

## Home ownership for low income families

### Anticipated transaction impact

Provide opportunities for low-income families to own adequate homes.

**Impact score** Pass (18/20)

**Credit score** Pass (23/28)

### Loan Overview

Loan amount USD 200k

Tenor and structure 36 months

Interest rate 10.5% p.a.

Collateral Ecoblock corporate guarantee

### Financial Overview Cimentafin | Ecoblock

2022 Sep Revenue USD 155k | USD 9,236k

2022 Sep Net Income USD 110k | USD 120k

2022 Sep Net Assets USD 810k | USD 2,909k

### Company Information

Legal name Cimentafin SAPI Sofom ENR

Incorporation date 1999

Corporate address Mexico City, Mexico

Nature of business Affordable housing

Website <https://echale.mx/>

### Shareholders

Name	Share (%)
Adobe Home Aid (Francesco Piazzesi)	51%
Construyo para mi Familia	49%

### Company management

Name	Nationality	Position
Francesco Piazzesi	Italian	CEO
Ivan Ramirez	Mexican	COO
Javier Flores	Mexican	CFO

### Recommendation

Approval of a USD 200,000 term loan to Cimentafin, given Echale's strong track record and deep impact.

FX assumptions USD 1 : MXN 20



## Echale a Tu Casa



### Business overview

Echale a Tu Casa (Echale) is a 24-year-old profitable social enterprise that constructs affordable (USD 11,000 USD on average) quality homes for the poorest communities in Mexico. Aside from the houses built, Echale offers loans, technical and financial literacy workshops, and temporary employment opportunities, thus promoting holistic development for their target communities.

At the heart of Echale's innovation is its community-based approach to the housing problem. Instead of being lost, fending for themselves, and building their houses without guidance, Echale brings the community together and guides them to co-design the houses, pool labor for construction, and manage the projects. With Echale, homeowners get access to affordable credit, move into their new home in about two years from when they started saving up for it, and finish paying off a loan in 3 to 5 years.

Since its inception, Echale has built and renovated over 250,000 homes, with more than a million direct beneficiaries in 28 states in Mexico. Echale's leadership is recognized by the Schwab Foundation for Social Entrepreneurship and Ashoka. Echale has been a certified B Corporation since 2012 and was awarded Best For The World in the Customer category for 2022.

Echale is seeking co-funders for home construction projects in 2023, and Beneficial Returns offered USD 200,000, which can finance the construction of about 35 homes.

## Impact background and delivery

The right to adequate housing is a multi-faceted need recognized by the UNCHR. “Access to adequate housing can be a precondition for the enjoyment of several human rights, including the rights to work, health, social security, vote, privacy or education.”<sup>1</sup> For instance, studies have shown that overcrowding correlates with adverse health outcomes such as infectious diseases and mental health problems.<sup>2</sup> Furthermore, overcrowding has been related to poor education outcomes. Houses constructed with substandard materials leave their dwellers vulnerable to cold, heat, rain, and other threats.



Figure 1 Elements of adequate housing, Echale illustration

As of 2020, Mexico identified about 33 million people, or 8.5 million households living in inadequate housing<sup>5</sup>, representing 27% of its population. Their houses are overcrowded, lack sanitation services, and/or need improved construction materials. In four states, more than half of the homes are classified as inadequate: 68% in Chiapas, 59% in Tabasco, 53% in Oaxaca, and 52% in Guerrero.

More than 70% of these households do not have access to credit or government housing funds such as Infonavit, Foviste, or the Armed Forces. To acquire or improve their homes, these households design and construct the houses themselves, resulting in unstable, unsafe, and deficient homes. Through Echale, customers access affordable housing loans while generating employment within their communities.

- To avail of a house loan, the customer must be a member of Echale’s savings organization and save at least 10% of the value of the house they want to build. This is significantly lower than traditional financial institutions, which require up to 20% cash guarantees for a loan. Furthermore, through Echale’s financial literacy workshops, the customers learn techniques for managing their finances and accelerating their savings goals. With Echale’s assistance, they can complete the required savings within six months. Echale’s financing total annual costs are significantly cheaper, averaging 30% p.a. vs. informal sources, which charge up to 80% p.a.
- At least 8% of human carbon dioxide emissions worldwide come from the cement industry alone.<sup>6</sup> With Echale, houses are built with Ecoblocks—a compressed earth block made from locally sourced soil. Composed of 90% earth and 10% concrete, Ecoblocks are easier to use, require fewer materials, and create less waste. By using less concrete, the Ecoblock’s carbon footprint is 30% less than normal concrete blocks.

<sup>1</sup> [FS21\\_rev\\_1\\_Housing\\_en.pdf \(ohchr.org\)](#)

<sup>2</sup> [Household crowding - WHO Housing and Health Guidelines - NCBI Bookshelf \(nih.gov\)](#)

<sup>5</sup> [Presentación de PowerPoint \(conavi.gob.mx\)](#)

<sup>6</sup> [Concrete needs to lose its colossal carbon footprint \(nature.com\)](#)

- Echale temporarily employs community members to make the Ecoblocks and build houses. In doing so, community members directly contribute to building their village and get technical advice and training in construction processes, which adds to their employability in other construction projects. Since its inception, Echale has built over 50,000 homes and improved 200,000. Through these projects, Echale temporarily employed more than 230,000 individuals.
- Echale unites and empowers different players that help address Mexico’s inadequate housing problem. Before Echale, government subsidies for housing were typically given as sacks of cement and other materials directly to individuals who want to build their houses. Now, these subsidies are targeted, and house construction projects are professionally managed, ensuring that homeowners get quality, long-lasting homes.



**Ariana Tufiño**

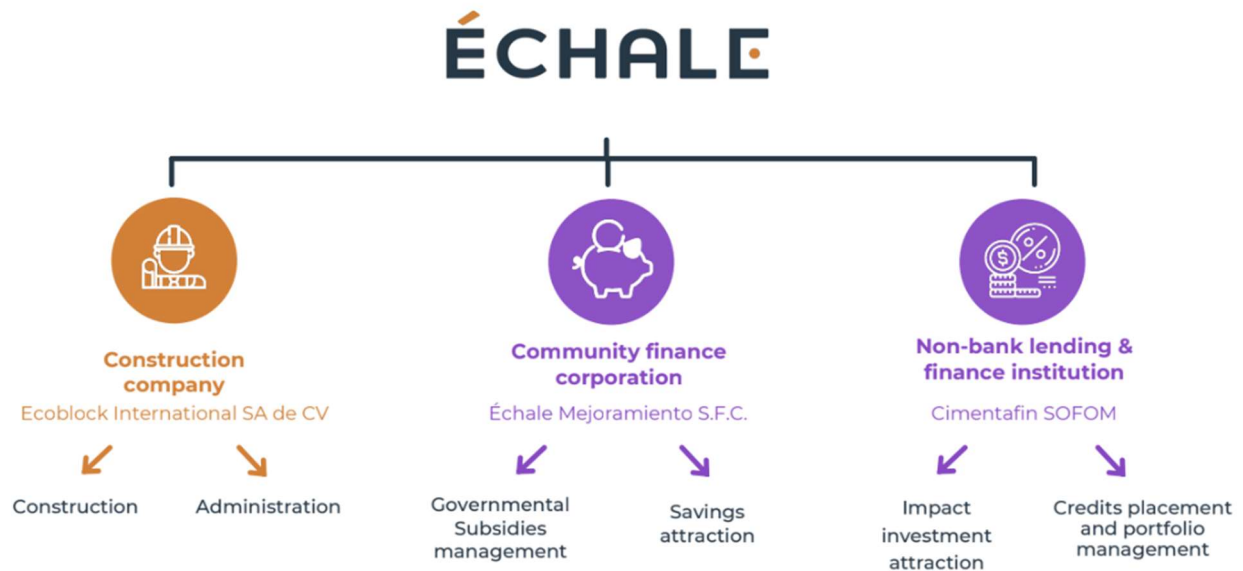
Morelos

I am very excited about my new house because I used to live with my parents. The space was very small. I am excited because now, my daughter and I have our own space.

We assess Echale's impact as High, scoring 18 out of 20.

**Company overview**

The Echale group addresses the housing backlog in Mexico through its three entities. The primary activities of these companies, as well as their owners, are listed below.



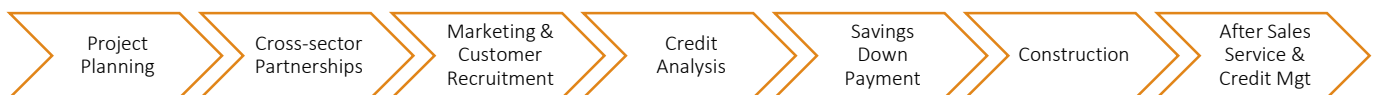
	Ownership
Ecoblock International SA de CV	33% Francesco Piazzesi 33% Mario Piazzesi 33% Paolo Piazzesi
Echale Mejoramiento SFC	51% Adobe Home Aid (Francesco Piazzesi) 49% Construyo para mi Familia
Cimentafin SAPI de CV, SOFOM ENR	51% Adobe Home Aid (Francesco Piazzesi) 49% Construyo para mi Familia

**Management**

Echale Group was founded by Dr. Francesco Piazzesi, who is recognized by the Schwab Foundation for Social Entrepreneurship and Ashoka. He learned about the construction industry through their family business, which manufactures and sells construction machinery to Central and South American cities. Motivated to find solutions for affordable housing, he designed a machine that could use dirt as the raw material for building homes in 1985. He founded Adobe Home Aid, a non-profit that serves as the financial intermediary for homeowners seeking to build their homes. Recognizing that scaling the model would be impossible if they stuck with a purely philanthropic model, Francesco shifted to Echale’s current model and for-profit structure. Francesco oversees the activities of all three entities and reports to a 5-member board of directors.

<p>Ivan Ramirez CCO</p>	<p>Ivan is an architect from the National University and holds a Master’s in Urban Development from the Iberoamericana University. Since graduation, he has been involved in the social housing construction industry and is responsible for all Echale construction sites.</p>
<p>Javier Flores CFO</p>	<p>Javier is a Certified Public Accountant from the Interamerican University, specializing in construction finances and SAP systems. Aside from overseeing the financial institutions (Cimentafin and Echale SFC), he manages all three entities' accounting and finance teams. The Talent and Legal management departments also report to Javier.</p>
<p>Javier Velasco Construction Director</p>	<p>Javier has almost 25 years of experience in construction management. 15 years of his experience has been with Echale, managing projects in nine states all over Mexico.</p>
<p>Gabriela Mendoza Foundation Director</p>	<p>Gabriela has over a decade of experience designing capacity-building and formation programs. As Echale’s Foundation Director, Gabriela ensures the success of the community training programs.</p>
<p>Gretel Uribe Development Director</p>	<p>As the Development Director, Gretel handles all special programs, manages new partnerships, and strengthens institutional and organizational culture. She studied Architecture at the Tec de Monterrey Campus Toluca. She is taking her Master’s in Social Responsibility from the Universidad Anahuac Mexico Norte.</p>

**Supply Chain**

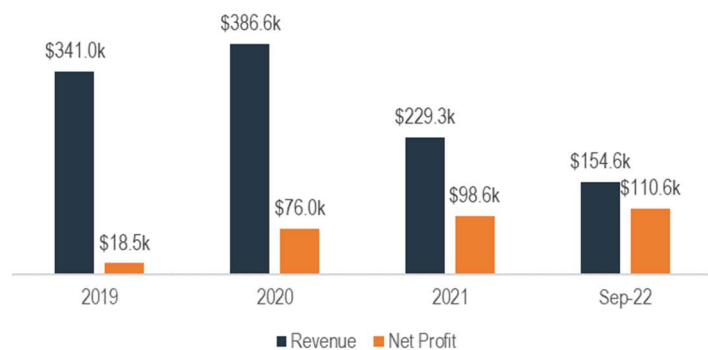


Every project starts with identifying the target area. If the local government expresses a willingness to support the program, Echale runs several surveys to understand the extent of housing inadequacy in those areas. Products are then designed specifically for the community, considering the needs of its residents. The product and financial structure are then presented to the local government and other potential strategic partners such as NGOs. Once the project subsidy from the municipality is agreed upon, Echale recruits and evaluates customers based on their socioeconomic situation, level of income, and ability to pay. Technical aspects of the available land such as flood and earthquake risks must also be verified before proceeding. These customers become members of Echale Mejoramiento SFC and start saving for their future homes. In parallel, Echale recruits temporary employees for the project’s construction, which lasts up to 8 months.

Ecoblock (construction company) signs an agreement with Cimentafin (credit institution), where they commit to a budget project cost and timeline. These budgets provide ample slack for possible overruns. For instance, contract timelines range from 6 to 8 months for projects that average 4 to 6 months. All cost overruns, including material input cost increases, are covered by Ecoblock. These are not passed on to Cimentafin or the customer.

Echale shared 11 of their detailed project timelines for 2022. Of the 11, 6 were finished early, 1 was on time, and 4 were late. The late projects were delayed by 27 days on average. Echale shared their performance on actual vs budget costs for four projects between 2019 and 2022. Cost overruns went as high as 7% above budget.

**Financial overview**



in USDk	2019	2020	2021	Sep-22
Cash	16	1	3	4
Receivables	1,242	1,655	889	1,652
Inventory	0	0	0	0
Other current assets	10	221	496	406
<b>Current assets</b>	<b>1,268</b>	<b>1,877</b>	<b>1,387</b>	<b>2,063</b>
Current liabilities	1	9	10	4
<b>Working Capital</b>	<b>1,267</b>	<b>1,868</b>	<b>1,377</b>	<b>2,059</b>
<b>Total assets</b>	<b>1,268</b>	<b>1,878</b>	<b>1,388</b>	<b>2,063</b>
<b>Total liabilities</b>	<b>895</b>	<b>1,278</b>	<b>688</b>	<b>1,253</b>
<b>Total equity</b>	<b>373</b>	<b>600</b>	<b>700</b>	<b>810</b>

**Figure 2 Cimentafin Financial Statements 2019 - Sep 2022 in USDk**

- Revenues dropped by about 10% in 2022 vs. 2021 (annualized basis) as more loans were restructured during the pandemic. Echale remains confident in these restructured loans because of their close understanding of their customers’ sources of income, built during the loan underwriting. Portfolio performance as of September 2022 is strong. 17 out of 549 loans have at least one payment more than 30 days past due. These loans represent 1.55% of the portfolio in dollars. Despite the revenue decline, Echale manages its expenses to maintain the same level of net profit.
- Cimentafin maintains its debt-to-equity ratio at healthy levels. It owes USD 651,000 to Ecoblock and USD 600,000 to New Story Foundation. Both loans were used for on-lending capital.

Ecoblock International has offered its corporate guaranty for our loan. Ecoblock is 100% owned by the Piazzesi family. The company earns a modest margin (1.3% of Revenues) from construction projects. Remarkably, Ecoblock successfully weathered 2021 and 2022, where construction material costs were highly volatile. 2022 project costs were 19% higher than comparable houses in 2019. Ecoblock International’s net worth as of September 2022 was USD 2.9 million.

in USDk	2021	Sep-22
Revenue	9,014	9,236
Net Profit	85	120
Cash	224	241
Total Assets	4,665	4,958
Total liabilities	1,876	2,048
Total equity	2,789	2,909

**Figure 3 Ecoblock Financial Statements as of Sep 2022 in USDk**

**Transaction Overview**

Echale is seeking a USD 200,000, 3-year term loan to finance the construction of about 35 houses in the municipality of Ocuituco, Morelos. This batch is under the Hogar Semilla or seed home program which offers a 1-bedroom modular home that can be expanded to more bedrooms and a second floor. As of 2020, 75% of the Ocuituco population is living in poverty, of which 22% are in extreme poverty. For context, the national poverty incidence in Mexico is 44%.<sup>7</sup> Echale built 128 homes in the state of Morelos under the Hogar Semilla program. Almost 40% of the

<sup>7</sup> [Ocuituco: Economy, employment, equity, quality of life, education, health and public safety | Data México \(datamexico.org\)](https://www.datamexico.org/en/ocuituco-economy-employment-equity-quality-of-life-education-health-and-public-safety)

owners have a monthly income ranging from USD 275 to USD 500. More than half of the customers are women, and 44% are between 31-50 years old. 38% are working on farms, while 20% have their own businesses.

The total cost of each home is USD 11,750. Customers in these programs are required to save and pay USD 1,000 upfront. BR has reviewed the signed agreement stating the municipality of Ocuituco’s commitment to give a total of USD 150,000, or USD 5,000 per house. The customer will pay the rest (USD 5,750) over 36 to 60 months. Echale has received more than 100 applications for this project and approved 35 as of writing. These 35 families have saved 95% of the required downpayment.

Cimentafin will be the primary borrower of the loan, but Ecoblock International agreed to provide a corporate guarantee. An existing BR investor has already expressed interest in purchasing USD 50,000 of the loan. Nevertheless, Beneficial Returns will target selling up to 80% of the transaction to participants. As of writing, Beneficial Returns has USD 465,720 in Loan Loss Reserves.

**Major risks and mitigating factors**

Risk	Risk factor	Probability	Risk mitigating factor
Inability to sustain profitable operations	Failure to find new borrowers	Low	<ul style="list-style-type: none"> <li>The proposed loan is earmarked for a specific project. There are already 35 families approved and in the process of saving up for the downpayment.</li> </ul>
	The municipality of Ocuituco reneges on its commitment to subsidize the project	Low	<ul style="list-style-type: none"> <li>The subsidies tied to the proposed loan will be released by March 2023, at the beginning of the project construction.</li> <li>In the unlikely scenario that the subsidies stop for future projects, Echale has signed agreements with seven other municipalities and conversations with the State government for a total project coverage of 250 houses.</li> </ul>
Inability to service debt to Beneficial Returns	Devaluation of Mexican peso vs USD	Moderate	<ul style="list-style-type: none"> <li>The Mexican peso has been relatively stable in the recent rally of the US dollar, ranging from 19.5 to 20.5 in 2022. In January 2023, it weakened to MXN 18.89 vs the US Dollar, which is 6% lower than the 5-year average.</li> </ul>
	Portfolio quality declines	Moderate	<ul style="list-style-type: none"> <li>Assuming all borrowers pick the 36-month option, Echale can meet its repayment obligations to BR even if 23% of the Ocuituco portfolio defaults.</li> </ul>

**Conclusion**

We recommend extending a loan of USD 200,000 to Echale, given its strong impact score and credit score. The group’s solid track record of delivering high-quality, affordable houses and its excellent portfolio performance give us confidence that Echale will be a strong addition to the Beneficial Returns portfolio.

Appendix 1: Echale Impact Assessment

Impact score: 18 out of 20

Prospective borrowers are rated with 1 point for Low, 2 points for Moderately Low, 3 points for Moderately, and 4 points for High. A minimum score of 14 for approval.

	Low	Moderately		High	Score
		Low	High		
<b>1 DEPTH AND BREADTH</b> Is the breadth of impact wide, relative to the current size of the org? How meaningful are the changes to the beneficiaries? Are the beneficiaries truly excluded and marginalized?				✓	4
<b>2 SYSTEMIC CHANGE</b> Is the social enterprise focused on systemic change? Is the social enterprise directly driving policy change or serving as an example to the industry and its peers? What behavior change has taken place? Do the beneficiaries become dependent on the social enterprise?				✓	4
<b>3 COMMUNITY ENGAGEMENT</b> Does the social enterprise engage all stakeholders in their work? Is the social enterprise building local, human resources? Does it actively share its insights with others? Are indigenous communities involved?				✓	4
<b>4 INTENTION</b> How committed to its social or environmental mission is the social enterprise?				✓	4
<b>5 ADDITIONALITY</b> Is Beneficial Returns' investment crucial to the company's goals related to the loan?		✓			2
<b>TOTAL</b>					18

**Appendix 2: Echale Credit Assessment**
**Credit score: 23 out of 28**

Prospective borrowers are rated with 1 point for Low, 2 points for Moderately Low, 3 points for Moderately , and 4 points for High. Minimum score of 20 for approval.

	Low	Moderately		High	Score
		Low	High		
<b>1 BELIEF IN MANAGEMENT</b> Does the social enterprise have a strong management team (extensive industry experience, strong leadership, and entrepreneurial background)? Is the governance structure adequate?				✓	4
<b>2 ACCOMMODATIVE BUSINESS ENVIRONMENT</b> Is the social enterprise operating in an industry with low level of competition? Does the social enterprise provide products or services that have low threat of substitution?		✓			2
<b>3 RELIABILITY OF FINANCIAL INFORMATION</b> Can the financial information provided be depended on? Has its financial statements been audited? What is their financial reporting cadence?				✓	4
<b>4 ABILITY TO BE PROFITABLE</b> Does the social enterprise have a positive earnings trend? Are the earnings sustainable?				✓	4
<b>5 STRENGTH OF FINANCIAL POSITION</b> Does the social enterprise maintain adequate financial ratios (DSCR, Debt-to-equity, Current ratio) to support a debt obligation?				✓	3
<b>6 ABILITY TO SERVICE DEBT</b> Does the social enterprise have the ability to establish a strong cash position to meet its debt obligations on time?				✓	3
<b>7 COLLATERAL OR GUARANTEES</b> Is there collateral for the loan with an adequate loan-to-value amount? Is there a guarantor for the loan?				✓	3
<b>TOTAL</b>					23