

TERMS OF REFERENCE

HOUSING MICROFINANCE VALUE CHAINS

CENTRE FOR AFFORDABLE HOUSING FINANCE IN AFRICA

JULY 2015



## 1. INTRODUCTION

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.

Our work covers four main areas: (1) understanding the housing asset, (2) monitoring housing sector performance, (3) exploring innovation in housing finance and (4) supporting housing finance market development.

CAHF has entered into an agreement with FinMark Trust (FMT) to coordinate its housing finance theme. Established in 2002, FMT is an independent trust, based in Johannesburg, South Africa, funded primarily by UKaid from the Department for International Development (DFID). FMT's purpose is 'making financial markets work for the poor, by promoting financial inclusion and regional financial integration', as well as institutional and organisational development, in order to increase access to financial services for the unserved and underserved. This project is a critical part of that theme and is entirely funded by FMT. FMT's work is available from its website: <http://www.finmark.org.za/>

CAHF's overview document puts forth our theory of change, business case and strategic approach, while our [programme of work](#) outlines our agenda, and specific projects, for 2014-2016. Our work is available on our website ([www.housingfinanceafrica.org](http://www.housingfinanceafrica.org)), and the overview is available here: <http://www.housingfinanceafrica.org/document/cahf-an-overview>

**CAHF wishes to appoint a service provider to develop an easy to read and review case study on the availability of housing finance through retail suppliers of building materials, that can be used in academic courses, and that can be distributed among stakeholders to broaden the library of cases on housing finance practice in Africa.**

The draft case study should be submitted by email for reviewing on the 30 August 2015, with the final version addressing all comments, submitted no later than 20 September 2015 by email to [samuel@housingfinanceafrica.org](mailto:samuel@housingfinanceafrica.org)

## 2. PROJECT BACKGROUND

Only a small minority of Africans will ever be able to access a mortgage; high interest rates, low household income, lack of security of tenure and the high cost of developer-built housing make widespread access to mortgages impossible. Even with significant development in the mortgage market, mortgages will remain out of reach for many households. At the same time, the majority of housing in Africa is constructed incrementally—low incomes necessitate construction over a period of time, in stages, while low levels of capacity within the construction sector also mean that most housing is built one-by-one rather than as part of a large development. Thus, housing microfinance is, and will continue to be, an integral housing finance product in the efforts to increase access to adequate housing across Africa.

In Southern Africa, a number of building material retailers target this incremental, home improvement market, offering materials together (in some cases) with standard bills of quantities and construction advice. These retailers also make housing microfinance available in the store, often in partnership with microfinance lenders. Considering this, this case study will explore the practice of providing finance to this market—whether by the building materials supply retailers directly, or by microfinance lenders who operate kiosks in the building materials shop.

There are no Southern African case studies of this market or practice, which, as a result, is not well understood. Anecdotal evidence suggests it is widespread, however. In South Africa, for example, it has been suggested that Nedbank holds the market share in housing microfinance as a result of kiosks it operates from Cashbuild, a building materials supply retailer with branches across the region. This has not been documented, however, and as such there is neither the data to clarify the scope of the practice, nor any analysis of how the practice works. The intention of this assignment is to address this shortcoming.

The global literature on housing microfinance includes research on CEMEX's Patrimonio Hoy programme, which is somewhat similar to the concept. CEMEX, a global cement manufacturer based in Mexico, introduced a microfinance programme in 1998, once it realised that demand by the informal sector for its cement was more resilient than that of the formal sector. CEMEX's research showed that the factor limiting demand, for its products, was access to finance. Patrimonio Hoy was then established to promote a combination of savings and credit designed to increase access to finance in the informal, lower-end of the market. The programme initially created savings groups that allowed for family, or community, members to save funds through CEMEX and receive building supplies in advance—essentially credit—according to a set plan. The programme uses promoters from local communities, and delivers the materials to the household from the distribution centres. According to Prahalad (2005), Patrimonio Hoy allows households to construct a room in one and a half years, instead of 4.

Based on the success of Patrimonio Hoy, CEMEX launched Construmex, providing a service that allowed Mexicans living in America to remit money directly to cement distributors in Mexico. The cement distributors, in turn, delivered cement and other building materials to the individual's household in Mexico. Construmex undercuts the fees charged by traditional money transfer companies, by accepting dollars and not requiring currency conversion,

incentivising the use of the programme instead of other remittance schemes. Construmex placed representatives in a money transfer company's branches, allowing it to expand operations and efficiently transfer money between countries.

The example of CEMEX highlights, more than the novelty of the programme, the integration along the housing finance value chain to increase access to affordable building materials housing. The integration of housing microfinance lenders and retailers in Southern Africa needs to be better understood to increase access to similar solutions. The same applies for remittances that are used to purchase building materials. There is little research on how housing microfinance does, or may, work between and within countries. (Regarding this, it should be noted that remittances also occur within a country.)

The main objective of the proposed research is to create a case study, looking at the business case model of how housing microfinance works through building material retailers in Southern Africa. It should look at a large, regional retailer (i.e. Cashbuild, BuildMart and so on) and the housing microfinance lenders that operate in its stores (i.e. Lendcor, Real People, African Bank, Nedbank and so on). The research should look at what financing options are offered within stores, how the microfinance lender manages its operations, the profitability of this approach for the lender and retailer, and the agreement between the lender and retailer. Additionally, it should investigate additional services offered by the retailer and lender, including technical assistance, delivery of goods and site visits. The research should address how the retailer and lender deal with risk, including the risks involved in operating across borders. These include exchange rate fluctuations, different institutional environments and the management of non-performing loans.

From a financial perspective, the research should address the use of microfinance throughout the housing construction process. This includes the number and size of loans required for materials purchase, labour, construction, etc., how many loans typically comprise the incremental housing process (and does the building material supplier / lender relationship factor this in?) and, as result, the potential size of the housing microfinance market in Southern Africa.

### 3. OVERALL PROJECT OBJECTIVES

The objective of this case study is to explore the phenomenon of in-store building material financing and advice, and to document and explain the business model used, which enables incremental housing activity across the SADC region.

The case study will be presented at the UCT Housing Finance Course for Sub-Saharan Africa. In addition, the case study may also be presented within the public and the private sectors, outside of academic settings, and may also be distributed in hard copy format at conferences, or made available for download on the web.

Case studies can be very useful teaching tools and allow students, as potential decision makers, to engage with the material, assess the particular problem and understand the analysis so that they can consider alternative possible courses of action to arrive at recommendations<sup>1</sup>.

The teaching case will provide:

- A detailed understanding of the approach being taken in the provision of HMF in building material supply stores, the business model and related associated issues.
- Pointers to thinking of how this could apply in other areas in Africa.

The process of developing the case study is likely to be mainly desk-top, but could include interviews with key respondents or beneficiaries, or involve the collection of photographs, maps, graphics, etc. Case studies are seen as being short, quick pieces of work. Length will vary, depending on the case. An important part of the work is to engage with the business model applied and its sustainability both in terms of operations and the target market it seeks to serve.

The case study should provide the following:

- Introduction - outlining why this particular case is of relevance as a case study.
- Background - outlining the objectives of the particular project/product under consideration and providing a brief background.
- Overview/Description - describing the project or process in more detail, its development, application etc, as relevant.
- Key findings - outlining the key findings and impacts that have emerged.
- Conclusion - including reflections on replicability, looking forward.
- Detailed bibliography with sources for further reading.
- Where possible and appropriate, case studies should be accompanied by an Excel spreadsheet .

Once appointed, an example/s will be provided to the author.

#### 4. PROJECT OUTPUTS

4.1. A detailed report in MS Word.

4.2. An accompanying Power Point presentation, in line with CAHF's presentation formatting, which will be used to present the key findings of the research paper.

4.3. During the project, the following outputs will also be required, in the following timeframes:

4.3.1. Inception report detailing the way the study will be carried out, which is to be developed within one week of signing of the contract.

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<sup>1</sup> See, for example, Harvard Case Study method: <http://www.hbs.edu/mba/academic-experience/Pages/the-hbs-case-method.aspx> and [http://en.wikipedia.org/wiki/Case\\_method](http://en.wikipedia.org/wiki/Case_method)

- 4.3.2. A synthesis report pulling together findings across all areas of the analysis within 4 weeks of the signing of the contract.
- 4.3.3. The final report in (MS Word) together with a Power Point presentation within 6 weeks of signing the contract.

## 5. PROJECT MANAGEMENT

### 5.1. TIMELINE

The anticipated timing of the project is 6 weeks from the time of signing of the contract. The service provider should provide a detailed timeline for executing the project activities as outlined above including perceived project risks and contingency plans. Most of the study can be conducted through desktop research and interviews, while visits to building material retailers would be desirable.

### 5.2. BUDGET

The maximum budget available for the project is ZAR150,000, including V.A.T. This amount covers all expenses undertaken while performing the research. A financial proposal should be submitted, providing a detailed costing for the scope of work and deliverables described above. Costs should be broken down into professional fees and expenses, which will incorporate travel and accommodation.

### 5.3. REQUIRED SKILLS AND QUALIFICATIONS

One service provider or a consortium will be appointed to deliver the outputs as described above. The service provider/consortium will be expected to have:

- 5.3.1. Knowledge and experience of housing microfinance value chains and building material retailers.
- 5.3.2. Experience in conducting research.
- 5.3.3. Relevant academic qualifications.
- 5.3.4. User friendly report writing skills.
- 5.3.5. Background knowledge of CAHF and FinMark Trust.

### 5.4. SELECTION CRITERIA & BASIS OF AWARD

Contract selection criteria and award will be made on the basis of the following scoring mechanism:

CRITERIA		WEIGHTING
1	Relevant, demonstrated competence of firm in this area	15%
2	Demonstrated expertise of key individuals to be involved in this Project	20%
3	Content, quality and originality of proposal	40%
4	Affirmative action scorecard (if South African firm) or use of local consultants	15%
5	Fee basis	10%
MAXIMUM SCORE		100%

### 5.5. GUIDANCE NOTES TO BIDDERS

CAHF reserves the absolute right to use its discretion in the interpretation of these award criteria. The following notes are intended to provide broad guidance only on how proposals will be evaluated. Bidders may be required to clarify their proposals by way of a telephone call or presentation.

- 5.5.1. "Relevant, demonstrated competence of firm(s) in this area" – Demonstrate how the firm's collective past experience can be applied (or adapted) to address the specific brief set out in the terms of reference.
- 5.5.2. "Demonstrated expertise of key individuals to be involved in this project" – The evaluation places considerable emphasis on the role and demonstrated expertise (i.e. track record) of the key individuals to be involved on the project rather than on the expertise of the firm itself.
- 5.5.3. "Content, quality and originality of proposal" – Proposals should address the brief set out in the terms of reference in a comprehensive manner. Bidders should aim for innovation as well as professional presentation. Whilst similar, relevant experience in other markets will be an advantage for a bidder, each market is different and so proposals need to reflect the particular characteristics of that market, as well as the challenge set by the terms of reference.
- 5.5.4. "Affirmative action scorecard" – ownership, management, staff development. "Use of local professional capacity (consulting, analysis, coordination etc.)" – CAHF wishes to ensure that local capacity is used and developed. International firms are therefore encouraged to partner with local organisations.
- 5.5.5. "Fee basis" – Value for money, as well as absolute cost, will be taken into account.

## 6. CONTENTS OF PROPOSAL

### 6.1. Proposals to undertake this project:

- 6.1.1. Should be a two-to-three pages, addressing the scope of work outlined above within the suggested timeframe.
- 6.1.2. Statement of qualifications of firm(s) (if no previous work record CAHF).

- 6.1.3. Name and CV of staff members responsible (i) for overseeing the work; (ii) for undertaking the work. Some level of local representation in the countries targeted for the study would be preferred. A consortium of consultants is welcomed.
- 6.1.4. Fee proposal and costs estimate, indicating the basis of calculation of fees.
- 6.1.5. Capacity building and black economic empowerment are key objectives of CAHF. In rendering the service the consultant must endeavour to achieve these goals. South African consultants must report on their BEE accreditation. Other capacity building efforts can also be proposed, such as the use of students to support the research process, or workshop methods to engage with a wider stakeholder sector in each country. The focus of such capacity building would be on the use of data to consider and understand the role of housing in national economies. The proposal must comment on the manner in which the consultant intends to give effect to the capacity empowerment objective.
- 6.1.6. Familiarity with the Centre for Affordable Housing Finance in Africa's work is important. See [www.housingfinanceafrica.org](http://www.housingfinanceafrica.org).

## 7. SUBMISSION

Proposals should be addressed to Mr. Samuel Suttner. The deadline for submission should be **17h00 on 07 August 2015**. Respondents should provide electronic versions of all documentation, which should be sent to [samuel@housingfinanceafrica.org](mailto:samuel@housingfinanceafrica.org).

Once the selection process has been completed, CAHF will issue a contract confirming the appointment of the consultant.

Contact person	Samuel Suttner
Email address	<a href="mailto:samuel@housingfinanceafrica.org">samuel@housingfinanceafrica.org</a>
Office number	+27 11 447 9581

## 8. READING LIST / REFERENCES

Centre for Financial Regulation and Inclusion. (2015). Remittances. Retrieved from <http://cenfri.org/areas-of-work-16/remittances>

Ferguson, B. (2008). Housing Microfinance: Is the Glass Half Empty or Half Full? *Global Urban Development Magazine*, 157.

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GmbH. (2014). My Home, Your Business: A Guide to Affordable Housing Solutions for Low-Income Communities. Retrieved from <http://www.giz.de/Wirtschaft/de/downloads/giz2014-en-my-home-your-business.pdf>

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Prahalad, C. K. (2006). *The Fortune at the Bottom of the Pyramid*.

Select Africa. (2013). HMF - Lessons from the Field. Presentation from the 6th African Microfinance Conference, Durban, August 2013. Retrieved from <http://www.housingfinanceafrica.org/wp-content/uploads/2014/01/Wayne-Faulds.pdf>

Vance, I. (2008). Putting the "Housing" back into Housing Finance for the Poor: The Case of Guatemala. *Global Urban Development Magazine*, 4(2).