputation, adherence to civic values, respected community leaders, longstanding family residence and neighbour relations) for sustained micro lending. In all rural villages and provincial urban areas assisted by HFHE, the "community" remained strong and housing loans continued to be disbursed and repaid without delay or impairment.

Poor and low-income communities in metropolitan areas, with more transient populations and households lacking strong social ties to community, present greater risks to lenders. Conditions for sustainable microfinance can deteriorate quickly in metropolitan communities. By closely monitoring loan repayments to participating CBOs, HFHE and partner NGOs could respond quickly and effectively to mounting risk. It could close down lending in high risk communities and expand lending in low-risk communities, maintaining a low level of portfolio at risk. For the next several years, HFHE will give priority to finding new partners and establishing CBOs in rural villages, provincial towns and smaller cities with stronger "community" relations.

3.2 Reaching Other and Poorer Communities

HFHE and its partner NGOs today provide housing micro loans to poor and low-income households in 21 communities of Beni Suef and al-Minia governorates in Middle Egypt[27]. Beni Suef has 226 communities (comprising more than 1,000 settlements); al-Minia has more than 350 communities (comprising nearly 1,700 settlements). HFHE now serves less than 4% of communities in these two governorates. More than 95% of these communities are rural villages.

Key to HFHE's outreach is the presence and capabilities of a CBO. At least half of these communities have no registered CBO and in the remaining half, more than half have a weak CBO with little capacity or leadership. That is, less than 25% of all communities potentially have a CBO with the minimum of management capacity, program experience, community reputation and citizen support, leadership, and interest to satisfactorily provide micro loans for housing improvements by poor and low-income households. The true percentage is closer to 10-15% of communities. Even that low percentage, however, is 200-300% greater than the number of communities now served by HFHE and its partners. There is potential for greater outreach.

The poorest communities are the most difficult to reach. Very few of these smaller, more remote communities have a registered CBO. Even fewer have a functioning CBO; nearly none have a capable CBO. Moreover, these poorest communities may have few "lendable" poor households. The large majority of resident families in some of the neediest communities would qualify for charitable home improvement for the poorest. To reach communities of greatest need, HFHE and its partner NGOs will need alternative approaches that rely less on a local CBO and, instead, "secure" housing micro loans through group lending systems, patron-client relations, or other social mechanisms to encourage timely repayment. HFHE and partner NGOs may wish to design and pilot a new approach in one to two poorer communities without a capable CBO.

Alternatively, there may be poor villages that are in close proximity (neighbouring) to villages now served by HFHE or poorer, outlying settlements (nuguu`, ezab) of assisted communities. Outreach to immediately neighbouring communities, supported by the CBO already experienced in loans management in currently assisted communities, might be one approach.

[27] Plus 1 community in Greater Cairo for a total of 22 communities.

There remain large numbers of poor and low-income homeowners in other communities with existing capable CBOs who would be keen to initiate home improvements and able to repay loans. These are the "low-hanging fruit" for HFHE outreach. Some of these CBOs can be served by existing partner NGOs. Other CBOs and communities recommend new, additional partner NGOs. Encouraging its current partner NGOs to expand their program outreach to new CBOs and communities, and identifying and appraising new partner NGOs, should now be an HFHE priority. The preparation of new communities, new CBOs and new partner NGOs to capably initiate and manage lending needs time. HFHE should now begin investing time and effort in building essential relationships for future growth.

3.3 Serving Small Communities

There is a logical "bias" in HFHE outreach to new communities. To identify and appraise new candidate communities and prepare their CBOs to satisfactorily manage its housing micro loans, HFHE must invest significant time and effort. For this "investment", it is natural that HFHE would wish to serve a large pool of poor and low-income households over an extended period (8-10 years). This is the logical "bias" that results in greater numbers of larger communities, including larger villages, served by HFHE. This bias towards larger communities is even more pronounced where HFHE lacks a clear exit strategy (see 3.4 below).

Smaller communities are both a challenge and opportunity. There are many more small rural villages than large, and many of these smaller villagers have "lendable" poor and low-income households. With an effective exit strategy for individual communities, HFHE should collaborate with current and new partner NGOs to prepare a strategy and approach for medium-term lending (5-6 years) in smaller communities. The number of current loans in smaller communities will be fewer, but an effective strategy for lending to small communities would significantly increase the potential scope of HFHE outreach and lending, dilute its loan portfolio risk across more communities, and build a sub-national stature and reputation as a professional housing MFI to poor and low-income households in many more communities.

3.4 Exit Strategies for Completed Communities

HFHE will end micro lending for home improvements this year (FY2016) in Beni Muhammad al-Shaarawi village. This will be 15 years of HFHE lending in Beni Muhammad al-Shaarawi, a small village. In several other current communities, HFHE micro lending for home improvement has been ongoing for more than 20 years. Until recently, HFHE has not had an exit strategy to end lending in a community. The reasons for not exiting are several. First, large communities with rapidly growing populations (currently 2.4-2.6% annual population increase in rural Egypt) offer a steady supply of new poor and low-income households formed by marriage and/or needing to renovate their decaying homes. Large, fast-growing communities promise a future stream of new borrowers. Second, HFHE's partner NGOs are community-focused. They have assisted some of these communities with other development projects and community services for decades, and may continue for decades more. They have strong historical ties and enduring commitments to specific communities. Third, partner NGOs and HFHE have both feared that if they stop disbursing new loans in these communities, current borrowers may also stop repaying their loans. Fourth, partner NGOs and CBOs earn revenues (management fees) from disbursing new loans, and these revenues help sustain the organisations and may subsidise other activities and programs in these communities.[28] Fifth, the start of HFHE's home improvements for poorest households as a new approach in FY2006 also encouraged a continued presence in these communities to aid many of the poorest and neediest homeowners who cannot repay even the smallest HFHE micro loan. Sixth, the smaller HFHE loan capital in the past prolonged the time needed to "complete" lending to interested and eligible borrowers in those communities.

In sum, partner NGOs and HFHE have a shared interest to continue lending in some communities.

However, as a national, apex intermediary NGO, HFHE's focus is the strata of poor and low-income households in need of housing improvements and new construction. It is not the housing rehabilitation of selected communities. Future HFHE lending to new communities and with additional partner NGOs recommends exit strategies. Testing different strategies will facilitate lending "closure" with proven exist strategies in completed communities.

HFHE is currently testing 2 exit strategies:

1. **Strategy 1 – Reduce Lending and Risk Exposure Gradually:** In Beni Muhammed al-Shaarawi village, HFHE and its partner NGO (CEOSS) began to reduce the number of new loans disbursed in that community seven years ago. From 100 loans in FY2008, this declined to 60 in FY2009, 50 in FY2010, and then 40 in FY2011. Since FY2011, just 40 new loans were disbursed each year. A gradual reduction in lending reduces the portfolio risk of many current borrowers ceasing repayment when they learn that the program will end. The burden of current borrowers to be followed for loan repayment after lending ends is also reduced.

[28] The CBO staff person who is paid 50% time for HFHE loans collection may actually need only 25% time for this task, and supports other CBO services the remaining time – at no additional cost to the CBO.

2. **Strategy 2 – Pay Partner NGOs to Collect Loans:** In its "normal lending" approach, HFHE pays partner NGOs (and partner NGOs pay their CBOs) from the inflation adjustment added to new loans. The inflation adjustment on new loans covers the loan management expenses for all current loans. In its "wholesale lending" approach, HFHE is testing an alternative exit strategy. All new lending ends after 5 years (end Year 5), but the partner NGO continues to be paid a loan management fee (smaller amounts) during the final 2-3 years of loans collection (Years 6-8). In receiving a management fee for loans collection only, the partner NGO also bears 100% of the risk of loans not being repaid. The partner NGO is committed to returning 100% of the original loan capital with the balance of inflation adjustments to HFHE—after the partner NGO takes its management fee.

The outcomes of both strategies should be known in 2-4 years. Other exit strategies, including strategies for limited-duration lending (5-6 years) in small communities, are also conceivable and might be designed and tested. HFHE is appropriately reluctant to risk loan capital in risky, untested exits. Proven exit strategies will facilitate HFHE strategic planning in collaboration with partner NGOs and specific communities, and outreach growth to new communities.

It is important to add that continued HFHE lending in select communities for extended periods (15+ years) is not inappropriate. Large and fast-growing communities of poor and low-income households, including provincial towns and smaller cities, may need 15-20 years to cover the majority of target households and achieve significant community impact, but this is not all communities. HFHE and partner NGOs should now plan for exits and start-ups in new communities in their 5-year strategic planning.

3.5 Keeping HFHE Micro Loans to Poor and Low-Income Borrowers

HFHE is keen that its micro lending for housing improvements serve only poor and low-income borrowers. This is the target clientele and this exclusive focus is appropriate and sound management. Lower-middle and middle-income households have potential access to bank loans. Once subsidised lending expands to include these "higher" income homeowners, higher than poor and low-income families, these larger numbers of community households might soon take the majority of available loan principal (by demanding larger loans).

The most effective method to ensure that loans go chiefly to poor and low-income households is to keep loans small. As previously mentioned, HFHE sets a maximum loan size of EGP 12,000 (US$ 1530)—the previous maximum loan size was EGP 10,000. Price inflation of building materials recommended increasing the maximum size. The distribution of sample FY2015 loans shown in Figure 4 shows that only 13% of sample loans were EGP 10,000 or higher. These findings strongly suggest that poor and low-income households are the actual beneficiaries of HFHE micro loans. Field visits to a random selection of borrowers of larger loans (EGP 10,000 and above) should confirm that these homeowners are HFHE's target clientele.

3.6 A Christian Microfinance Institution in a Dominantly Muslim Context

Habitat for Humanity Egypt is a Christian NGO in Egypt's predominantly Muslim society. Over 90% of Egyptians are Muslim. This context presents several challenges and one opportunity for HFHE growth and sustainability:

Opportunity:

- **Little competition but potential partners:** Egypt generally, and the governorates of Middle and Upper Egypt specifically, have large numbers of CBOs and NGOs, including Muslim social welfare associations and non-religious development and social service associations that are wholly Muslim staffed. Very few (if any) of these associations would consider becoming a major, specialised microfinance institution. Islamic injunctions against interest and a preference for charity discourage many Muslims from lending as their primary activity and principal identity. Yet more than a few non-religious CBOs staffed chiefly or entirely by Muslims would be ready to partner with HFHE in managing "no profit, no-interest" micro loans (with inflation adjustments) for housing improvements by poor and low-income families as one of the activities and services offered to their communities. There are few Egyptian NGOs ready to compete with HFHE, yet there are CBOs ready to partner.

Challenges:

- **Accusations of proselytising:** Over the past two years, political developments in Egypt and the surrounding region have renewed local sectarian tensions. In serving predominately Muslim communities, HFHE and its Christian partner NGOs risk being accused of proselytising among Muslims. It is an advantage that HFHE is an apex intermediary NGO and not lending directly to Muslims.

- **Accusations of usury:** Private money lending is not prevalent in Egypt. HFHE's "no profit, no interest" micro loans are acceptable to most Egyptian Muslims. The need to protect loan capital against inflation is also understood and generally accepted. HFHE must be cautious, however, in setting its inflation adjustment. An annual inflation adjustment of 7-9% – the HFHE rate is currently 7%— is currently unlikely to provoke accusations of usury. Local currency savings in commercial banks offer annual interest of 7.5-8.75%. Consumer inflation rates in Egypt have generally been 9-12% in recent years.

Annual changes in building material prices have swung widely (Figure 8). But HFHE is prudent not to set the annual rate of inflation adjustment on its micro loans higher than a rate considered socially acceptable to Muslims for micro loans to poor and low-income households.

- **Low confidence and uncertain trust in non-Christian NGOs:** In Egypt's current context, it is understandable that HFHE confidence and trust is low or uncertain for non-Christian NGOs that may be ready to partner. HFHE cannot be confident of their objectives and "agendas" as potential lending partners. It is important to be cautious. However, for program growth and long-term sustainability it is important to engage with non-Christian NGOs and seek interested partners. Dialogue and confidence-building steps may take months. Cooperation will begin slowly and build in scale as confidence and trust grow with partnership experience. Growth is important: HFHE cannot become a national voice and advocate for improved housing of poor and low-income families—and cannot become a leading sub-national or national housing MFI—if it cannot partner with non-Christian NGOs.

Annex 1: A Sample Profile of HFHE Borrowers and Loans

HFHE receives information on a monthly basis from partner NGOs on all new borrowers and loans but does not compile this data electronically. To inform this case study, a stratified sample database was compiled from borrower and loan information included in new borrower lists reported by partner NGOs to HFHE in FY2015 (July 2014 through June 2015). These lists, included in monthly financial and narrative reports of housing loans, prepared by partner NGOs separately for each community, identify all borrowers whose loans were approved and disbursed that month. Borrower data from these lists include:

- Name of borrower
- Marital status
- Religion
- Number of households
- Number of persons in household
- Size of home (m^2)
- Category of work (renovation, demolition & new construction, building in stages)
- Average monthly income
- Total value of loan principal
- Total value of loan including inflation adjustment
- Total cost of home renovation / construction project
- Amount of monthly repayment
- Repayment frequency: monthly, quarterly, semi-annual

From this information, the following additional data can be extracted or calculated:

- Gender (from borrower's name)
- Loan duration: total loan value (including inflation adjustment) / monthly payment
- Monthly repayment as a percentage of average monthly income
- Loan value as a percentage of total work cost
- Inflation adjustment as a percentage of loan principal.
- Rural / urban community: from HFHE designation of assisted communities
- Total number of FY2015 borrowers per community

The sample database included all (100%) FY2015 borrowers in 7 of the 22 communities with active HFHE housing micro loans[25]. The author alone selected the 7 communities on the following bases:

- At least one community from each of the 5 partner NGOs (3 CEOSS communities)
- A mix of provincial urban and rural communities
- Communities from the two principal governorates: Beni Suef, al-Minia

This stratified sample includes 785 borrowers – nearly one-third (32.8%) of all 2,393 HFHE micro loans disbursed in FY2015. The selection of communities is not strictly random. However, both the diversity of communities and the size of the sample give reasonable confidence that the profile of FY2015 borrowers and loans compiled from this database is generally representative of all 2,393 HFHE loans and borrowers in FY2015.

[29] The 7 sampled communities include: Masaas wa Shaheen (Minia City), Talla (Minia), Nazla Faragallah (Minia), Nazla Hanna (Beni Suef), Ga'afar (Beni Suef), Manshiet Nasr (Beni Suef), Kom Akhdar (Beni Suef).

Table A-1 below presents this stratified sample profile of HFHE borrowers and micro loans in FY2015[30]:

Table A-1: Stratified Sample Profile of FY2015 Borrowers and Micro Loans

Gender		Type of Work	
Female	36.3%	Renovation	82.0%
Male	63.7%	Demolition, New Construction	13.9%
	100.0%	Building in Stages (2-3 loans)	4.1%
Religion			100.0%
Christian	46.2%	Loan Duration	
Muslim	53.8%	31+ months	2.4%
	100.0%	27-30.99 months	61.9%
Marital Status		24-26.99 months	16.9%
Married	82.9%	21-23.99 months	1.4%
Single – to be Married	14.8%	< 21 months	17.3%
Widow	2.3%		100.0%
	100.0%	Monthly Installment as % of Monthly Income	
Number of Persons in Household		40+%	8.4%
6+	29.9%	30-39.99%	18.0%
5	30.7%	25-29.99%	25.1%
4	18.2%	<25%	48.5%
1-3	21.1%		100.0%
	100.0%	Loan as % of Total Home Project Cost	
Mean household size: 4.7 persons		95+%	36.3%
Repayment Schedule		85-94.99%	10.8%
Monthly	96.1%	75-84.99%	25.7%
Quarterly	0.8%	65-74.99%	14.5%
Semi-annual	3.2%	<65%	12.6%
	100.0%		100.0%

[30] See also Figure 4 and Figure 5 on page 15. The borrower and loan profile information presented in these Figures are not repeated in Table A-1above.

Annex 2: HFHE Criteria for the Selection of Borrowers and Poorest Households

Criteria for Homeowner's Selection

Each implementing partner (association) determines criteria for the beneficiary homeowner selection in a way that avoids any discrimination within the following framework:

First NEED FOR ADEQUATE SHELTER

I. Structural safety, integrity, and function

A present physical dwelling can be considered inadequate if:

A. Reparability
1. The house is structurally unsound or has structural fire hazards;
2. The home residents, family and friends are unable to readily repair deficiencies;
3. The landlord is consistently unwilling to complete necessary repairs.

B. Sanitation
1. There is no continuous supply of safe water.
2. There is no safe/sanitary method of sewage disposal.
3. There are livestock animals sharing human living areas.
4. There is insect-infested construction.
5. There is a lack of or an unhygienic kitchen.
6. There is inadequate ventilation or lighting.

C. Safety
1. The house is not secure against the probability of crime.
2. There are unavoidable dangers to children.
3. The immediate environment has irremovable hazardous or toxic material.

II. Size of living quarters

A present dwelling's size can be considered inadequate if two or more of the following conditions are met:

A. There is more than one nuclear family in the house.
B. Married couple and children share a bedroom.
C. Adolescent children of the opposite sex are sharing a bedroom.
D. Each family member has less than seven square meters of floor space.

III. Temporary housing

A present living situation can be considered inadequate if:

A. Family is living in a house that is being condemned or sold.
B. Family is losing their lease or right to occupy the house.
C. Family is living in a lean-to, tent, or similar "quasi-homeless" situation.

IV. Cost of housing

A present housing situation can be considered inadequate if a family is paying more than 50% of their gross income for rent or house payment.

V. Family average income

The average total gross monthly income of individual within a family is LE200 and the total average income of the family should be a maximum of LE 2000.

Second: ABILITY TO REPAY

The following are factors to be used in determining whether applicants have the resources necessary to make consistent payments on the mortgage.

I. Debt to income ratio

If the family has monthly income equal to at least three times the projected mortgage payments.

II. Mortgage payment consistency

If they have had a stable source of income for at least six months prior to application for a housing loan, and are

III. If they are willing to sign legally enforceable promissory notes for each payment for the life of the mortgage.

IV. Bankruptcy, Liens, Judgments, Indebtedness

If they have a good financial reputation, are not under any court injunction, and do not have any indebtedness that would interfere with making regular mortgage payments.

V. House equity and/or down payment

A family can be considered to meet these criteria if their equity in their house is at least 25% of its total projected value of the house after building, repairs, or renovations are completed; or are able to contribute at least 25% of the total projected value of the house through contributions of labor, in-kind materials, and/or cash.

VI. The applicant must demonstrate ownership of, and/or building rights, and/or inheritable lease rights on land on which the house will stand.

VII. The applicant families are considered not acceptable for a mortgage loan if those families can afford banking loans with the market rate.

Third: WILLINGNESS TO PARTNER

Applicants must demonstrate a willingness to partner. In order to meet this requirement, the Association must set a plan for encouraging beneficiaries to fulfill sweat equity requirements, mutual help with their neighbors. Total local contribution is expected to reach 10% of the total amount of loans. The following are factors to be used in determining whether families will be willing to partner.

I. Eager participation

A family can be considered willing if:

A. They took initiative to complete the application process, providing all necessary documentation and references.
B. They readily welcomed home visits from the Association, Committee or the sponsoring organization.
C. They are comfortable with their credit and reference evaluations.
D. They fulfill the sweat equity requirement valued the Committee at 10% of the value of the loan received.

II. Understanding

A family can be considered understanding if:

A. They attend all training sessions required for prospective homeowners.
B. They are pleased with the Housing Program's basic home design criteria and desire to build to those specifications.
C. They accept full responsibly for the care and maintenance of their house.
D. They realize they must make payments monthly without default.
E. They realize they must reside in the house and cannot sell it for profit.

PRIORITIES

With other factors being equal, these social categories will guide prioritization:

(a) Orphaned or deserted children,
(b) Widowed, divorced, separated, or deserted women with dependents,
(c) Married couples with dependents,
(d) Widowed, divorced, deserted, or separated women without dependents,
(e) Married couples without dependents, and
(f) Engaged couples with 6 months to their marriage date

Poorest of the Poor Project

Criteria for Selecting Homeowners

Social-related Criteria

- Widows and have children
- Widows and do not have children
- A family (father, mother, and children)
- Widows or divorced living on their own
- Orphans living in homes that need to be demolished and rebuilt or to be renovated
- There is no limitations to the homeowner's age

Economic-related Criteria

- Homeowner does not have a job or a stable income source
- Homeowner's monthly income does not exceed EGP 200
- No projects or possessions providing the homeowner with a stable fixed income
- Total monthly income for the whole family does not exceed EGP 300
- Monthly expenses for the family at least equals their monthly income
- Homeowner takes medication on a regular basis and pays for it from his income

Construction-related Criteria

- House has no latrine
- House has unsuitable latrine
- There is either no roof or there is a thatch roof
- There is no separate places for humans and livestock
- There is no separation between adolescent children of the opposite sex
- There is a need for an added room or more to fit for the family
- House lacks clean water
- House lacks electricity
- House lacks walls, flooring, or any other type of finishing
- House is dilapidated and forms a threat to its residents
- House does not exceed 60 meters square
- House lacks doors, windows, stairs' handrail, or any other thing that represents a threat to the safety of the family.

General Criteria

- Homeowner has not received a Habitat loan before.
- No discrimination between homeowners by gender, religion, or color.
- Priority is to be given to whoever matches the above-mentioned criteria. Also if the homeowner is disabled or suffers from a chronic disease that requires him to pay for monthly.
- It is necessary that local committee members and persons-in-charge in the association agree unanimously on the inability of the homeowner to benefit from Habitat's Regular Program and they mention that clearly on the decision-making report.
- There should be no interference from any religious party in the nomination/selection process. Responsibility totally falls on the association and local committee members.

Other Criteria

- Amounts given to the families are grants, not loans.
- Formal contracts are to be signed between the homeowner and the association, listing the grant amount and the work that needs to be done in the house.
- Homeowner is to receive the amount on two stages, as in the Regular Program.
- House is to be subject to the construction supervision by Habitat Site Engineers.
- The association should send a monthly report on these cases to Habitat separate from the regular monthly report.

- It is necessary that the association take before-and-after photos of all homeowners of this Project.
- A homeowner's file is to be filled out for every homeowner of this Project (same file as the one used in the Regular Program).
- Grants will range from EGP 2,000 – EGP 5,000 for every house.
- Every house should only benefit once from the Project.
- Each association is to continue building/renovating houses for the poorest of the poor under the Regular Program, according to the annual plan for the community and from sources other than Habitat.
- It is necessary that the homeowner be selected outside the confines of the geographical area agreed on with Habitat, even if they meet all the criteria. In cases of default, the association, not the homeowner, is committed to refund the amount to Habitat.

Annex 3: Comparative Performance in Microfinance

Asia 2009 Microfinance Analysis and Benchmarking Report

TABLE 1 TOTAL BORROWERS: OUTREACH AND GROWTH RATES IN ASIA 2004 - 2008

Growth rates	2004	2005	2006	2007	2008
Region					
Asia	26,607,977	33,852,987	40,685,130	48,679,282	57,655,149
Year-to-year growth		27%	20%	20%	18%
Sub-region					
East Asia and Pacific	8,628,811	9,453,934	10,704,949	12,254,078	15,366,733
Year-to-year growth		10%	13%	14%	25%
South Asia	17,979,166	24,399,053	29,980,181	36,425,204	42,288,416
Year-to-year growth		36%	23%	21%	16%
Major countries					
Afghanistan	69,709	145,298	271,654	363,542	334,218
Year-to-year growth		108%	87%	34%	-8%
Bangladesh	14,381,210	18,036,019	20,521,587	23,092,730	22,787,466
Year-to-year growth		25%	14%	13%	-1%
Cambodia	419,666	493,754	606,266	799,414	1,047,002
Year-to-year growth		18%	23%	32%	31%
China, People's Republic of	30,315	19,785	21,760	32,103	42,916
Year-to-year growth		-35%	10%	48%	34%
India	2,326,126	4,538,303	6,986,069	10,201,260	16,025,583
Year-to-year growth		95%	54%	46%	57%
Indonesia	3,284,056	3,397,985	3,613,882	3,729,391	4,728,662
Year-to-year growth		3%	6%	3%	27%
Nepal	252,316	313,621	429,869	475,789	566,283
Year-to-year growth		24%	37%	11%	19%
Pakistan	519,699	682,933	984,284	1,571,789	1,650,871
Year-to-year growth		31%	44%	60%	5%
Philippines	1,060,881	1,298,539	1,606,461	1,854,265	2,354,746
Year-to-year growth		22%	24%	15%	27%
Sri Lanka	430,106	682,879	786,718	720,094	923,995
Year-to-year growth		59%	15%	-8%	28%
Vietnam	3,820,166	4,227,829	4,833,986	5,805,833	6,994,759
Year-to-year growth		11%	14%	20%	20%

Source: MIX Market. Some missing values interpolated or populated based on publicly available information when possible. Data throughout the report is unadjusted unless explicitly stated otherwise.

Source: Asia 2009: Microfinance Analysis and Benchmarking Report, Microfinance Information Exchange (MIX), March 2010, p.3.

RISK PROFILES

➪ *Overall credit risk indicators dropped in 2008 throughout Asia*

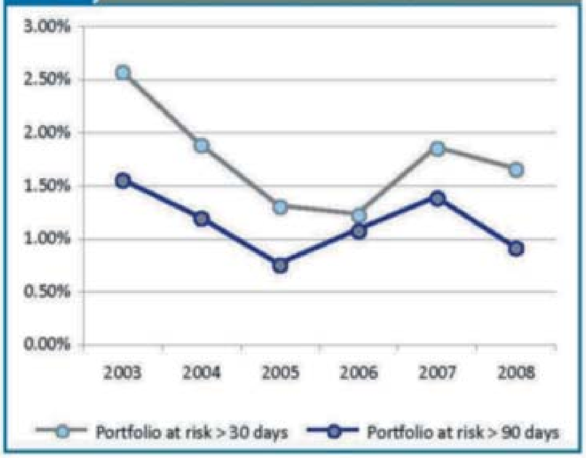
➪ *However, many institutions moved from 'very low' delinquency levels to 'moderate' levels, indicating potential problems on the horizon*

The financial crisis has also focused attention on credit risk management at microfinance institutions. The 2008 results give us a glimpse of these issues for Asia. In the aggregate, there is little evidence of increasing levels of credit risk for the typical MFI in Asia. However, there are warning signs for some specific sectors and for many individual MFIs. 2008 shows a worsening credit risk picture for many MFIs in the region.

Portfolio at risk (PAR) is the best indicator of future credit risk that we have readily available and comparable for large numbers of MFIs. High PAR levels indicate large numbers of loans with delinquent payments, and can signal the potential for a rapidly weakening repayment culture. PAR is easily comparable across institutions that adhere to a standard portfolio reporting framework.

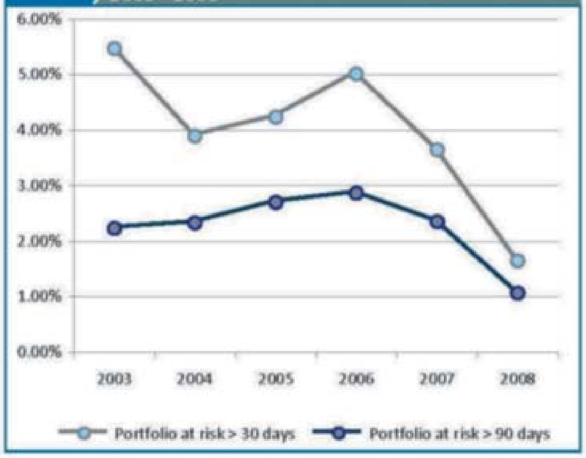
Median PAR levels are low in both South Asia and East Asia and the Pacific (EAP), with general decline in levels over the last six years. Risk coverage ratios have also been generally increasing, with the typical MFI crossing 100 percent (all delinquent loans adequately provisioned) in EAP for the first time in 2008.

FIGURE 16 PORTFOLIO AT RISK TRENDS, SOUTH ASIA, 2003 - 2008



Source: MIX Market. Results are medians for all participating institutions for a given year.

FIGURE 17 PORTFOLIO AT RISK TRENDS, EAST ASIA AND THE PACIFIC, 2003 - 2008



Source: MIX Market. Results are medians for all participating institutions for a given year.

Source: Asia 2009: Microfinance Analysis and Benchmarking Report, Microfinance Information Exchange (MIX), March 2010, p.11.

Table A-3: Comparative Results on Select MFI Metrics

Mortgage market obstacles	Ratio of GLP to Total Assets	Write-off Ratio	Ratio of Operating Expenses to GLP
Afghanistan	56.5%	2.2%	34.4%
Bangladesh	77.8%	2.7%	22.2%
Cambodia	80.5%	0.1%	15.6%
China	85.2%	0.0%	10.1%
India	78.0%	0.1%	12.7%
Indonesia	76.3%	1.7%	20.7%
Nepal	71.7%	1.1%	10.8%
Philippines	71.2%	0.9%	26.7%
Sri Lanka	90.0%	0.0%	12.1%
Vietnam	85.9%	0.1%	6.4%

Annex 4: Study questions and exercises

Topic 1 – Engineering Technical Services: HFHE currently pays all costs of the technical services (engineering designs, cost estimates) for engineering plans less than 1% of the value of an average micro loan.

- Give 2-3 key benefits to HFHE of providing these engineering services to borrowers.
- Give 2-3 reasons why HFHE should not shift this engineering cost to borrowers, i.e. make borrowers pay the costs of the engineering services that they receive for free.

Benefits to HFHE of Engineering Services to Borrowers	Reasons NOT to Shift Costs of Engineering Services to Borrowers
■ Provides HFHE with assurance that the loan is sufficient to complete the planned renovation / construction. Borrower will not need a second loan to finish the work. ■ Provides full descriptions, designs and cost estimates of planned work so that HFHE loan value can be set and work progress can be monitored. CBOs know the specific work to be done. And HFHE has greater assurance that its loan is being using for housing improvements – and not a different purpose. ■ Provides HFHE with assurance that the construction work is properly planned and designed – should provide a satisfactory improvement. HFHE housing loans should not result in poor quality construction that later fails, collapses and causes injury, death to inhabitants. ■ Loans financial control: Engineer inspects and approves construction work completed with the 1st tranche of the loan. The remainder of the loan is not released if the initial work is not satisfactory or not complete. ■ Provides HFHE with assurance that the loan is sufficient to complete the planned renovation / construction. Borrower will not need a second loan to finish the work. ■ Provides full descriptions, designs and cost estimates of planned work so that HFHE loan value can be set and work progress can be monitored. CBOs know the specific work to be done. And HFHE has greater assurance that its loan is being using for housing improvements – and not a different purpose. ■ Provides HFHE with assurance that the construction work is properly planned and designed – should provide a satisfactory improvement. HFHE housing loans should not result in poor quality construction that later fails, collapses and causes injury, death to inhabitants. ■ Loans financial control: Engineer inspects and approves construction work completed with the 1st tranche of the loan. The remainder of the loan is not released if the initial work is not satisfactory or not complete.	■ Borrowers may refuse engineering services if they must pay for it. In such cases, HFHE would receive none of the key benefits of engineering technical services for HFHE. ■ Borrowers may accuse HFHE of trying to "profit" from its engineering services, by imposing additional fees that borrowers must pay. ■ Engineers paid by borrowers are accountable only to borrowers. Engineers would not be accountable to HFHE for the quality of their engineering designs, plans and cost estimates. And they would not provide technical follow-up or loans financial control. ■ Engineering services are a small operating expense. Shifting these costs to borrowers would not provide significant cost savings for HFHE. Cost savings would not equal the loss of management benefits of engineering services to HFHE. ■ Borrowers may refuse engineering services if they must pay for it. In such cases, HFHE would receive none of the key benefits of engineering technical services for HFHE. ■ Borrowers may accuse HFHE of trying to "profit" from its engineering services, by imposing additional fees that borrowers must pay. ■ Engineers paid by borrowers are accountable only to borrowers. Engineers would not be accountable to HFHE for the quality of their engineering designs, plans and cost estimates. And they would not provide technical follow-up or loans financial control. ■ Engineering services are a small operating expense. Shifting these costs to borrowers would not provide significant cost savings for HFHE. Cost savings would not equal the loss of management

Topic 2 – Maintaining a Low Ratio of Portfolio at Risk (PAR): The January 2011 Revolution quickly and sharply raised the risks of micro lending in Egypt. How did HFHE management respond and successfully maintain a low-to-moderate ratio of portfolio at risk (PAR) in the years since the Revolution? In which year was the highest percentage of loans at risk (more than 30 days overdue)? And what was the highest PAR ratio (end of year) for HFHE since 2011? Finally: Which is a better strategy to maintain a low PAR: Increase the GLP by 10% – or reduce the value of bad loans by 10%?

Answers: HFHE management responded to a rapid increase in nonperforming loans by:

1. Stopping all new lending in metropolitan communities with rapidly rising rates of non-performing loans to lower the risk that new loans will also not be repaid.
2. Significantly increasing HFHE lending in "safe" rural communities (FY2013) in order to increase the gross loan portfolio. PAR is the ratio of bad loans to the gross loans portfolio (GLP). Increasing the GLP will lower PAR even if the number of bad loans is the same or higher.
3. Increased the monitoring and follow-up of existing loans by partner NGOs, CBOs and HFHE staff to promptly identify and respond to delayed loans. Increased monitoring in participating communities signalled to CBOs and borrowers that no delays in repayment would be tolerated.

- The highest PAR ratio was in FY2012 (Figure 7, page 19). At the end of FY2012 (June 30), 2.3% of the gross loan portfolio was more than 30 days past due.
- The better strategy is a 10% increase in the GLP.

Topic 3 – Calculate HFHE interest rates for break-even, loan write-offs and inflation protection: From figures provided here and in this case study, calculate the annual interest rate that HFHE needed to charge on its micro loans in FY 2014 and FY2015 to:

Answers	FY2014	FY2015
1. **Reach break-even only:** To cover all operating expenses of partner NGOs + CBOs plus HFHE recurring expenses.	**13.7%** (Figure 8)	**10.1%** (Figure 8)
2. **Cover loan write-offs:** To cover the value of loan write-offs each year.	**0.082%** (Table 5)	**0.046%** (Table 5)
3. **Cover building materials inflation:** 14.2% in FY2014 and 11.5% in FY2015, assuming that building materials are 50% of the cost of home improvements:	14.2% * 50% = 7.10%	11.5% * 50% = 5.75%
Total 1 + 2 +3	**20.882%**	**15.896%**

Topic 4 – A Distributed Network of Micro Lending: What are specific advantages of HFHE's distributed network of lending in which HFHE does not lend directly but instead provides loan capital to partner NGOs (and from partner NGOs to larger numbers of CBOs)?

Answers:

1. Lowers the risk of adverse management events at HFHE or any partner NGO resulting in significantly slower lending or reduced quality of loans management across the entire portfolio.
2. Increases the geographic scope of lending, thus lowering the risks of sudden increases in non-performing loans or other loan management crisis in a few communities.
3. Lowers operating expenses (staff salaries, transportation) by using lower-cost NGOs and local CBOs for loans management in distant communities.
4. Improves loan repayment rates and lowers PAR by having applicant borrowers selected and loans managed by fellow citizens (CBO loans committees) who are neighbours of borrowers in participating communities.
5. Local CBOs can publicise the loans program at evening meetings and reach out easily to uninformed households and potential borrowers to explain how the system works.
6. Local CBOs and partner NGOs can better mobilise local contributions or donations to provide housing improvements for poorest families in their own communities.
7. Local CBOs can best identify poorest households for priority housing improvements.

Topic #5 – A Loans Tracking System: HFHE does not have a computerised loan tracking system with data on all its micro loans. For what reasons might HFHE wish to have a computerised loans tracking system? And for what reasons might HFHE not wish to acquire a loan tracking system? In your opinion, should HFHE invest in and operate a loans tracking system? And what are the two chief reasons for your opinion?

Answer: This topic asks students to consider both the benefits and costs of a specific loans management capacity and its operations. Is a loan tracking system necessary for HFHE? Is it worth the purchase and operating costs? Are there alternatives that are less burdensome and costly?

Reasons to Acquire Loans Tracking System	Reasons NOT to Invest in Loans Tracking
■ To produce custom and standard profile reports on all micro loans and borrowers – by year, by partner NGO, by community, totals to date (cumulative), comprehensive. ■ Profile reports are useful for communications and presentations to stakeholders, donors, government on HFHE services and clients. The capacity to produce up-to-date profile reflects well on HFHE's capacity to monitor partner NGOs and their lending. Profile reports of loans disbursed and borrowers are material documentation and evidence of organizational capacity that outsiders can review and assess in evaluating the organization's management.	■ Profiles reports of large and random samples of all loans and borrowers in a specific year can be prepared quickly when needed – as was done for his case study – without a loans tracking system. HFHE regularly receives and files monthly reports of loan and borrower data from all partner NGOs for all communities. The information in these reports can be compiled to produce a satisfactory profile report for a valid sample of loans and borrowers within 5-10 days **when needed.** ■ HFHE does not manage micro lending itself. Loan tracking systems are valuable management tools to MFIs that directly manage large numbers of loans. ■ The cost of purchasing, installing and maintaining a loans tracking sytem – including staff salary, communications – increases HFHE operating expenses. ■ Loans tracking systems typically include extensive information on each loan and borrower. Adding a loans tracking system will increase the reporting and information management burden of partner NGOs and CBOs solely for HFHE loan tracking. The additional reporting and information will not benefit the NGOs or CBOs themselves.
Alternative Solution: HFHE hires a data entry worker for 10-15 days at the end of each year to enter some or all loan and borrower information into a simple database for HFHE to later produce a profile report – whenever a report is wanted.	

Topic 6 – Break-even Analysis for Wholesale Lending: HFHE is piloting a "wholesale lending" approach to housing microfinance with a strategic partner NGO, CEOSS. The pilot is an 8-year project. CEOSS will disburse housing micro-loans in Years 1 to 5 for home improvements by poor and low-income households. At the end of Year 5, no more loans will be given. But CEOSS will collect outstanding loan repayments in Years 6-8 (for loans disbursed in Years 3-5) until all loans are repaid in full. Average loan duration will be 30 months; average loan size will be EGP 6500 (US$830). The "inflation adjustment" on all loans will be 7% annually. Loan repayment begins 30 days after receipt of loan.

What would be the annual interest rate required if HFHE wants this wholesale lending approach to cover all expenses from the "inflation adjustment"?

Total value of loans to be disbursed (loan principal only) each of Years 1 to 5: US$ 325,000.

Total operating expenses of CEOSS, Years 1 – 8: $195,000 ($30,000 in each of Years 1-5 plus $17,500 in each of Years 6-7 and $10,000 in Year 8).

Total operating expenses of HFHE, Years 1 – 8 charged to this pilot project: $15,000

Answer:

1. $325,000 *5 years = $1,625,000 (total value of loan capital lent – or GLP over life of project).
2. ($195,000 + 15,000) / $1,625,000 = **12.92%** break-even interest rate

Abbreviations

CBO	Community-based Organization
CEOSS	Coptic Evangelical Organization for Social Services
EGP	Egyptian pound (EGP 7.83 = USD 1.00, July-August 2015)
GLP	Gross Loan Portfolio
HFHE	Habitat for Humanity, Egypt Program
HFHI	Habitat for Humanity International
MFI	Microfinance Institution
NGO	Nongovernmental Organization