

UN**HABITAT**
FOR A BETTER URBAN FUTURE

United Nations

Human Settlements Programme

Urban Finance Branch

Presentation African Union of Housing Finance
Gaborone, Botswana

21st September 2010

UN-Habitat Presence in Housing and Project Finance

- Strategic goal: increased sustainable financing for affordable and social housing and infrastructure
- Two focus areas:
 - Field testing of financing transactions
 - Capacity strengthening
- Two pilot programs in operation today
 - Revolving loan fund (ERSO)
 - Slum Upgrading pilot facility for community-led projects (SUF)

UN-Habitat Lending Experience

- ERSO experimental revolving loan fund
 - Reviewed over 40 project proposals since 2008
 - Closed 5 pilot secondary loans to local housing lenders and apex organizations from July 2009-present
 - Supporting construction or improvement of over 35,000 homes
 - Catalyzing investments of over \$550 m
 - Working with both public and private sector partners
 - Water hookup finance and plant upgrade finance are key new initiatives
 - Exploring partnership approaches to take most promising housing finance pilots to greater scale

UN-Habitat Credit Enhancement Experience

- Pilot Local Finance Facilities in Sri Lanka, Indonesia, Ghana and Tanzania offer credit enhancement to local banks for local currency project finance loans to community groups
- Reviewed over 90 small and medium scale credit enhancement proposals to finance community-led neighborhood improvements
 - 20 credit enhancement transactions under way
 - Assisted by ERSO programme to achieve:
 - High credit quality standards for projects, and
 - Strengthened financial management for each LFF

Reaching Low Income Communities

- Target group: 70-85% income deciles
- Loans made in this category:
 - DFCU Bank Loan - Uganda
 - Habitat for Humanity Loan - Nepal
 - Prodel Working Capital Line - Nicaragua
- All Local Finance Facilities target this category
 - Programmes in Sri Lanka and Indonesia address income disparities, often neighborhoods in larger, wealthier cities
 - Sub-Saharan Africa programmes may address majority of population base in target communities

Reaching Low to Middle Income Communities

- Target group: 30th to 80th income deciles
- Mixed use peri-urban development loans
 - Azania Bank transaction—Mwanza, Tanzania
- Affordable Housing stock creation-Palestine
 - First loss investment in major partnership transaction
 - Working with IFC, OPIC, DFID, World Bank, CHF International, Palestine Investment Fund, Bank of Palestine, Cairo Amman Bank
 - Enabling senior investors to come in to create scaled investment of up to \$500 million
 - Concept is one of the bases for proposed Global Micro Housing Facility

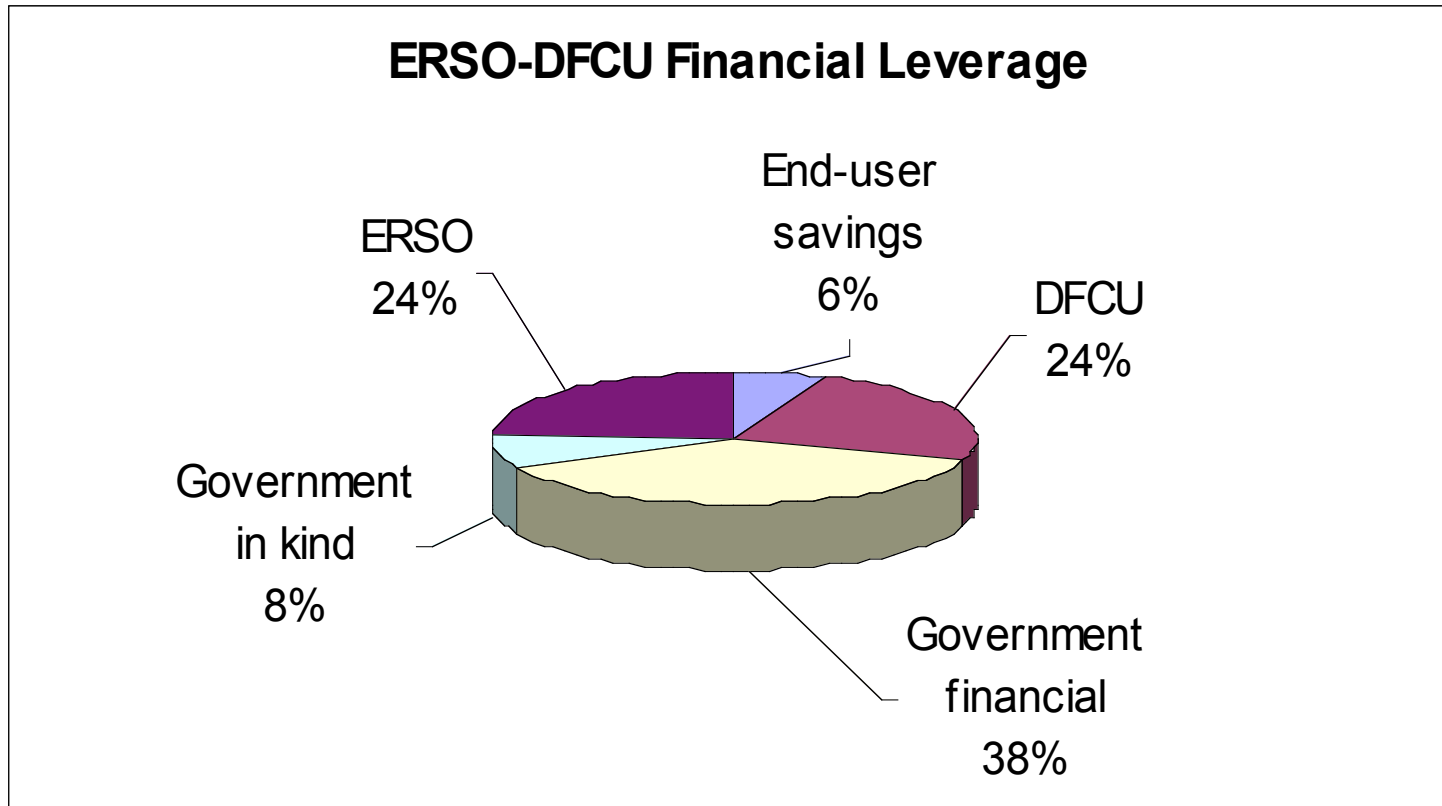
DFCU Bank, Uganda: ERSO Loan

- **COMMUNITY DEVELOPMENT PROJECT FINANCE** with government and private banking and private bank takeout mortgage finance
- **Partners:** Ministry of Land, Housing and Urban Planning, Tororo Municipality, DFCU Bank, Kasoli Housing Association
- **Loan type:** Institutional loan to DFCU for construction finance and then lending to end-users mortgage finance
- **Land:** Government land under trusteeship of Tororo Municipal Council currently occupied by 125 families.
- **Developmental aim:** Developing 125 secure tenure houses in Kasoli, Tororo Municipality
- **Housing stock design:** Ministry of Housing
- **Project Team:** DFCU Bank, Ministry, Tororo Municipality, Kasoli Housing Ass'n



DFCU Bank, Uganda (cont.)

- Total ERSO Investment size: **USD 500,000**
- Total Project Size: **USD 2,066,350**



Programa de Desarrollo Local (PRODEL), Nicaragua: Funded ERSO loan

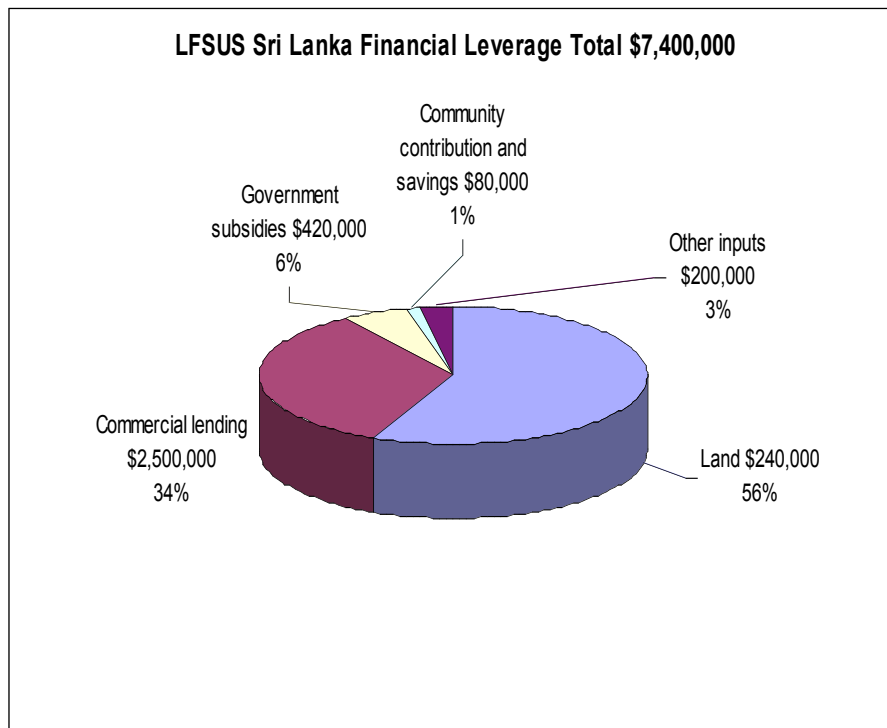
- Created in 1993 with SIDA funding and support to finance infrastructure, housing and micro-finance products throughout Nicaragua
- To date approximately 100,000 families have benefited from Prodel activities
- \$500,000 Working Capital Loan to Prodel to finance:
 - Infrastructure development,
 - Secondary lending to local MFI's
 - Support microfinance housing loans in up to 16 small to medium-sized regional cities in Nicaragua and Central America



Local Finance Facility, Sri Lanka

- Projects a mix of in-situ and full settlement upgrading
- Two initial projects started in Feb 09 with HSBC-- 0% NPL to date
- 5 further projects have completed bank negotiations for guarantees
- LFF held microfinance institution forum and developed pipeline of 20+ additional projects
- LFF held bankers' forum and attracted expressions of interest in project investment from 15+ banking institutions

- Projects reaching 1,194 households
- Total value to date USD7.4 million



AZANIA Bank, TZ: Funded ERSO loan

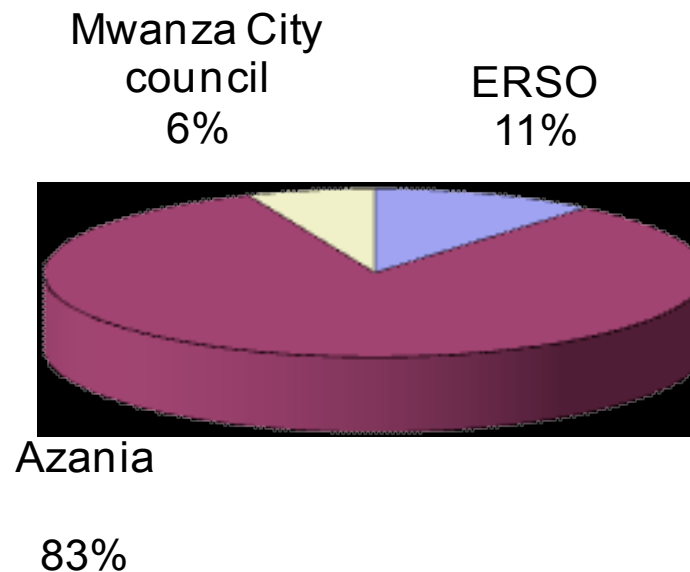
- **MUNICIPAL LOAN for peri-urban development**
- **Partners:** Azania Bank; Mwanza Municipal Council (MMC)
- **Project type:** Development of area presently occupied by low-income families informally near the lakeside in Mwanza to create mixed use, formally titled site and services development
- 2800 total plots
- **Land:** Development by the Mwanza Municipal Council.
- **Target Group:** 700 middle income and 2100 lower income sized plots. National government compensates current inhabitants and they are offered first refusal rights to formal plots
- **Type of transaction:** ERSO loan to Azania for physical land survey and provision of water ,electricity in Phase 1



AZANIA Bank, Tanzania (cont.)

- Total ERSO Investment size: **USD 500,000**
- Total Project Size: **USD 4,554,231**
- **Muni loan repays when plots are sold**

ERSO-AZANIA Financial Leverage



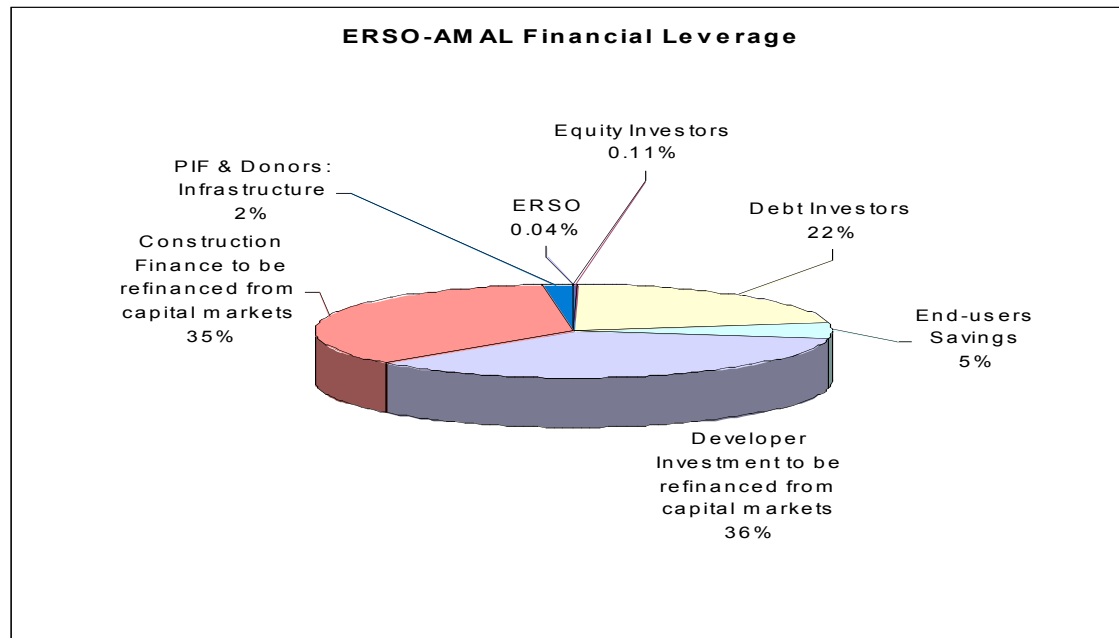
Affordable Mortgage and Loan Corporation (AMAL), Palestine: Funded ERSO Loan

- **SCALED PRIVATE SECTOR CONSTRUCTION and long term IFI-FUNDED MORTGAGE FINANCE PROGRAM**
- **Partners:** Palestine Investment Fund, OPIC, IFC, Bank of Palestine, Cairo Amman Bank, DFID, Aspen Institute's MEII, CHF International, and World Bank Technical Assistance
- **Project type:** Large-scale affordable housing programme providing up to 25-year fixed-rate and 5-year adjustable-rate mortgage financing
- **Target Group:** Low to middle-income Palestinian public sector workers, teachers, nurses.
- **Number of units:** 30,000



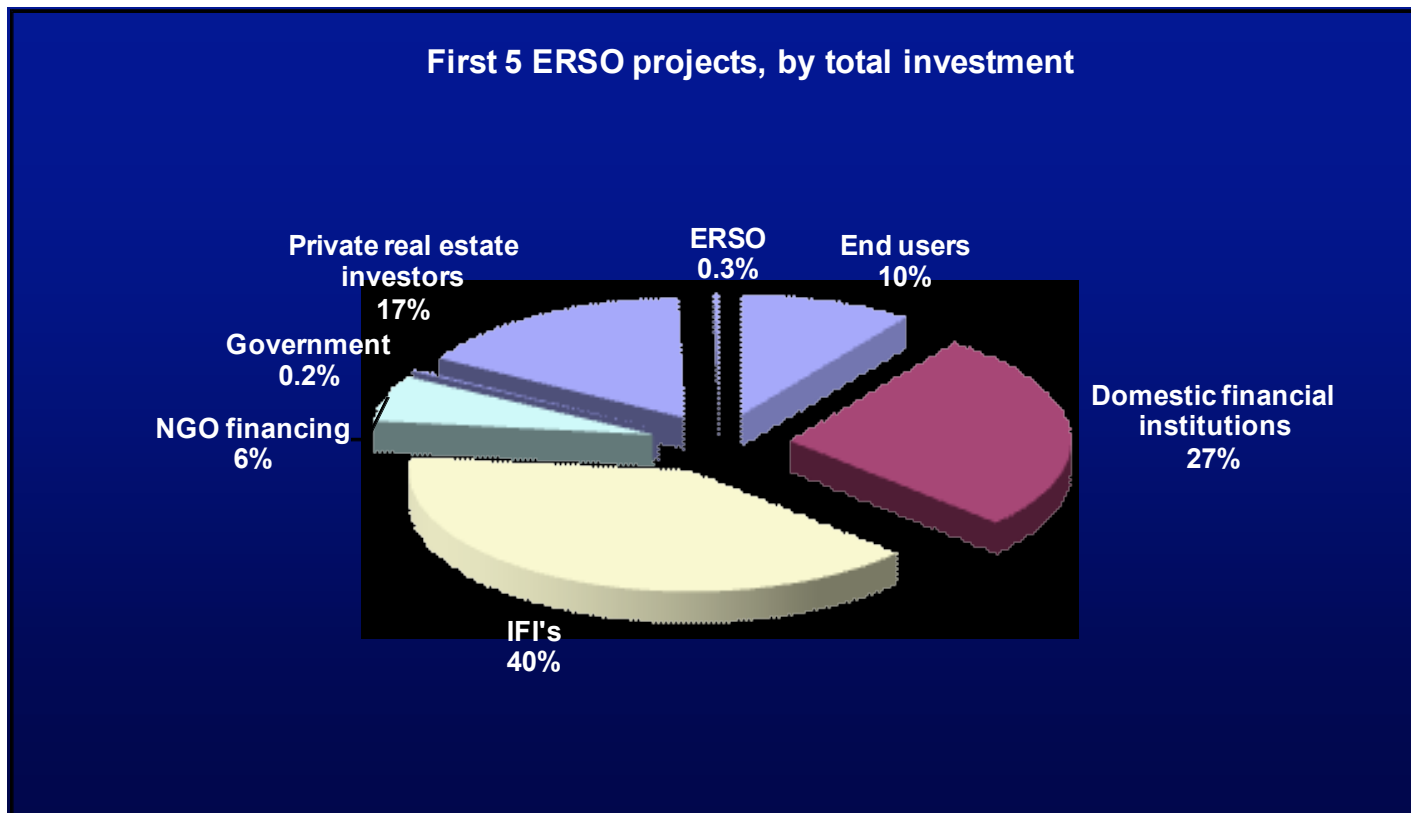
Affordable Mortgage and Loan Corporation (AMAL), Palestine

Total Planned Financing (USD)	
ERSO	1,000,000
Equity investors	2,500,000
Debt investors	500,000,000
End users savings	125,000,000
Developer Investment to be refinanced from capital markets	800,658,500
Construction Finance to be refinanced from capital markets	800,658,500
PIF and donors: infrastructure	45,000,000
TOTAL	2,274,817,000
Total no. of housing units	30,000
ERSO leverage	2274.8x

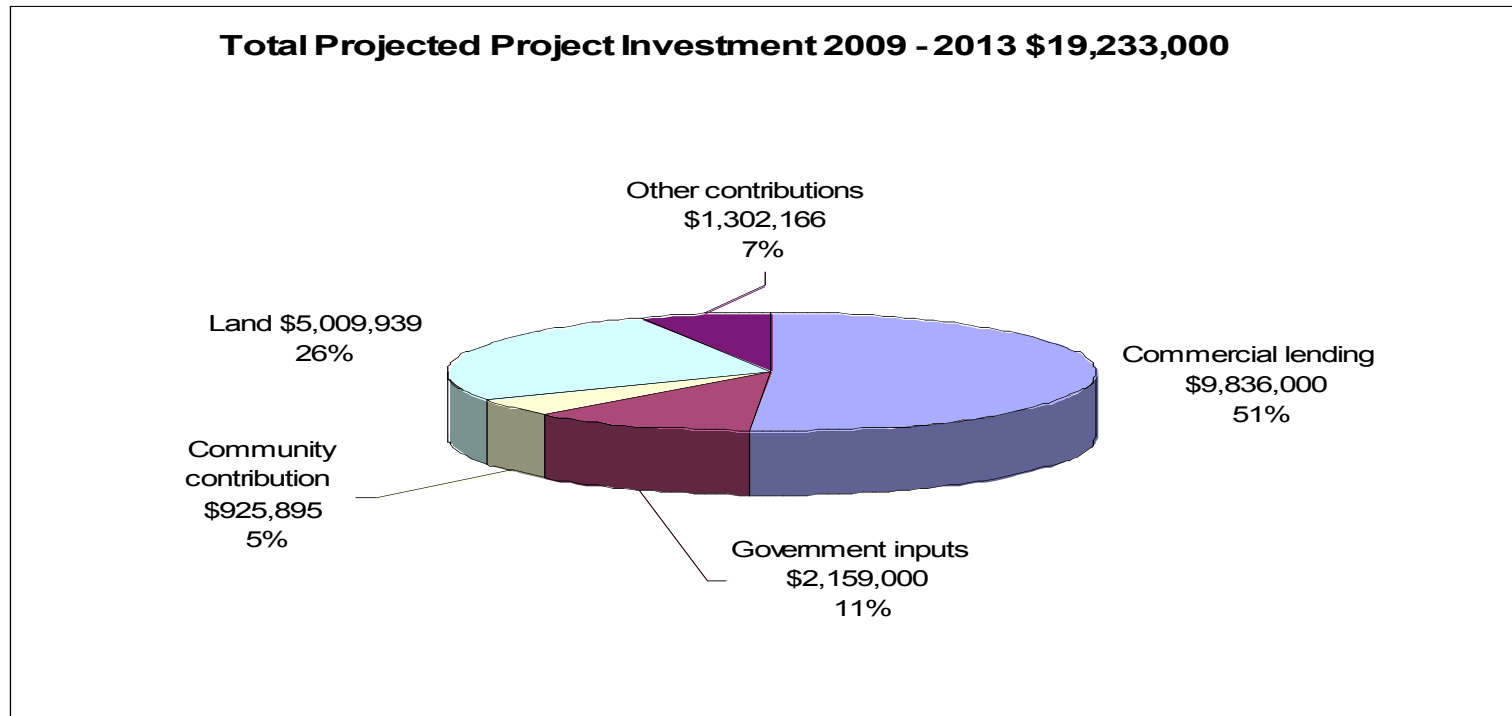


Principles: Economics of Micro Housing Lending

- Successful loan projects combine private sector finance, public investment and borrower savings. All three are required to maximize affordability and quality.



Principles: Economics of Community Project Finance



- Project finance for low income community development can attract 50% or more of funding from private sector if well-structured. Local community savings can cover up to 5% of total project cost.

Lessons Learned: Attracting Private Sector Financing

- **Private Banking sector participation in housing finance for the underserved needs:**
 - **Well-designed secondary investment opportunities in strong local institutions**
 - **Clear risk and risk mitigation analysis**
- **Some level of credit enhancement to enter new market sub-segment is helpful**
- **Targeting investment in capable local primary lenders with a track record is very helpful**

Lessons Learned: Microfinance vs. Micro Housing

- **Opportunity to build on success of microfinance institutions experienced in micro-credits for SME lending – strong track record of appropriate financial services for low income populations**
- **Not an automatic transition from microfinance to micro housing lending to community project finance lending, however**
 - **Micro lending for business generation is smaller ticket, shorter tenor, with repayment directly from business activities funded**
 - **Micro housing or micro infrastructure lending needs different product design, underwriting, consideration of land and building code issues, capacity support for borrowers and communities**
 - **TA support and product design information sharing are key for MFI's entering the micro housing or infrastructure market sub-segments**

Lessons Learned: Mortgage Banking vs. Micro Housing

- **Institutions specializing heretofore only in mortgage lending will also need to develop new loan products, practices and procedures**
 - **Assessing informal incomes**
 - **Lending on personal credit history as well as, or in substitution for, lien on property**
 - **Exploring other credit enhancements like group or family guarantees, pre-loan savings history and deposits taken**
 - **Assessing affordability**
 - **Coordinating with government or donor sources or both to achieve affordable project design**

Lessons Learned: Microfinance Housing Sector

- **Expectations for the local borrowing institution:**
 - Commitment by top management
 - Viable business approach suited to low-income end users
 - Consistently underwritten financial assets with understood, predictable outcomes and risks
 - Loan officer training to enter these new sub-segments
 - End-user financial education and community follow-up as part of the program (directly or through partners)
 - Community savings schemes to eliminate moral hazard and add to credit quality
- **Institution should be prepared to coordinate with government and/or donors for subsidy as needed to make loan transactions affordable to low-income communities or individuals**
- **Institution should be prepared to undergo detailed due diligence by secondary lender, including review of borrowing institution's products, processes, projects, loan portfolios, capital structure**

Lessons Learned: Project Finance for Low-Income Communities

- Projects must be designed to be affordable to target end users
- Good lending should help to create sustainable housing stock—user satisfaction and resale value increases improve credit quality and loan collections
- Land and infrastructure support is critical, especially in SSA
 - And often require municipal or national government commitment
- Clear understanding needed of both real estate development management and finance structuring
 - Tailored to the community's needs and wishes
 - With good project management, construction management, architecture and engineering support and building code compliance
 - Property management skills are needed
 - And rational financial structure covering savings, subsidy and private sector lending

Loan Product Development for Low-Income Market Needs

- **Individual micro housing lending**
 - Tailor tenor to borrower demand
 - Measure affordability and performance
 - Underwriting based on informal incomes
 - Pre-savings plans, credit history of micro enterprise borrowing and repayment, family, employer or group guarantees, group collections, security deposits (group and individual)
 - See Emerging Europe experience
 - Ensure creation of good housing stock with funds loaned
 - Situated in viable neighborhoods, with amenities
 - With secure tenure
 - With resale potential
- **Group project finance**
 - Appropriate structure when land and services must be obtained, installed
 - Excellent structure for developing with density
 - Mixed use high rise housing
 - With commercial streams or sales of some units to middle class
 - Repayment capacity can be based on lease to own as well as direct ownership
 - When building or infrastructure is financed, construction quality must be good and be closely monitored

Loan Product Development for Low-Income Market Needs

- **Product types with best track records, highest affordability**
 - Incremental (home equity) lending and
 - Group project finance
- **Both benefit from:**
 - Architecture/engineering support
 - Building code compliance support
 - Links to local authorities to smooth the path
 - Assistance in legal, operational project management

Key issues to address for Africa

- **Affordability – experience has shown that lending for incremental building works! This ensures communities do what *they* can afford and at *their* pace. Affordability of communities should inform the development projects that are undertaken**
- **Small scale and incremental building through consecutive loans ensure progressive improvement**
 - **In Nicaragua, Prodel provides funds to MFIs, cooperatives and municipalities for small scale housing and neighbourhood improvement with a component of TA built in to the lending.**
 - **With this capacity building, this means families can access safe and comfortable housing after several financings**

Key issues to address in Africa- cont'd

- **Projects even though for low income deciles should be well packaged in order to attract investment from local and international developers, IFI's etc**
- **Currency management – as a business opportunity local banks should develop business strategies to manage/mediate currency transactions as projects are mostly in local currencies**
- **Banks should be in a position to bridge the gap between IFI's and local MFIs/projects to manage forex transactions**

Key issues to address in Africa- cont'd

- **More emphasis should be made on promoting municipal finance – advantages include**
 - Short term finance required say 3-5 years
 - Allows multi-use of funds
 - Reliable repayment source
 - These types of transactions are replicable
 - Allows municipalities to adopt property tax opportunities by creation of a tax base
- **Building capacity of local institutions dealing with housing should be a priority**

Way forward

- Housing Microfinance does work. In Africa its still at the 'baby' stage but has great potential
- All people in Africa need access to financial services that are tailored to their needs and that they can afford
- There is immense opportunity to make profit in HMF -need not be a 'charity'
- Together, we can successfully launch the Housing Microfinance industry in Africa!

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