



TERMS OF REFERENCE

IN-COUNTRY DIAGNOSTICS HOUSING FINANCE SPECIALIST

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1. Background

The Centre for Affordable Housing Finance in Africa (CAHF) has been operating as an independent think tank in South Africa since May 2014, pursuing its mission of making Africa's housing finance markets work. It grew out of the housing finance theme of the FinMark Trust, where its research and advocacy program began in 2003. CAHF's work extends across the continent, and it is supported by and collaborates with a range of funders and partners.

CAHF brings information to the market place to enable stakeholders in the public and private sector to make policy and investment decisions in favour of improved access to affordable housing. Our emphasis is on the role that finance plays in realising this, and we champion market intelligence—data, market analytics and research—to stimulate investor interest and to support better policy. We are highly networked and engage with stakeholders at the local, national, regional, continental and global levels to support the realisation of investment towards affordable housing in Africa.

Vision: An enabled affordable housing finance system in countries throughout Africa, where governments, business and practitioners work together to provide a wide range of housing options accessible to all.

Mission: To make Africa's housing finance markets work, with special attention to access to housing finance for the poor, through the dissemination of research and market intelligence, the provision of strategic support, and ongoing engagement in both the public and the private sector; supporting increased investment, cross sector collaborations and a market-based approach.

Goal: 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.

All of CAHF's work is directed at shifting investor interest towards the much larger market of the emerging middle class in urban areas across Africa, and using this to champion both improved housing conditions and economic growth, while also addressing inequality with the asset potential that housing offers.

CAHF is looking for a housing finance specialist consultant to write a focus note on how long-term financing in the housing sector can be more available in Africa to help the continent reach its employment and growth potential. The paper should present the current regulatory environment and identifying financing vehicles and instruments, and institutional, legal and regulatory reforms that will increase long-term financing of housing in a particular country (focus will be in Côte d'Ivoire) and also serve as technical model to steer the application of the research results across Africa. The paper will be presented during an in-country stakeholder workshop that will take place in April 2018, and used as a position paper and advocacy document for AUHF members in their respective countries.

2. Challenges in the provision of long-term housing finance

Long-term funding¹ of housing presents enormous challenges in Africa and its absence is potentially a severe constraint to realizing the continent's employment and growth potential.

Whereas in the case of infrastructure projects the size of the projects can justify setting up specific legal entities, often in the form of special purpose vehicles that define the legal commitments of borrowers and lenders, the usually much smaller size of individual investments in housing necessitates a different organizational approach, as financing is better provided on a wholesale basis than to individual housing investments.

Experience in the majority of countries in Africa suggests that only the largest enterprises have access to issuing securities. Indeed in many countries only governments regularly issue securities. The issuance of securities with the purpose of financing housing projects is almost unknown in Africa. In large part this relates to weaknesses of land registry systems and high costs of registering ownership of property. It also reflects the costs involved in issuing securities on the formal, regulated market – in terms of legal fees, project preparation and structuring costs, the costs associated with issuance of

¹ Long-term finance is typically defined according to a specific threshold maturity (at time of contracting). This threshold could range from one to seven years depending on the sector under consideration. In infrastructure finance term-funding is generally available from banks for up to 7 years, so long-term funding would be conceived to stretch beyond 7 years. On the other hand when it comes to financing of small and medium-sized enterprises banks typically offer much shorter maturities, so long-term could be conceived as funding beyond only one year.

prospectuses, and with accessing financial guarantees *inter alia*. Thus, the role of banks and other providers of term-funding, such as real estate investment funds, is crucial for the funding of housing investments.

As the individual investments to be funded are relatively small, the role of banks is, if anything, potentially more significant when it comes to providing long-term financing for housing than in financing infrastructure projects, where other sources of funding such as private placements, project bonds, and debt/equity issuance provide options outside of bank financing. In the case of housing finance the wholesaling function inherent in banking provides economies of scale. Nonetheless, despite the banks' comparative advantage in financing such relatively small engagements, banks on the whole prefer to roll-over loans of quite short tenors due to regulatory requirements governing maturity transformation. Banks have been extremely reluctant to provide committed *long-term* finance for the funding of home-ownership. As a result, for the vast majority of homeowners in Africa, the main source of funding is provided by their own savings or by family and friends: altogether homeowners experience a considerable long-term financing gap.

Experience points to lack of long-term resources on banks' balance sheets. In many countries, the absence of capital and insurance markets, the lack of fully funded retirement schemes, the absorption of limited existing savings by government bonds issuance and the shallowness of domestic private savings limit efforts banks in extending long-term loans on any large scale. Banks prefer to invest in government bonds and short term consumer finance instead of financing long-term productive investments.

The purpose of the in-country diagnostic of housing finance is therefore to identify ways in which this financing gap might be reduced. Given the scale of this challenge the focus will be on identifying funding arrangements and/or institutional / regulatory changes that are catalytic and support broad-based shifts in availability of private sector funding. Examples of institutional/regulatory changes might include strengthening of credit information-sharing, real estate and collateral registration and foreclosure practices. Innovations as regards funding could involve upgrading banks' lending techniques, providing partial risk-guarantees and credit lines to encourage banks to engage in housing finance, and providing take-out facilities designed to increase lenders' appetite to provide long term-financing. There may also be space for more innovative forms of financing, such as crowdfunding and finance drawing on funds provided by the diaspora.

3. Introduction and approach

The in-country diagnostics are an integral part of the Africa Long-Term Finance (LTF) Project². This Project consists of two integral components: (a) establishing a data-base focusing on the measurement and benchmarking of the level of intermediation of long-term finance in Africa, and (b) undertaking in-country diagnostics of specific experiences related to LTF based on the analysis of specific business models, products or financing structures. These TORs refer to a pilot in-country diagnostic to be undertaken in Côte d'Ivoire. Close collaboration is envisaged between the teams undertaking the two components described above as well as with the African Development Bank which will host the Scoreboard and participate in the in-country diagnostic work, see further below.

The purpose of the in-country diagnostics is to focus on specific transactions in infrastructure and innovations in housing and enterprise finance, and thereby anchor the assessment in experience with ongoing or planned long-term financing. This approach is designed to reveal strengths and weaknesses in the availability of long-term finance which directly involves the private sector. As part of the preparation of the in-country diagnostics, the intention is to identify several specific and as far as possible representative investment financing vehicles or products types within each sub-sector: in the infrastructure, housing and the enterprise finance sectors. The focus on detailed funding operations is primarily justified by the experience that broad-based legal/regulatory and institutional diagnostic exercises have largely failed to provide the specific guidance needed to relieve bottlenecks and hindrances in the process of increasing the availability of long-term finance.

The findings of the in-country diagnostics will be evidence-based in terms of encouraging tangible progress in facilitating investment financing. This will be achieved by identifying constraints that inhibit long-term financing and finding ways in which these could be removed or circumvented. The impact will take the form of increased and broader stakeholder awareness, but may also involve charting specific actions and encouraging policy-makers to remove relevant hindrances that stand in the way of growth in the utilization of suitable housing finance products. Drawing on the private sector, the intention is to assemble information about lessons to overcome these challenges. The regulatory

² The Long-Term Finance (LTF) Project is described in a report (dated February, 2017) which provides the background alongside these terms of reference.

framework pertaining to the bank and non-bank financial sectors as well as the housing value chain and structural and process requirements thereto, will form part of the analysis.

Thus the outcomes of this case-study based approach will be to:

- assemble information about the extent of long-term financing currently made available to the housing sector as well as the potential demand for such financing;
- assemble knowledge about hindrances and bottlenecks to the availability of long-term finance of the housing sector, particularly relating to opportunities for augmenting domestic financing;
- provide information regarding the impact of long-term financing in the economy of a developing country which has obviously other fragile sector to develop too;
- identify solutions to overcome long-term housing finance challenges and as appropriate propose alternative possible financing options.

While the focus will be on specific financing vehicles and instruments, the purpose is to draw more broadly-applicable lessons from these case-studies and stimulate a hands-on cross-country learning-by-doing process. The case-studies from Côte d'Ivoire will be instructive in describing housing financing methods currently available domestically. They can also be used in comparing local funding methods with methods available in other parts of the world and thereby identify prospective funding options that could with advantage be adopted locally.

4. Methodology

The in-country diagnostic approach will be based on the review of available literature and reports, off-site and on-site collection and review of data, engagement with key stakeholders and on-site dialogue, including semi-structured interviews with key stakeholders. Information will be collected regarding: the current situation as regards financing of housing investments; the perspectives of sponsors of housing investments seeking long-term funding; and the role of the enabling environment and public policy.

Key questions include:

- Whether there is sufficient capacity to prepare housing investments so they are 'bankable' – i.e. suited to being financed by independent third-parties;
- What are the bottlenecks from a private sector point of view (capacity, data, financing, framework conditions etc.)? Are there private or public initiatives that could effectively address these?
- What specific type of capacity is missing (in the private sector and in government)? Where are the opportunities, even within the constraints of the current environment?
- What kind of public sector/IFI facilitation might appropriately be provided to support housing investments: would facilitation aimed to reduce the cost of finance be appropriate, or have other (e.g. knowledge, capacity or overall policy-commitment) constraints been identified that need to be addressed?
- Whether political economy factors are stalling the implementation of the required long-term financing, and whether the non-existence of certain institutions or segments of the financial system can be attributed to the opposition of specific interest groups?
- Whether there are lessons to be learnt from successful business models, products or financing structures in the assessed country or from success stories in other low income countries and emerging market economies that might contribute to 'unlocking' long-term finance in the housing sector.
- Whether there are also lessons to be learnt from failed experiments, apparently ill-adapted product launches or commercial failure service offerings. This should be a priority for interviewers, as it is a less comfortable conversation to have with stakeholders.

In the case of long-term housing finance, transfer of knowledge regarding experience with lending vehicles and methodologies from other country settings will be a crucial. Ideally, similar investments (both actual, possible and prospective) would be analyzed in the in-country diagnostics comparing experiences across various countries so as to identify the relevant policy and institutional bottlenecks on a comparable basis while at the same time drawing lessons from different country experience.

Thus an important component of the in-country diagnostic will be to encourage learning-by-doing by assembling information about country case-studies that demonstrate the value of innovation.

These case-studies will drill down on information relating to financial instruments and policies, and

thereby support cross-fertilization of country experiences. They may be a direct outcome of the in-country diagnostics, but they will also be based on experiences relating to appropriate financing vehicles in other emerging markets, where innovation in LTF has moved ahead more rapidly, as well as experiences in select countries from other regions.

The purpose of the case-studies is to demonstrate how innovation can be encouraged. By way of example this could take the form of: using partial credit guarantees, credit lines and technical assistance to encourage banks to engage in funding of housing; facilitating investment by local institutional investors in real estate investment trusts (REITs) and private equity funds of funds etc.

5. Scope of Work

The analysis to be undertaken by the consultant relates to identifying financing vehicles and instruments, and institutional, legal and regulatory reforms that will increase long-term financing of housing:

- A. Creation of data request templates:** As the foundation for the data collection efforts to be undertaken, the consultant will develop data request templates specifying the data that it would be desirable to collect as part of the in-country diagnostics – whether from key stakeholders, off-site sources or available literature and reports. These templates will be developed prior to launching the data collection effort. Once the pilot diagnostic is completed they will be reviewed in assembling lessons learnt- see point J below. As it is a natural bias of interviewers to seek to fill existing templates, emphasis should be laid on the fact that re-designing a new template with new/additional data is just as important as qualifying the quality and availability of data included in the first template.

- B. Identification of financing instruments:** As part of the preparation of mission activities the consultant will (a) identify the most relevant institutions currently active in the market for housing finance; and (b) undertake pre-mission identification of the issues to be addressed with in-country counterparts (including selected banks, microfinance institutions, other

NBFIs, professional associations, regulators, registries of property and mortgages, credit bureau operators etc.).

C. Preparing structured interview questions: the consultant will prepare a set of structured interview questions addressing the following areas:

- Current capacity to support preparation of housing investments ('bankable projects');
- Business environment and the informal sector;
- Current available channels (vehicles and instruments) of long-term financing for housing investments;
- Potential for long-term financing from local institutional investors;
- Liquidity and long term resources of financial institutions;
- Specific credit risk issues relating to long-term financing of real estate;
- Registration of real estate, liens on real estate, and other financial infrastructure issues;
- Existing risk-mitigants including use of real estate as collateral;
- Hindrances to the deepening of current financing methods and uptake of new modes of financing as well as identification of remedies (supporting institutional, legal and regulatory changes);
- Current and prospective government and IFI support schemes focusing on their track-record, design strengths and weaknesses, and financial sustainability.

The purpose of the structured interviews will be to identify hindrances that may be preventing the provision of long-term funding to the housing sector and provide guidance on the design and impact of possible interventions and/or institutional/regulatory changes that are catalytic and support broad-based shifts in availability of private sector funding.

- D. Meeting with project sponsors/investors/authorities:** Working with the LTF team the consultant will participate in a mission to Côte d'Ivoire to meet with the relevant authorities (ministries and regulators), current providers of long-term funding (lenders and institutional investors) to the housing sector, and other relevant parties (professional associations, authorities responsible for property and mortgage registration etc.) to fully explore the subject areas outlined in these TORs and the specific data requests developed by the consultant.
- E. Preparation and consultation regarding findings:** In conjunction with the mission the consultant will produce a report on her/his findings. This report will use the findings of the data collection efforts and engagement with key stakeholders, including the on-site interviews, to identify hindrances / bottlenecks / constraints to the provision of long-term funding. The consultant will benchmark the current availability of financing to the housing sector drawing on case-studies from other countries to advise on the current situation in Côte d'Ivoire and on reforms that could strengthen the provision of long-term funding.
- F. Soliciting views as to data to be included in the LTF Scoreboard:** While the focus of the in-country diagnostics will be to assemble data on individual funding instruments, the diagnostic team will in parallel collect the views of the private sector on data availability and the type of data that private sector counterparts would like to see included in the LTF scoreboard.
- G. Finalizing diagnostic report:** Following the main mission the consultant will work with the LTF team in finalizing the mission report. This will entail *inter alia* incorporating feedback received, clarifying findings, adding materials relating to case-studies from other countries found to be relevant to the experiences of Côte d'Ivoire.
- H. In-country stakeholder workshop:** The consultant will participate in an in-country stakeholder workshop. The purpose of this workshop is to validate the findings of the

diagnostic as well as to review the appropriateness of the deployed methodology, and to reflect on whether and, if so, how to modify the methodology in rolling-out the in-country diagnostic approach to other countries beyond the pilot phase.

- I. **Finalized diagnostic assessment:** The consultant will contribute to finalizing the in-country diagnostic assessment based on the feedback received at the stakeholder workshop.

- J. **Methodology review:** Subsequent to completing the pilot in-country diagnostic the consultant will contribute to reviewing the methodology of the diagnostic approach with a view to proposing improvements that can be incorporated in subsequent in-country diagnostics.

6. Conduct of Work

The consultant will work with the LTF team. The pilot phase of the LTF project is co-funded by FSDA and GIZ and will be implemented in close collaboration with AfDB. The team undertaking the in-country diagnostic work will undertake its work under the overall guidance of Mr. Michael Fuchs.

7. Qualifications and experience

The consultant will have broad experience and in-depth knowledge of the financing of enterprise and housing investments in advanced and emerging markets. She/he will be able to demonstrate first-hand experience in structuring the finance of housing investments as well as demonstrating the capacity to assemble knowledge and draw lesson-learned from these experiences.

It would be preferable were the consultant to be proficient in both English and French.

8. Timing and Level of Effort

It is envisaged that in-country work related to this assignment will take place in the period of January 22nd to February 2nd, 2018, and the intention is that the in-country stakeholder workshop will take place in April, 2018.

It is envisaged that this work will be undertaken in close collaboration with the AfDB. In addition to logistical support in setting up contacts and meetings AfDB staff will participate as full team members. It is anticipated that the Housing Finance Specialist will devote 25 days to the completing the country diagnostic work, including mission preparation, in-country work and follow-up report-writing. A further follow-up mission is envisaged where findings are presented to stakeholders.

9. Deliverables

Deliverables are envisaged to be:

Mission report	February 2018
Draft diagnostic assessment	March 2018
Stakeholder workshop	April 2018
Final diagnostic assessment	May 2018

10. Contents of Proposal

Proposals to undertake this project must include:

1. Response to the ToR, demonstrating familiarity with the subject matter, expansion on the proposed methodology and key issues for consideration in the work.
2. A detailed work plan, demonstrating the feasibility of the proposal.
3. Name and CV of any staff members responsible (i) for overseeing the work; (ii) for undertaking the work. A consortium of consultants is welcomed.
4. Fee proposal and costs estimate, indicating the basis of calculation of fees, including cost of travel if necessary.

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. Familiarity with the Centre for Affordable Housing Finance in Africa's work is important. See www.housingfinanceafrica.org.

11. Proposal Evaluation

Proposals will be assessed according to:

- i. Relevant, demonstrated competence of firm in this area: 20 percent.
- ii. Demonstrated expertise of key individuals to be involved in this project: 20 percent.
- iii. Content and quality of proposal, including innovation in and feasibility of approach: 35 percent.
- iv. Affirmative action scorecard (if South African firm) or use of local service providers: 15 percent.
- v. Financial proposal: 10 percent.

12. Proposal Submission

Deadline for submission are December 22, 2017. CAHF will appoint a consultant by January 3, 2018.

13. Guidance Note to Bidders

- Centre for Affordable Housing Finance in Africa 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.
- "Relevant, demonstrated competence of firm(s) in this area" - You should aim to 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. You are welcome to describe the firm's general experience of financial sector development issues (e.g. in other geographies or topical areas) but

the evaluation will focus particularly on the application of that experience for the specific task at hand.

- “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.
- “Use of local professional capacity (consulting, analysis, coordination etc.)” – The Centre for Affordable Housing Finance in Africa wishes to ensure that local capacity is used and developed. International firms are therefore encouraged to partner with local organisations.
- “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.
- “Affirmative action scorecard or use of local service providers” - Ownership and management by local stakeholders, and local staff development. Affirmative action scorecard will be used for South Africa firms.
- “Financial proposal” – Value for money, as well as absolute cost, will be taken into account.