



## Urban Agenda Platform

The global platform for sharing progress, action and knowledge on the implementation of the New Urban Agenda to achieve sustainable urban development.

# Unlocking innovative solutions to housing finance through alternative credit assessment in urban Africa and Asia

Region	Europe and Central Asia
Themes	Housing Municipal Finance
Geographic scope	Global
Sustainable Development Goals	Goal 11 - Make cities and human settlements inclusive, safe, resilient and sustainable
New Urban Agenda Commitments	Sustainable Urban Development for Social Inclusion and Ending Poverty Sustainable and Inclusive Urban Prosperity and Opportunities for All Mobilization of Financial Resources

## Summary

Demand for affordable housing is constrained by the inaccessibility of long-term finance for those on lower incomes and working in the informal sector, as they are viewed as having too high a risk profile to qualify for housing loans. This is particularly acute for people in informal employment who lack documentation, with women and marginalised communities disproportionately impacted.

## Background and Objective

As the New Urban Agenda recognises, sustainable and inclusive urban prosperity and opportunities for all is integral to transformative sustainable urban development. Promoting the role of affordable and sustainable housing and housing finance (paragraph 46) is a significant pillar of this paradigm, as is the creativity and innovation that businesses can bring to more effectively addressing sustainable development challenges in urban areas (paragraph 133). This is particularly the case for the development of appropriate and affordable housing finance products and the participation of a diverse range of financial institutions, private-sector lenders and investors, and agencies in affordable housing (paragraphs 140 and 142).

Demand for affordable housing is constrained by the inaccessibility of long-term finance for those on lower incomes and working in the informal sector, as they are viewed as having too high a risk profile to qualify for housing loans. This is particularly acute for people in informal employment who lack documentation, with women and marginalised communities disproportionately impacted.

Despite the risk-adverse attitude of lenders, there exists compelling evidence that low-income communities are deserving and critical economic actors, but lack financial systems and products which meet their needs. As a consequence, the urban poor cannot access the finance necessary to transform their lives. Reall and its network of partners engage in such strategic interventions throughout the housing value chain. Of these, brokering new end-user financing products and solutions is paramount for resolving demand-side blockages and unlocking the potential of affordable housing markets in Africa and Asia. People on low incomes are erroneously perceived by commercial banks as high-risk for loans due to irregular employment patterns and cash flows and lack of property rights or collateral. This is exacerbated by a lack of evidence to prove to the contrary, creating an information asymmetry.

As an innovator and investor in climate-smart affordable housing Reall works with its partners in the global south to unlock housing solutions for people living on low incomes in urban Africa and Asia. Supported by the UK and Swedish governments, Reall has invested US\$80 million into impactful affordable housing development since 2000, housing over 100,000 people and creating over 80,000 new jobs. Doing so provides affordable housing stock for those emerging from housing poverty which meets global climate agenda, and catalyses private sector solutions to meet the global housing crisis.

## Outline of activities over the last four years

Activities related to this case study include:

### Mozambique:

- Reall invested in Casa Real (Mozambique) and provided capital for a pilot housing project. This facilitated the development of 10 quality, affordable and climate resilient homes in Beira.



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- The Beira Municipal Council supported Casa Real's work by reducing legal minimum plot sizes for housing construction. The Government of the Netherlands also supported and promoted Casa Real. These engagements strengthened Casa Real's credibility to banks and investors.
- Several commercial banks in Mozambique were attracted by the proposition of providing mortgages for Casa Real's customers, to open new markets in a country with little history of inclusionary housing finance.
- Absa Bank Mozambique (formerly Barclays) proceeded to formal partnership with Casa Real and agreed to launch a new mortgage product targeted at Casa Real customers with monthly incomes of 15,000 MZN (US\$250).
- As this income threshold is generally affordable for households around the 50th percentile of the income pyramid in Beira, this represented a substantial improvement on previous mortgage offers and an ideal entry point to test the market.
- Absa accepted the risk of lending to a lower-income segment, and tailored the mortgage product terms and conditions. Casa Real accepted responsibility for identifying customers, facilitating agreements with employers, assisting with opening bank accounts and providing relevant documentation.
- While Absa's initial expected return on investment was lower for this segment compared to higher income clients, the potential is apparent for a suite of new products and, in time, lucrative returns from increased efficiency and economies of scale.
- In Spring 2021 Absa fully approved the first Casa Real customer for a long-term housing mortgage loan. This is itself worthy of celebration as the first inclusionary commercial mortgage in the history of Mozambique.
- To streamline Absa's entry into the market, Casa Real has developed an innovative Rent-to-Buy model. Customers can rent affordable homes directly from Casa Real. In return, Absa agrees to consider clients for mortgage loans after they have made three years of rental payments, using the cumulative payment as a deposit. This reduces the initial annual cost of homeownership below the high interest rates and also de-risks Absa's lending by building up credible track records of client repayment.

### Pakistan:

- With Reall's support and capital investment, AMC (Pakistan) has constructed 700 homes and 600 serviced plots within desirable and sustainable communities for the bottom 40% of the income pyramid.
- AMC patiently nurtured a long-term partnership with the House Building Finance Company (HBFC), a semi-state-owned housing finance institution operating in the public interest. This partnership ultimately resulted in the launch of a new HBFC mortgage product.
- HBFC agreed to provide affordable mortgages to low-income AMC customers with monthly incomes of at least 25,000 PKR (US\$160). HBFC mortgages are loaned at a fixed interest rate of 12% for up to 20 years – a significant breakthrough in a country with little mortgage penetration.
- AMC de-risked HBFC by delivering a desirable, quality affordable housing product – grounded in AMC's nuanced understanding of the target market and customer base.
- Over 60 HBFC mortgages have been approved to date to AMC customers, and the initial performance of these loans has been excellent. Successfully demonstrating the viability of this model is essential for incentivising new lenders and developers into the affordable housing space in Pakistan and catalysing political and regulatory changes.

- The emergence of a more conducive national political and regulatory environment for affordable housing and housing finance has prompted many banks and financial institutions to directly approach AMC in search of viable affordable housing investment opportunities. AMC has capitalised on this interest to develop new projects and partnerships, with Reall's backing and financial support.

### India:

- Syntellect is an Indian fintech start-up based in Mumbai. Syntellect has developed cutting-edge software for the credit assessment of underserved individuals in India for long-term mortgage finance.
- This software (called RightProfile) is a unique customer profiler specifically catering for the unbanked, new to banking, and new to credit customer segment – with a focus on the informal micro-entrepreneur (which represents the 'typical' Indian customer).
- RightProfile addresses a substantial gap in the market, applying an exhaustive bank of technologies to analyse loan applications, reduce processing costs, and input into larger financial services architecture.
- RightProfile has been used by a prominent housing finance lender in India (HDFC Bank) to approve 14,000 informally employed clients for mortgage finance. Early data indicates these loans are performing better than sector norms for delinquency rates, while the lender's turnaround time for loan sanctioning was reduced by at least 40% due to digitisation.
- Reall is investing patient capital to support Syntellect's growth as a business and accelerate the integration of RightProfile's credit scoring platform within the operations of new lenders and developers.
- With Reall's guidance and investment, Syntellect will eventually adapt and export the technology to Sub-Saharan Africa where the need and market opportunity is huge.

## Outcomes and Impacts

As the New Urban Agenda recognises, sustainable and inclusive urban prosperity and opportunities for all is integral to transformative sustainable urban development. Promoting the role of affordable and sustainable housing and housing finance (paragraph 46) is a significant pillar of this paradigm, as is the creativity and innovation that businesses can bring to more effectively addressing sustainable development challenges in urban areas (paragraph 133).



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This is particularly the case for the development of appropriate and affordable housing finance products and the participation of a diverse range of financial institutions, private-sector lenders and investors, and agencies in affordable housing (paragraphs 140 and 142).

Access to affordable end-user housing finance needs to be scaled up for people living on low incomes in order to deepen inclusion and widen affordability – especially for women and marginalised and excluded groups. Unlocking finance solutions that enable climate-smart affordable housing, such as green mortgages for energy efficient homes, must be part of this approach.

## Achievements

Working with its in-country partners, Reall has supported the creation of innovative housing finance products and catalysed the take-up of digital credit assessment technologies that reduce the perceived riskiness of low-income customers, thereby enabling housing finance to be made available at an affordable price.

- In Mozambique, Reall's partner Casa Real (an affordable housing developer) harnessed relationships with the Beira Municipality to access land and co-develop an innovative mortgage product with Absa Bank Mozambique for their clients with monthly incomes of 15,000 MZN (US\$250). This represented a potentially transformational development in financial products aimed at people on lower incomes providing a substantial improvement on previous mortgage offers and an ideal entry point to test the market.
- In Pakistan, Reall's housing developer partner Ansaar Management Company (AMC) negotiated a similarly ground-breaking agreement with the Housing Building Finance Company (HBFC) for its own low-income customers, paving the way for other developers and financiers. This partnership ultimately resulted in the launch of a new HBFC mortgage product, aimed at low-income AMC customers with monthly incomes of at least 25,000 PKR (US\$160). HBFC mortgages are loaned at a fixed interest rate of 12% for up to 20 years – a significant breakthrough in a country with little mortgage penetration. AMC successfully de-risked HBFC by delivering a desirable, quality affordable housing product – grounded in AMC's nuanced understanding of the target market and customer base. This partnership with HBFC to provide low-income mortgages (enabled by Reall's patient capital) has also helped catalyse a new level of engagement and influence with the financial sector.
- In India, Reall supports its partner Syntellect (an IT company based in Mumbai) to roll-out a cutting-edge software platform for mortgage finance creditworthiness assessment. This platform assesses the long-term mortgage lending potential of people in informal employment, reducing risk for lenders and opening up a massive, previously excluded client segment. RightProfile addresses a substantial gap in the market, applying an exhaustive bank of technologies to analyse loan applications, reduce processing costs, and input into larger financial services architecture.

## Partners

Syntellect

- FSD Kenya
- AMC
- Casa Real
- Absa
- House Building Finance Company
- In country consultants