

Joining Forces to Finance the Road to a Home in El Salvador



CLIENT

Since 1992, the Asociación HPH El Salvador (HPHES), a private, non-profit organization, has provided housing solutions to base of the pyramid (BOP) families in El Salvador. An affiliate of Habitat for Humanity International in El Salvador, HPHES provides financing and technical assistance for housing construction and repairs. It has eight offices in the country and currently serves 9,329 low-income Salvadorian families.



IDB SUPPORT

The Inter-American Development Bank's Opportunities for the Majority (OMJ) granted HPHES a loan of up to \$5 million to expand its housing on-lending operations. HPHES will match the OMJ loan with its own funds. The program will benefit an additional 7,937 BOP families in El Salvador.



THE CHALLENGE

More than two-thirds of BOP Salvadorian homeowners lack access to financing to finish construction, make repairs, connect to basic services, or formalize their tenure. Many live in unhealthy and unsafe structures with dirt floors and make-shift roofs and walls, and without electricity, running water, or indoor toilets.

The banking sector doesn't offer long-term home improvement financing to these households as they often are informal workers who lack the credit history, steady employment, or collateral required. They resort to self-financed progressive construction methods using untrained workers and substandard materials, resulting in finished work that is not in compliance with safety standards, yet more expensive due to the lack of scale in purchases of labor and materials.

Government programs do not have enough funding to close El Salvador's substantial quality housing shortage, estimated nationally at 58 percent of all households. The supply of credit to the BOP from mainstream financial institutions is constrained by traditional credit scoring methodologies that cannot distinguish between creditworthy and non-creditworthy clients, and by a perception in that long-term financing is not viable for the BOP because of its low purchasing power.



THE SOLUTION

Private non-profit organizations such as the HPHES have long been involved in providing financing for housing solutions for the poor. This is because the shortage of quality housing in El Salvador disproportionately impacts persons at the base of the pyramid, who have no access to traditional home improvement loans.

HPHES will extend loans averaging US\$1,260 to nearly 8,000 BOP families to repair roofs, floors, bathrooms, doors, and windows, install septic tanks, water tanks, and electrical installations, and improve other housing conditions related to health and safety. HPHES, an affiliate of Habitat for Humanity, tailors its credit to the BOP's particular needs, purchasing power, and repayment capacity. Its comprehensive approach bundles sustainable financing with technical assistance on construction, financial education, and community involvement. HPHES also reports on its beneficiaries' payment behavior in order to help them build their formal credit history, key to accessing credit from banks.

Successful implementation of this project across seven regions (Santa Ana, San Vicente, San Salvador, Usulután, La Paz, Sonsonate, and San Miguel) could potentially attract other long-term lenders to the BOP market to scale or replicate HPHES's operations more widely throughout El Salvador.



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INNOVATION MAKES THE DIFFERENCE

The main innovation of the HPHES model is combining access to finance with much-needed technical assistance for its clients. HPHES delivers a holistic housing solution that provides assistance in different phases of housing, including design, selection of construction materials, oversight of labor, and budget management. This complements the investments made by the BOP clients themselves, maximizing their efficiency and effectiveness. In addition, HPHES reports the payment behavior of its clients to the Equifax credit bureau, thus enabling its BOP clients to start building a formal credit history.

OMJ 2014 Portfolio



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