

TC Abstract

HabVita: Bringing Basic Services and Housing to the BOP

1. Basic information for TC

• Country/Region:	Mexico
• TC Name:	Habvita: Bringing Basic Services and Housing to the BOP
• TC Number:	ME-T1257
• Team Leader/Members:	OMJ: Claudia Martinez Ochoa (OMJ/OMJ); Sergio Juarez (OMJ/OMJ); Johnny Jiron (OMJ/OMJ)
• Date of TC Abstract authorization:	Client Support
• Donors providing funding:	Infrafund
• Beneficiary (countries or entities which are the recipient of the technical assistance):	Habvita
• Executing Agency and contact name (Organization or entity responsible for executing the TC Program) (If Bank: Contracting entity) (If the same as Beneficiary, please indicate)	Habvita Santiago Serrano - COO (+521) 55-4631-1510 sserrano@habvita.com www.habvita.com
• IDB Funding Requested:	US\$250,000
• Local counterpart funding, if any:	US\$167,085
• Disbursement period (which includes Execution period):	24 months
• Required start date:	15-Jan-2014
• Types of consultants (firm or individual consultants):	
• Prepared by Unit:	OMJ/OMJ
• Unit of Disbursement Responsibility:	OMJ/OMJ
• TC Included in Country Strategy (y/n):	No
• TC Included in CPD (y/n):	No
• GCI-9 Sector Priority:	Infrastructure for competitiveness and social welfare (Sector Priority area: Basic Services)

1

2. Objectives and justification of the TC

- 2.1. The project's objective is to expand access to complementary infrastructure for basic services¹ for Base of the Pyramid (BOP) households in Mexico. HabVita is a specialized BOP homebuilder company, which provides tailored housing and basic services solutions in households' existing terrains. The TC will provide needed funding to design the company's current expansion plan (e.g. institutional strengthening such as improved IT and communication systems, training, along with feasibility and market studies to pilot new alternative basic services solutions and distribution networks) and to test its financial model. If successful, it will allow HabVita to ramp up its operations and attract new commercial capital/debt, including a loan from the IDB's Opportunities for the Majority Financing Facility to scale its operations even further.

¹ Complementary infrastructure for basic services are products or features included or adjacent to individual homes that complement basic services infrastructure (water, sanitation, and energy) in areas that are either underserved or not covered at all by traditional infrastructure.

- 2.2. This TC is based on the previous successful experience of the SalaUno TC (ME-T1220) financed by the Infrafund in 2012, which also had the prime objective of providing much needed funding to design the company's expansion plan (e.g. studies and preparatory work for the construction of new facilities) and to test its financial model, in order to allow SalaUno to attract commercial capital/debt, including an OMJ loan. As a result of the dissemination activities financed by this TC, SalaUno was able to identify a new equity partner, which is expected to contribute US\$4 million during 2013. Moreover, the TC also accomplished its objective of bringing SalaUno's operations to scale, as well as to prove the feasibility of the business model, as demonstrated by its key performance indicators between Q3 2012 and Q3 2013: (i) 88% increase in diagnostic visits, from 3,505/month to 6,608; (ii) 104% increase in surgical capacity, going from 535 surgeries/month to 1,096; (iii) and a significant increase in Diagnostic Centers, growing from 1 to 11.
- 2.3. As a result of the TC's successful results, in Q3 2013 OMJ was able to structure a US\$5 million loan (ME-L1149) to the company, which has already been declared eligible. The approval is expected to occur sometime in early 2014. Correspondingly, the SalaUno TC resources were catalytic in bringing a pre-commercial model to investment readiness, an accomplishment that the HabVita TC seeks to reproduce by leveraging TC funds to allow the company to reach investment readiness swiftly and obtain access to commercial capital, including a potential OMJ loan and equity from other MDBs or private investors in 2015.
- 2.4. In March 2013, during the National Housing Day², the government of Mexico released figures that estimated a housing shortage of approximately 9 million units (equivalent to 31% of the current housing stock), of which 6% is projected to be quantitative and 94% qualitative. Traditionally, BOP families in rural areas have been underserved both in terms of housing solutions and infrastructure for basic services provision, caused by a lack of funding capabilities from municipal governments and a shortage of adequate low-income housing solutions available in the private market. This can be explained in part by the low profit margins associated with working in rural areas.
- 2.5. Qualitative housing deficits are typically connected to one or more of the following: (i) inadequate building materials; (ii) lack of access to water, sanitation, and/or electricity; and (iii) overcrowding. Despite all the Government's recent efforts, approximately 11.3% of existing homes nationwide still lack access to water, 2% lack electricity and 10.9% function without access to sewage services³. Comparatively, in rural areas in LAC it is estimated that 43% of rural households lack access to basic services, as seen in Table 1. This lack of basic infrastructure, particularly in water and sanitation, constitutes the main housing deficit in the Region. It is estimated that overall around 21 million households live in deficient dwellings, which lack at least one basic service, with inadequate sanitation being the most pressing infrastructure

Table 1 – Regional Housing Shortages in LAC (2009)

Housing Gaps	National	Urban	Rural
Infrastructure	21%	16%	43%
Lack electricity	4%	1%	17%
Lack sanitation	15%	13%	27%
Lack piped water	9%	6%	20%

Source: "Room for Development: Housing Markets in LATAM" (DIA, Development in the Americas Series), edited by Cesar Bouillon, (IADB, 2012)

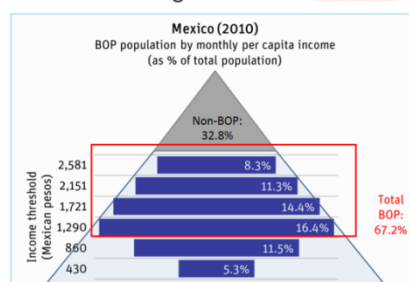
² The [Mexican Housing Day](#) is the most important public-private partnership in the sector: Mexico's housing annual event.

³ National Institute of Geography and Statistics ('INEGI'), 2010 report.

problem affecting 13% of all households⁴. In Mexico, the level of shortage of basic infrastructure at the national level is higher than the regional average (34%), with 28% in urban areas and a staggering 58% in rural areas. Moreover, these housing shortages affect BOP households disproportionately, as they struggle with an average deficit that is six times higher than that of high-income households⁵ (2009). Given the difference in needs, there is no “one-size-fits-all” solution to the housing problems in the region, and tailored solutions need to be developed that take into account each household’s needs in the most cost efficient manner, along with urban and rural development guidelines. In particular for rural settings in Mexico, where 58% of the population lacks access to basic infrastructure services (as a result of both geographical barriers and lack of density), the most efficient way to complement traditional infrastructure is to provide BOP families access to alternative basic services directly through the provision of tailored-made housing solutions. These include, among others, the use of solar water heaters, rain collectors, solar panels and biodigestors for water treatment.

2.6. **Beneficiaries.** HabVita targets Mexican families at the BOP in rural areas. The target beneficiaries are households, with no access to one or several basic services who simultaneously do not have access to any national housing mortgage programs, mainly *Infonavit* and *Fovissste*. According to the data provided by the *Sociedad Hipotecaria Federal* (SHF) and the CONAVI⁶: (i) 64% of the families included in the housing deficit earn less than 6 monthly minimum wages (“MMW”)⁷; (ii) 5.9 million families live in rural communities, where approximately 43% lack access to traditional basic services infrastructure; and (iii) 63.5% of the housing deficit is concentrated in 10 of the 32 states. Additionally, as indicated on the pyramid shown in Figure 1, the majority (over 70%) of HabVita’s target clients fall under the BOP threshold.

FIGURE 1- Target Market of Habvita



2.7. In recognition of HabVita’s approach in providing complementary housing and basic services infrastructure for the BOP, the Mexican Government, through SHF, has certified the company as a Home Autoproduction Agency (*AutoProductora de Vivienda* - APV). HabVita is currently one of only 19 APV’s in the country authorized to build houses with financial intermediaries (“FIs”)⁸ funded by SHF, such as FOMEPADE (ME-L1138). OMJ approved a US\$6.6 million loan in August 2013⁹ to support FOMEPADE’s loan origination activity and allow it to expand its existing BOP housing portfolio. FOMEPADE is a Mexican non-banking financial institution (SOFOM) with an innovative loan origination program for BOP public sector employees from state and municipal

⁴ Source: “Room for Development: Housing Markets in LATAM” (DIA, Development in the Americas Series), edited by Cesar Bouillon, (IADB, 2012)

⁵ *Idem*.

⁶ Numbers in SHF’s housing perspective document presented by SHF’s ex-CEO Javier Gavito Mohar’s in 2012 Home Autoproduction Forum in Mexico City.

⁷ MMW in Mexico is MXN\$64.76 or US\$5.02 per day equivalent to MXN\$1,942.8 or US\$150.60 per month.

⁸ FIs include Fomepade, Grameen Mexico, Crédito Real, Siempre Creciendo, Sofago, Dinero Práctico, Acreimex, Fink2, Te Creemos, Alternativa 19 del Sur, Caja Yanga, Caja Huastecas, etc.

⁹ The Loan Agreement was closed on November 11, 2013 and first disbursement will occur in December 2013.

governments, which provides financing via payroll discount, access to federal subsidies, as well as housing solutions through its alliances with APVs, one of which is HabVita. Accordingly, the proposed TC would not only provide institutional strengthening for HabVita allowing the company to reach investment readiness faster, but would also indirectly strengthen an existing IDB loan operation. HabVita is one of three APVs providing housing and basic services to FOMEPADE, and as the latter's operations ramp up as a result of IDB financing, it is expected that its partners will also need to substantially increase their production capacity.

- 2.8. Moreover, HabVita currently ranks third in total number of homes built with SHF funding, allowing the company to be certified by the SHF three years in a row. Additionally, the National Social Housing Guarantee Fund ("FONAGAVIP") has granted a first loss guarantee of 10% to FIs granting Home Autoproduction loans¹⁰, given the Government's desire to increase the supply of APV-produced dwellings, which follow federal housing guidelines, including environmental standards, urban development policies, and access to both housing and public services in underserved rural areas. Because of this proved success, HabVita's housing solutions have already begun to be replicated by other international institutions, such as Leve Housing¹¹ and Worldhaus¹², which have successfully started similar programs in Haiti and India respectively.
- 2.9. HabVita's business model is based on four pillars: (i) it offers affordable tailored-made housing solutions and complementary infrastructure for basic services to BOP families, who either cannot afford nor have access to national housing programs or traditional mortgages from banks. HabVita meets such need by offering housing solutions, tailored specifically to fit clients' specific needs and socio-economic conditions, taking into account geographic and socio-economic aspects, as well as current access to basic services; (ii) HabVita has also set in place strategic alliances with FIs and government entities to provide its clients with appropriate financing for its products; (iii) HabVita's business model and construction systems make it possible to build houses anywhere in Mexico. Therefore, HabVita is able to provide complementary infrastructure for basic services through home construction in land already owned by families in rural communities. Moreover, HabVita's solutions can be built in locations where other homebuilders cannot afford to do so, helping to reach unattended markets in both rural and semi-urban areas; and (iv) HabVita currently focuses its strategy in 12 states¹³, 6 of which have the highest housing and basic services deficit in the country, allowing the company's sales efforts to be focalized and aligned with the current demand and needs.
- 2.10. The company's housing solutions start at MX\$30k (US\$2.4k) approximately. However, dwellings needing complementary infrastructure for basic services add an additional cost of MXN\$25k (US\$2,000). Housing solutions range from a 9 m² room (MXN\$30k or US\$2,400) to a 52m² 3-bedroom home (MXNN\$175k or US\$13,800). Alternatively, complementary infrastructure for basic services products range from MXNN\$2500 (US\$200) for light saving bulbs to MXN\$18k (US\$1,400)

¹⁰ FONAGAVIP limits FIs' interest rate and loan amount.

¹¹ <http://www.levhousing.org/>

¹² <http://www.worldhaus.com/>

¹³ The company has presence in the following states: Campeche, Chiapas, Mexico City, State of Mexico, Guerrero, Hidalgo, Nayarit, Oaxaca, Puebla, Queretaro, Tlaxcala and Veracruz. Additional states will be added only if needed for strategic reasons.

for dry latrines. It is important to note that most of the homes built include at least one basic services product.

2.11. HabVita has historically incorporated infrastructure for basic services products in its housing solutions, where different features are incorporated based on location, income and family needs. These basic services alternatives are divided in three categories: (i) electricity and energy efficiency: light saving bulbs and insulating walls and roof; (ii) water: water tanks, solar water heaters, water collection systems, water filtering systems and water saving showers; and (iii) waste treatment: biodigestors¹⁴ and dry latrines. The expected benefits are detailed below¹⁵:

2.12. The company's operational process is based on five main aspects: (i) direct local salesforce promotes housing solutions and basic services alternatives in communities with identified demand; (ii) information on interested clients is sent to partner FIs, such as FOMEPADE, for loan approval and financing; (iii) the company receives a payment in advance from the FIs to order and purchase materials and finishings.

Feature	Benefits
Electricity and Energy	
Light Saving Bulbs	77 w savings compared to traditional bulbs 4,392 kw savings per home per year Mx\$2,517 savings per home per year
Covintec Construction System (Insulating Walls and Roof)	Resistant to natural disasters such as earthquakes and hurricanes 8.8 R factor insulation (6.7 times that of gray block) Savings vary depending on climate and home use
Water	
Solar Water Heaters	40 L of gas savings on average Mexico climate per month Mx\$2,400 of gas savings on average Mexico climate per year 25-30 degree celcius water daily with sun
Water Collection Systems	L of water collected depend on roof size and climate Mx\$50 per 1,000L collected
Water Tanks	450 L of water collection Hygiene increase
Water Filtering Systems	Rain and well water filtering Mx\$6 per 10 liters filtered
Water Saving Showers	6 L of water savings per minute 6,600 L of water savings per year Mx\$335 savings per year
Waste	
Biodigestors	138,000 L of treated water per year Mx\$7,300 savings per year if water is reused
Dry Latrines	L of treated water depend on use and size of latrine

2.13. Homes are made with prefabricated methodologies built in a Covintec factory¹⁶ and are provided with anti-seismic and anti-natural disaster features; the remaining materials are purchased from national and internationally recognized suppliers; (iv) materials and prefabricated homes are sent to construction sites where the company's team prepares the terrain for construction. Home construction lasts around 8 weeks; and (v) final payment is received. The home construction is guaranteed for the first year and warranties for basic services alternative products depend on product and manufacturer.

2.14. The company began its operations in 2010, and since then it has built or improved 1,077 new homes, installed more than 200 biodigestors, 2,500 light saving bulbs, 213 water saving showers, 420 water tanks, 100 solar water heaters, 35 water collection systems, and 35 water filtering systems, benefitting more than 4,200 BOP families¹⁷, reaching 74 communities in 12 states and achieving over MXN\$89 million (US\$6.8 million) in sales. HabVita has helped BOP families save

¹⁴ In-house waste treatment system.

¹⁵ Benefit figures provided by basic services suppliers (HabVita, 2013).

¹⁶ HabVita has a strategic alliance with Covintec, a renowned Mexican material supplier specialized in providing high-tech prefabricated materials and construction methodology. <http://covintec.com/>

¹⁷ According to the INEGI 2010 census the average number of users per home in Mexico is 3.9. Nevertheless, HabVita's census results in such figure increasing to 4.8 in certain communities.

between MXN\$1.4 million (US\$110k) to MXN\$3 million (US\$236k) by installing complementary infrastructure for basic services, and depending on whether treated water is reused, 2.1 million KWh of energy, 29.8 million liters of water through treatment and 282,000 liters of potable water per year.

2.15. Currently, HabVita's has a current backlog of 270 homes in need of basic services that would result in an additional MXN\$38 million (US\$3 million) in revenue. Moreover, the company's pipeline includes more than 700 homes, which require complementary infrastructure for basic services. Successful implementation of the TC and growth strategy will allow the company to develop the capacity and potential to cope with existing demand and, by 2015, reach investment readiness and obtain financing from OMJ. It is expected that the company will ramp up its operations in order to be able to produce 1,000 homes per year by year-end 2014, i.e. double its current production capacity.

2.16. Since its foundation, the company has been able to double the size of housing solutions constructed per year as well as the amount of complementary infrastructure for basic services provided via FIs' loans. Existing alliances with FIs and the Federal Government are crucial in order to close the financing package to the end-beneficiary. The financing package consists of a minimum down-payment combined with a federal subsidy from the CONAVI (up to 40% of the cost of either the housing solution or the home improvement, including access to basic services) and tailored financing from FIs focused on the BOP, such as FOMEPADE. As of today, HabVita's clients generate a healthy portfolio for FIs with 1% in write-offs.

2.17. **Consistency with the Bank's strategies.** The proposed TC is consistent with the GCI-9 Infrastructure for Competitiveness and Social Welfare strategic priority; more specifically the Basic Services sector priority, because it will raise the welfare of households by providing increased access to water, sanitation and electricity. Also, the HabVita project will contribute to the following indicators within the GCI-9 expected results matrix: "Households with New or Upgraded Water Supply" and "Households with New or Upgraded Sanitary Connections". The TC is aligned with the InfraFund's scope of financing proposals with special emphasis given to support projects in the water and sanitation sectors at the subnational and local level, where traditionally there has been a lower degree of private sector participation and where sector peculiarities present special challenges, as outlined in the Fund's Operational Guidelines (GN-2404-7) and preparation document (GN-2404-4). The latter enables the Infrafund to provide non-reimbursable resources for the preparation of specific programs, plans and projects to be funded by the Bank, which may include pre-feasibility and feasibility studies or project design. This TC also complements the Bank's country strategy for Mexico 2010-2012 (GN-2595-1), which supports increased coverage in Water and Sanitation services and promotes the strengthening of Micro, Small and Medium-sized enterprises (MSMEs) priority sectors.

2.18. **Complimentary with country program.** Among the projects in Mexico approved by the Bank, HabVita's activities are aligned and directly related with the "FOMEPADE: Increasing Access to Housing for Base of the Pyramid Public Employees in Mexico" (ME-L1138), whose objective is to contribute to the reduction of the qualitative and quantitative housing deficit for the BOP in Mexico by facilitating access to financing for home improvements and new housing salutations. In

this project, HabVita is one of FOMEPADE's main construction developers certified by the *Sociedad Hipotecaria Federal*.

3. Description of activities/components and budget

3.1. Component 1: Training and Knowledge Transfer

The purpose of this component is to strengthen HabVita's distribution channels which will determine the company's growth pace. The company developed three different channels: (i) Local Stores ("LS"); (ii) community salesforce; and (iii) franchises. Such strategies reinforce HabVita's presence in local rural communities, increasing client trust and awareness. This component includes the following activities:

- **Activity 1: Local Stores Network.** Establish and develop a LS network in communities to service both housing solutions and complementary basic services. Expected results: Open 4 LS by April 2014 with average allocation of 50 housing solutions with complementary basic services per year per LS (after year 1).
- **Activity 2: Community Salesforce.** Incorporate individuals from local communities as direct salesforce in order to reinforce HabVita's local presence. Expected results: Incorporate and train all operational team, as well as local salesforce.
- **Activity 3: Franchise Development Plan.** Develop a franchise business plan to sustain the planned growth across local communities and allow for the development of local franchises. Expected Results: Open 6 new fully operational franchises by Q3, 2014.

3.2. Component 2: Communications Strategy

As proven in other successful BOP business models financed by OMJ (Patrimonio Hoy, RG-1039; BCI, CH-L1054; PUPA, BR-L1313), which rely on a direct salesforce to reach the BOP, word-of-mouth communication is an extremely important element for building a strong distribution network with sufficient capillarity to reach BOP markets,. Therefore, HabVita's distribution strategy has to be complemented with a communications strategy targeted specifically at BOP markets. Communications material and a general communications strategy will be designed. The activities are detailed as follows:

- **Activity 1: Design Communications Strategy.** Hire a communications consultant to develop HabVita's communications strategy (including LS and franchises) and help position the company in BOP markets. Expected results: Deliverable: Communications Strategy proposal from consultant by April 2014.
- **Activity 2: Implement Communication Strategy.** Effective communication is crucial for rapid growth, thus, the company requires to hire an external communications agency specialized in BOP clients to implement the communications strategy. Expected results: Deliverables: (i) short term/preliminary communications implementation plan and

execution by Q1 2014 ; and (ii) long term communication implementation plan and execution by Q2-Q3, 2014,.

3.3. **Component 3: Credit Structuring, Building and Strengthening Back Office Capacity.**

The purpose of this component is to strengthen HabVita's back office and accounting procedures to enable it to manage its operations as it grows its operations. The component consists of the following activities:

- **Activity 1: Enterprise Resource Planning system adoption.** Implement and adopt a specialized ERP system to enable the company to manage an increasing number of projects across the country. Backoffice and initial accounting procedures will also be done with the ERP system. Expected results: Train 100% of personnel and adopt ERP system by Q3, 2014.
- **Activity 2: Strategic Planning & Financial Model.** Provide training and knowledge for HabVita to improve and increase its housing and basic services designs, and improve strategic budget and logistics planning. Expected results: (i) Hire and train budget, design and logistics specialists by year-end; (ii) improve home/basic services designs; and (iii) prepare financial model to attract capital/debt.
- **Activity 3: FIs Partnership Development Program.** As HabVita expands its operations and reaches scale, the company will have to generate a sufficient number of partnerships with FIs, including understanding credit origination procedures and designing an initial loss guarantee fund to incentivize FIs to lend to HabVita's clients. Expected results: (i) Hire and train an FI manager by April 2014; (ii) increase the amount of projects with FIs to 90% by Q3, 2014; and (iii) create 3 guarantee funds of up to US\$65k total by mid- 2014.
- **Activity 4: Credit Structuring Support.** Contract an international auditing firm to conduct an audit of HabVita's financial statements and ensure compliance with financial information regulations and international best practices. Expected results: (i) Compliance with NSG credit risk guidelines; (ii) Audit HabVita's 2013 financial statements by Q3 2014; (iii) implement auditor recommendations starting in Q4 2014.

3.4. **Component 4: Pilot Testing, Feasibility and Market Studies**

The economic and physical benefits obtained by including complementary infrastructure for basic services in housing solutions can be easily identified and measured; nevertheless, not all families are able to afford complementary basic services in their homes. The purpose of this component is to evaluate different technologies and products and achieve strategic alliances to include a wider offer of complementary basic services in homes allowing more families to access adequate services. The activities included are detailed below:

- **Activity 1: Market and feasibility study for Basic Services Infrastructure.** Perform a thorough analysis of complementary infrastructure for basic services to understand the best features to be included in Habivta's housing solutions, as well as the ability to sell

them separately. Expected results: Deliverable: analysis document by mid-2014 including: (i) benefits and savings obtained; (ii) supply chain; and (iii) estimated cost for each feature.

- **Activity 2: Pilot Testing.** As a result of the study, the company will produce a detailed plan to include additional complementary basic services products in homes, as well as a plan to distribute them separately. Expected results: (i) Detailed operational ramp-up plan by the end of 2014 for second growth stage; (ii) have necessary strategic alliances with other complementary basic services suppliers in place by the end of 2014; (iii) include low cost basic services alternatives products in all homes sold by 2015.

3.5. **Component 5: Monitoring and Evaluation**

OMJ will be responsible for the monitoring and supervision of the project. This component will include a results matrix outlining targeted goals for each year and a schedule for activities, including expected dates to achieve agreed milestones. Also, an evaluation by an external consultant is expected in order to measure the results achieved and the overall performance of the project.

- **Activity 1: Investor Forum & Dissemination.** The objective is to support HabVita in its growth by leveraging equity from “impact investors” (double-bottom line, i.e. looking for both social and financial results). This activity would include participating in impact investing events for HabVita to both disseminate its business model and results, as well as to attract new capital. Expected Results: (i) Participate in an investor-oriented event to present HabVita’s business model and results; (ii) Leverage an additional US\$2-4 million in equity to comply with NSG credit risk requirements.
- **Activity 2: Evaluation.** Produce an evaluation by an external consultant to analyze the results achieved (both operationally and in terms of socio- economic benefits for the BOP). Expected Results: An evaluation report by an external consultant.

3.6. **Monitoring and Evaluation.** OMJ will be responsible for the monitoring and supervision of the project, which will include a Procurement and Disbursement plan, a results matrix outlining targeted results for each year, and a schedule of planned activities including expected dates for achievement of the agreed milestones. OMJ will monitor the achievement of the results, indicators and milestones. The Executing Agency will report directly through OMJ’s web-based portal all indicators on a quarterly basis, and will complete a detailed execution report on a semi-annual basis. Moreover, the Executing Agency is also required to submit a report per each activity completed prior to requesting a disbursement, ensuring the adequate execution of the results-based disbursement plan. An evaluation of the TC will be conducted by an independent consultant at the conclusion of the project hired by the Bank for this purpose. The main activities include the design of an evaluation framework to measure if the overall goals and component activities were realized in accordance with the time-table and within the budget allocated.

3.7. In addition to the results matrix highlighted above, the Team will track and monitor financial performance (EBITDA, Net Income, Equity, Operational Expenses, and key performance ratios,

such as Operational Expenses/ EBITDA, Net Margin, etc.). HabVita will provide this information based on unaudited quarterly and yearly financial statements. In preparation for further IDB financing, once the external auditors have conducted an audit of the company, including its financial statements (Component 3, Activity 4), HabVita will submit annual audited financial statements, and continue to provide unaudited quarterly financial statements, in accordance with NSG credit risk policies.

3.8. **Procurement policy.** Procurement activities will comply with the Bank policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (GN-2350-9), and the Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (GN-23499-9).

3.9. **Conditions for disbursement.** The first disbursement will be subject to the designation of the person or persons authorized to represent the Executing Agency in all acts relating to the execution of this TC, and submission to the Bank of authenticated specimen signatures of such persons. The condition for first disbursement will be the execution of the Letter of Agreement by the IDB and the Execution Agency's Authorized Representative. Subsequent disbursements will be conditioned on the achievement and adequate reporting by the EA of milestones and results as stipulated in the Letter of Agreement.

4. Table 3 - Budget

Activity	Component	IDB	Habvita	Total	%
	<u>Component 1: Training and Knowledge Transfer</u>				
1	Local stores (LS) structuring support	46,531	15,500	62,031	15%
2	Community Strengthening	48,846	20,000	68,846	17%
3	Franchisee Development Plan	23,078	45,385	68,463	16%
	<u>Component 2: Communications Strategy</u>				
1	Design Communications Strategy	9,615		9,615	2%
2	Implement Communication Strategy	10,307	2,000	12,307	3%
	<u>Component 3: Credit Structuring, Building and Strengthening Back Office Capacity</u>				
1	ERP System	24,538		24,538	6%
2	Strategic Planning & Financial Model	11,000	14,846	25,846	6%
3	Fis Partnership Development Program	14,877	65,354	80,231	19%
4	Credit Structuring Support	15,708		15,708	4%
	<u>Component 4: Pilot Testing, Feasibility and Market Studies</u>				
1	Market and feasibility study for Basic Services Infrastructure	5,500		5,500	1%
3	Pilot Testing	25,000		25,000	6%
	<u>Component 5: Monitor and evaluation</u>				
1	Investor Forum & Dissemination		4,000	4,000	1%
2	Evaluation	15,000		15,000	4%
	Total	250,000	167,085	417,085	100%

Table 2- Results Matrix

Metric Definition: Metric Name	Metric Definition: Description	Baseline 2012	2013E	2014	2015	Units
Client Individuals (Flow)	Number of individuals or households who were clients during the reporting period. For microfinance clients, this refers to active clients. For healthcare providers, this refers to patients. Note: Organizations tracking households should report number of households. Organizations tracking individuals should report number of individuals. Specify with Client Type: Individual/Household(PD1634). Note: This is intended to capture the number of individual consumers served by the organization, not the number of consumer transactions. For example a customer who makes two purchases during a period would only be counted once.	270	350	1000	1100	Number of households
Client Individuals: Female (Flow)	Number of women who were clients during the reporting period.	149	106	303	333	Number of households headed by women
Client Individuals: Low Income (Flow)	In Mexico this relates to individuals classified in socio-economic class D earning between US\$550-US\$1,00 per month/per capita.	76	99	281	310	Number of households
Client Individuals: Poor (Flow)	Number of poor individuals or households who were clients during the reporting period. In Mexico this relates to individuals classified in socio-economic class C earning less than US\$1,500 per month/per capita.	194	251	719	790	Number of households
Communities Served (Balance)	Number of communities where the organization's products/services were available during the reporting period. Footnote definition of community.	74	85	120	135	Number of communities
EBITDA (Flow)	Organization's earnings, excluding contributed revenues, before interest, taxes, depreciation and amortization during the reporting period.	105,702	114,154	654,231	901,769	US\$
Employees Trained (Flow)	Number of employees (full-time, part-time, or temporary) that were trained through programs provided by the organization (both internally and externally) during the reporting period.	6	15	42	49	Number of employees
Employees Trained (Flow)	Number of employees (full-time, part-time, or temporary) that were trained through programs provided by the organization (both internally and externally) during the reporting period.	0	5	25	35	Number of employees
Energy Efficiency Improvements (Flow)	Square feet of buildings projected to receive energy efficiency improvements as a result of investments made during the reporting period. This can include efficiency improvements of lighting (lower usage fixtures, fewer fixtures), increase in building performance through improved insulation, installation of energy-efficient windows, and increased heating/cooling and appliance efficiency.	110,439	158,231	452,088	497,297	Square Feet
Energy Produced On-site (Flow)	Amount of on-site energy produced and consumed during the reporting period.	N/A	4,241	16,359	29,689	KWh
Energy Saved/Conserved (Flow)	The estimated energy conserved as a result of energy-efficient construction/renovation investments made during the reporting period.	14,146	21,460	42,355	65,340	KWh
Energy Savings (Flow)	The amount of energy or fuel savings over the course of the reporting period due to the organizations products or services. Producers of energy-efficient products should report: (Units Sold*Energy Used by Product Replaced - Units Sold*Energy Used by Product). Energy service providers should report the Number of Clients*(Average energy/fuel savings per client over course of the reporting period) Footnote assumptions.	69,580	118,580	258,580	412,580	KWh
Equity or Net Assets (Balance)	The residual interest, at the end of the reporting period, in the assets of the organization after deducting all its liabilities.	189,334	159,154	559,538	1,107,462	US\$
Financial Intermediary Organizations (Balance): Partners	Number of Financial Intermediaries during the reporting period. Note: This is intended to capture the number of individual partner entities not the number of transactions.	6	9	11	12	MFI
Full-time Employees (Balance)	Number of full-time employees at the end of the reporting period.	31	36	45	50	Number of employees
Guarantee Funds (Balance)	Resources in place in guarantee funds with Financial institutions at the end of the reporting period.	61,538	202,385	234,231	273,269	US\$
Jobs Created (in Financed Enterprises) (Balance)	Net number of new full-time equivalent jobs at financed enterprises, as of the end of the reporting period and since first investment. (This number will be negative if a financed enterprise has fewer employees than at the time of first investment.) Total across outstanding investment portfolio. Note: Self employed individuals and owners of businesses should be counted as employees.	10	20	71	20	Number of jobs
Net Income (Flow)	Net income or change in unrestricted net assets resulting from all business activities during the reporting period and all Contributed Revenue. The organization's net profit.	100,330	119,231	400,385	548,000	US\$
Non-hazardous Waste Avoided (Flow)	Solid waste disposal avoided based on refurbishing/reusing/recycling, during the reporting period.	597	774	2,212	2,433	Tons of material (steel and EPS)
Number of Housing Units Financed (Flow)	Number of individual family housing units projected to be constructed or preserved as a result of investments made during the reporting period.	270	350	1,000	1,100	Number of housing units
Operating Expense (Flow)	Expenditures incurred by the organization as a result of performing its normal business operations. NOTE: For financial services companies this does not include Financial Expenses or provisions for loan losses (impairment losses).	517,304	585,320	635,462	659,538	US\$
Part-time Employees (Balance)	Number of part-time employees at the end of the reporting period.	92	108	169	185	Number of employees
Potable Water Produced (Flow)	Amount of potable water produced during the reporting period. Footnote assumptions.	722,610	4,335,660	17,755,560	34,788,510	Liters
Sales (Flow)	Revenue from sales of the product or service during the reporting period.	3,254,328	3,412,905	7,574,308	8,821,615	US\$
Total Assets (Balance)	Value, at the end of the reporting period, of all assets.	449,699	698,308	1,130,615	1,666,385	US\$
Total Liabilities (Balance)	Value of organization's liabilities at the end of the reporting period.	260,365	539,154	571,077	558,923	US\$
Value of Housing Units Financed (Flow)	Value of individual family housing units projected to be constructed or preserved as a result of investments made during the reporting period.	12,053	9,751	7,574	8,020	US\$
Wastewater Treatment (Flow)	Wastewater treated from productive processes during the reporting period. Footnote method for calculating amount of water treated.	29,670,000	53,820,000	143,520,000	257,370,000	Liters
Water Savings (Flow)	The amount of water saved over the course of the reporting period due to the organizations products or services. Producers of water-efficiency products should report: Units Sold*Water Consumption of Product Replaced - Units Sold*Water Consumption of Product. Conservation services should report the Number of Clients*(Average water savings per client during the reporting period). Footnote assumptions.	1,405,800	3,715,800	10,315,800	17,575,800	Liters

5. Executing agency and execution structure

5.1. HabVita is the Executing Agency, and OMJ will be the Bank unit responsible for project supervision. HabVita will be responsible for implementing the agreed components and activities in accordance with a budget and disbursement plan approved by the Bank.

Table 4 - Ownership Structure

	%	Aportación \$
Alfonso Serrano Mestre	9.9%	340,843
Priscila Suinaga de Serrano	6.8%	233,003
Federico Serrano Meste	19.8%	677,912
Victor Serrano Mestre	15.3%	525,107
Ricardo Serrano Mestre	8.2%	279,842
Alfonso Serrano Gomez	20.0%	685,569
Santiago Serrano Gomez	20.0%	685,569
Total	100%	3,427,845

5.2. “Habitación y Vida HabVita” a Sociedad Anónima de Capital Variable, S.A. de C.V HabVita was founded in June 2009 by Alfonso Serrano Mestre, Federico Serrano Mestre, Victor Serrano Mestre, Priscila Suinaga de Serrano and Alfonso Serrano Gomez (all Mexican citizens). The current state of ownership is detailed in Table 4.

5.3. As of today, current shareholders have invested close to US\$270,000 in equity, and in November 2012 Promotora Social Mexico¹⁸ (“**PSM**”) granted HabVita a US\$255,000, 3-year equity convertible loan which has been disbursed entirely. Proceeds of the loan were used to invest in company expansion, asset acquisition and working capital.

5.4. The project team conducted an integrity review of the transaction pursuant to the Bank’s Guidelines (OP-474-1) and found no indicators of heightened or significant integrity or reputational risk.

5.5. The company is led by: (a) Alfonso Serrano Gomez (CEO); entrepreneur and founder of HabVita and two other ventures: “Construyendo” a housing construction NGO and “Carolo” a food and restaurant concept that employs disabled individuals; and (b) Santiago Serrano Gomez (COO), entrepreneur and professional who obtained financial experience working with “Mira Companies”, a US\$550 million real estate private equity fund, and construction experience with “CARSO Infraestructura y Construcción”, a leader in retail, office, industrial and housing construction projects. The company’s management is comprised out of 11 professionals with wide relevant experience in the construction, housing, sales, marketing and finance industries. Also, HabVita’s field team is composed of 28 members (i.e. 16 salesforce, 12 construction specialists) and 3 franchisees. The company’s board of advisors is represented by successful entrepreneurs, board members from various companies and CEOs from different fields (e.g. finance, microfinance, construction, housing, development). The board includes: HabVita’s CEO and COO, the founder of Compartamos Bank and founder and CEO of PSM, founder and CEO of Covintec, founder and CFO of Covintec, founder and CEO of Serdipar (high-end construction company), founder and CEO of Construalisos (housing development company) and CFO of PSM.

¹⁸ PSM is a venture philanthropy organization with the goal to positively impact the development and well-being of Mexicans through health, education, and economic development. <http://psm.org.MXN/eng/>

- 5.6. Since the launch of operations in 2009, the company has provided housing solutions and complementary infrastructure for basic services to BOP families. Around 70% of HabVita's families earn less than 5 MMW (earnings information is given to the company by its clients), thus being consistent with its mission of providing homes and complementary infrastructure for basic services for the BOP in Mexico. Moreover, the company has shown steady growth with sales increase of 281% from 2010 to 2011 and 110% from 2011 to 2012, and has had positive EBITDA and cash flow for the last 2 years. Additionally, the company currently has a working capital loan of US\$120,000 with Santander Bank.
- 5.7. The next phase consists in consolidating the company's operational capacity. Construction capacity and personnel capacity will have to increase in alignment with sales growth, all materials are bought from established suppliers with sufficient capacity and only small investments are needed in transportation equipment and light machinery. Such investments are done with the projects' income. Therefore, construction capacity is not an issue for the company. Clients will have easy access to HabVita's products and the company will be positioned as a leader in the BOP rural housing and complementary basic services provider. Such actions will give the company the distribution platform needed to expand exponentially and deliver high quality housing solutions and complementary infrastructure for basic services efficiently.
- 5.8. HabVita's five year nationwide plan expansion through its sales channels (i.e. local salesforce, LS and franchisees) and other potential alliances will achieve to allocate 3,000 housing solutions built per year starting in 2016 and provide in-house infrastructure to 70% of its clients. This plan contemplates financing from different sources, including both debt and equity raising rounds. The objective of this TC is to provide needed resources to prepare the company for this aggressive expansion and additional financing. HabVita plans to seek financing within the next 12-18 months.

6. Major issues

- 6.1. **Exposure to government subsidies.** Most of the company sales are done with government subsidies granted to HabVita's clients, and financing up to 35-40% of the product cost. Mitigation: (i) Projects with subsidies: (a) loans from FIs, such as FOMEPADE (ME-L1138) already include federal subsidies; (b) HabVita's alliances with state housing institutes provide additional subsidies for complementary services; and (c) the company is actively working with the CONAVI to be able to provide subsidies directly to its clients.
- 6.2. **Clients' financing sources.** The company needs financing from FIs to sell its homes with complementary infrastructure for basic services. Thus, there could be a risk whereby Habivta is not able to expand its operations and reach scale at entering into new agreements. Mitigation: (i) short term: Alliances with FIs and government institutions are already in place and additional alliances will be formed as needed.

7. Exceptions to bank policy

- 7.1. There are no exceptions to Bank policy and all Bank procurement policies and guidelines will be followed.

8. Environmental and social strategy

- 8.1. Based on available documents, this operation is a Category “C” according to IDB Policy OP-703-Directive B.3, with little or no environmental and social impacts. According to the information provided and the due diligence conducted by the team as a supplier for FOMEPADE-ME-L1138, HabVita has confirmed that it is in compliance with Directive B.2 (country laws and regulations) of the Environment Policy, complying with all applicable legal and regulatory environmental, social, health and safety, and labor laws and regulations including permits and authorizations.
- 8.2. Moreover, this project has a positive social impact on the beneficiaries and their families improving their living conditions. There may be specific ESHS and labor risks and impacts related to the construction of social housing units, home improvements, and basic infrastructure, however those are considered minimal. The risks of the housing solutions/infrastructure will be mitigated by the stringent certification process of the APVs by the *Sociedad Hipotecaria Federal*, which verifies compliance with the Federal Government’s urban-development guidelines, SHF regulation and CONAVI’s urban development guidelines. Additionally, partners, such as FOMEPADE also conduct an independent technical review through CNI Consultores, which validates the construction and improvement projects.
- 8.3. Each housing/infrastructure solution built/installed by HabVita will also be required to comply with national and local laws, regulations and standards, including environmental, planning, building, social, and health and safety aspects, and any additional IDB environmental and social requirements will be incorporated as part of the project implementation.

