41st ANNUAL CONFERENCE & AGM
AFRICAN UNION FOR HOUSING FINANCE

BLENDED FINANCE FOR AFFORDABLE HOUSING
Making the numbers work

MASTERCLASS: BLENDED FINANCE FOR AFFORDABLE HOUSING
LED BY:



PALESA MKHIZE
SAMRRA



AAKIF MERCHANT
CONVERGENCE



Blended Finance Masterclass

AUHF Annual Conference 2025

www.convergence.finance

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WHO WE ARE

Convergence is the global network for blended finance

We exist to increase private investment in emerging markets and developing economies to advance the UN Sustainable Development Goals (SDGs) and Paris Agreement.

Traditional development aid from public and philanthropic sources must be used catalytically to draw in private investors and address the annual $4.2 trillion financing gap.

Our Vision

We envision a world where blended finance makes the SDGs investible in emerging markets and developing economies.

CONVERGENCE
BLENDING GLOBAL FINANCE

WHAT WE DO

We are building the field of blended finance through four key pathways:



GUIDING

- Thought leadership
- Donor advisory services
- Deal insights & intelligence



EDUCATING

- Member learning programs
- Customized capacity building
- Online learning modules



CONNECTING

- Networking
- Peer learning
- Multi-stakeholder working groups



MOBILIZING

- Grants to design and develop early-stage financial structures
- Live deal flow

MEMBERSHIP COMPOSITION

Convergence members are part of a global community of institutions and businesses dedicated to driving capital to where it is needed most.

Members include private investors looking to diversify their portfolios, businesses seeking capital, as well as public agencies and philanthropic foundations looking to make their funds go further.

Over 190 member institutions and their 1,000+ staff actively use the Convergence platform.



What is blended finance and why is it required?

HUGE SUPPLY OF GLOBAL FINANCIAL ASSETS: LOCATED IN HIC's & CHINA & NOT IN LIC's & MIC's

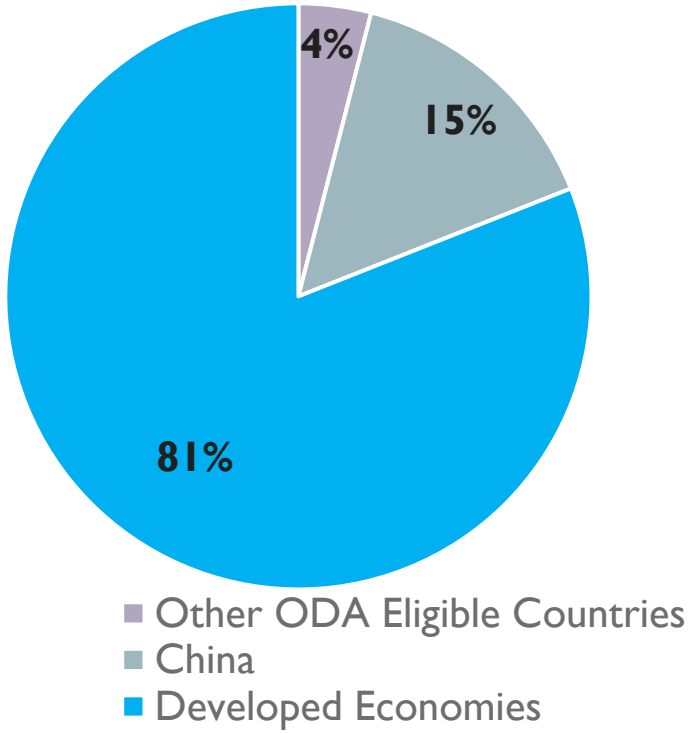
Global Financial Assets estimated around
$479 trillion

Only **4% invested in LICs and MICs** (ex-China)

Biggest reasons:

- High Country Risk
- High Currency Risk
- Limited easy investment opportunities
- Limited liquidity and exit
- Limited high-quality asset managers
- Inconsistent regulatory & policy environment

Distribution of $479 Trillion of Global Financial Assets



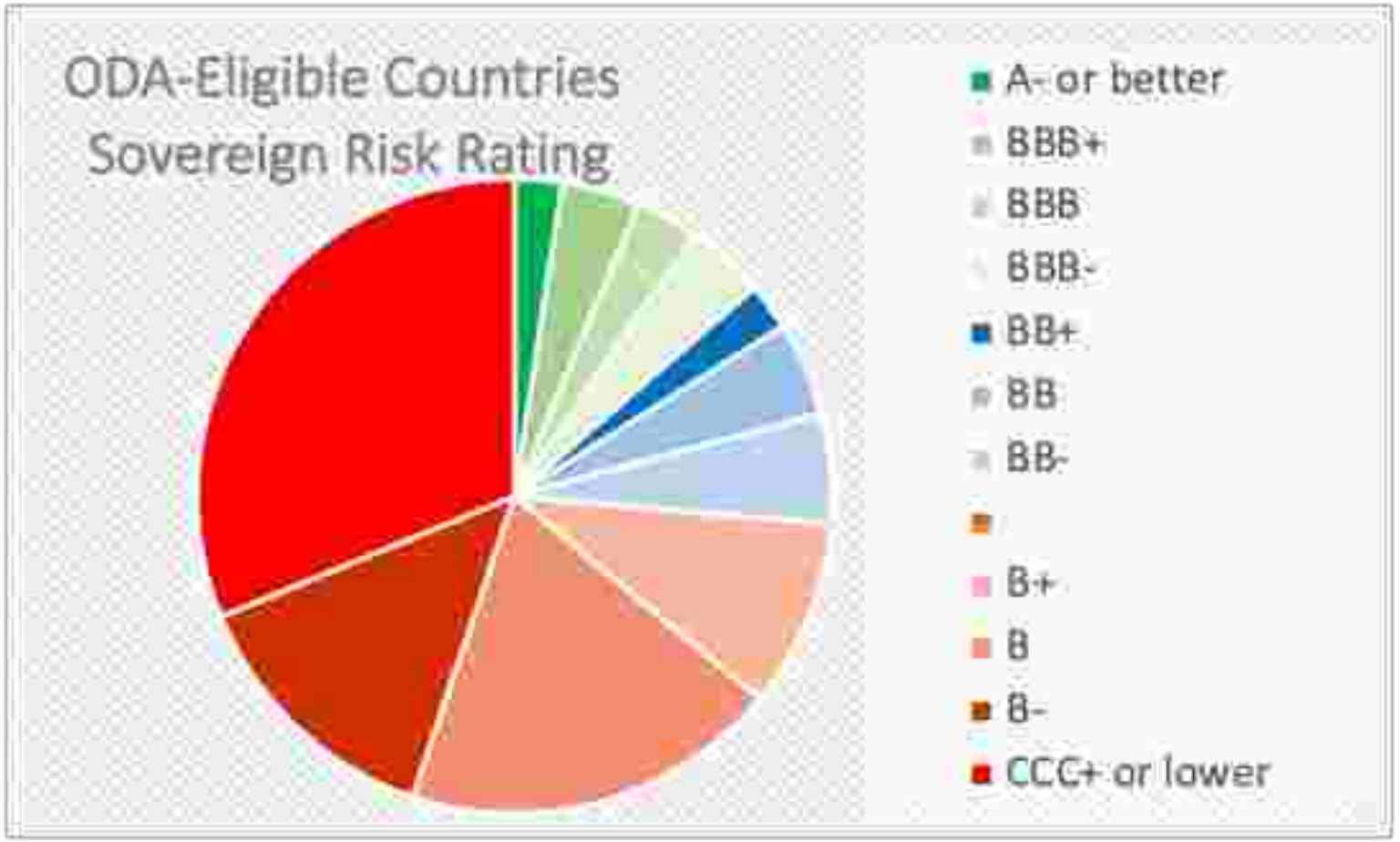
Source: OECD, FIGURE 2, GLOBAL OUTLOOK ON FINANICNG 2024 REPORT

HIGH COUNTRY RISK IN DEVELOPING COUNTRIES: RISK TOO HIGH FOR MOST INVESTORS IMPEDING INVESMENT

140 LICs AND MICs:
12% rated Investment Grade
16% rated BB
72% rated B or lower

Median sovereign risk is "B"
Highly Speculative
Majority of private sector "B" or "CCC"

Only 92 rated by Fitch, Moody's and S&P

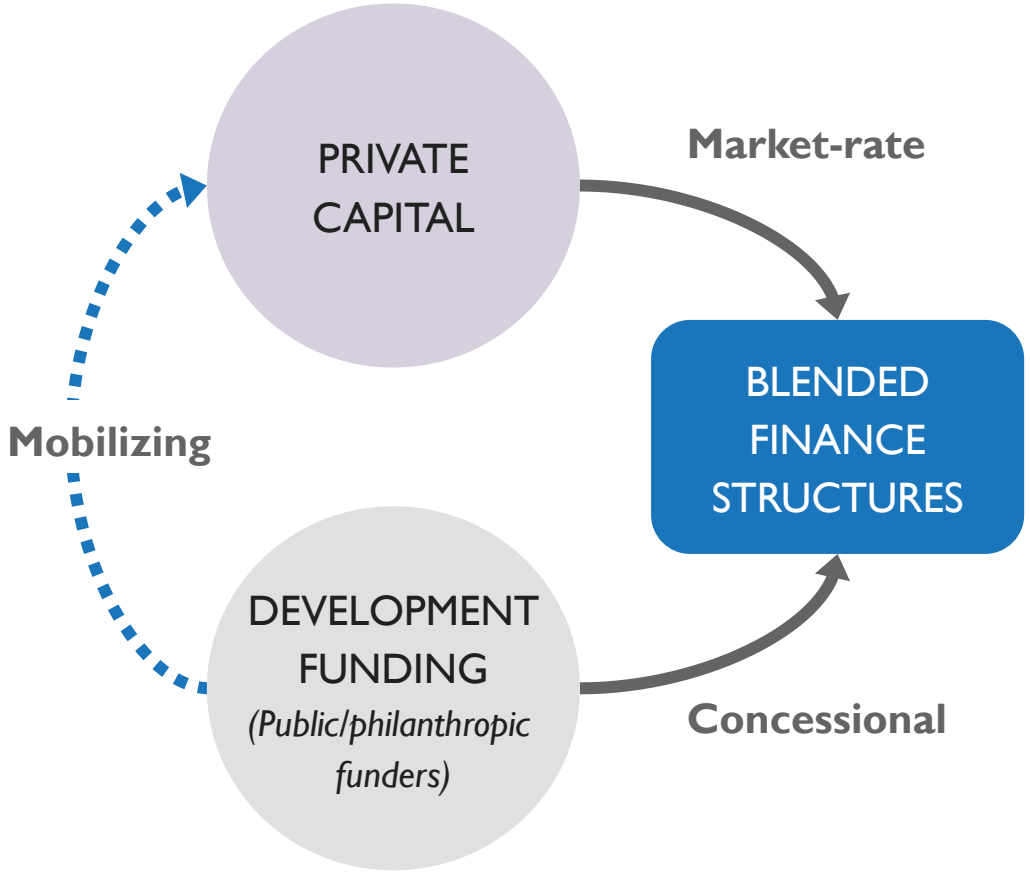


Source: Compiled by Convergence from Fitch, Moody's, S&P and OECD ECA ratings, 2024

MOST COUNTRIES IN AFRICA ARE CONSIDERED AS HIGH RISK BY PRIVATE INVESTORS

- In Africa, only Botswana and Mauritius are rated Investment Grade, BBB+ and BBB- respectively.
- Almost all debt investors can invest when the borrower is rated Investment Grade (BBB- or better)
- When investing at BB, B and CCC levels investors prefer to take high credit risk in HICs (high yield debt)

DEFINING BLENDED FINANCE



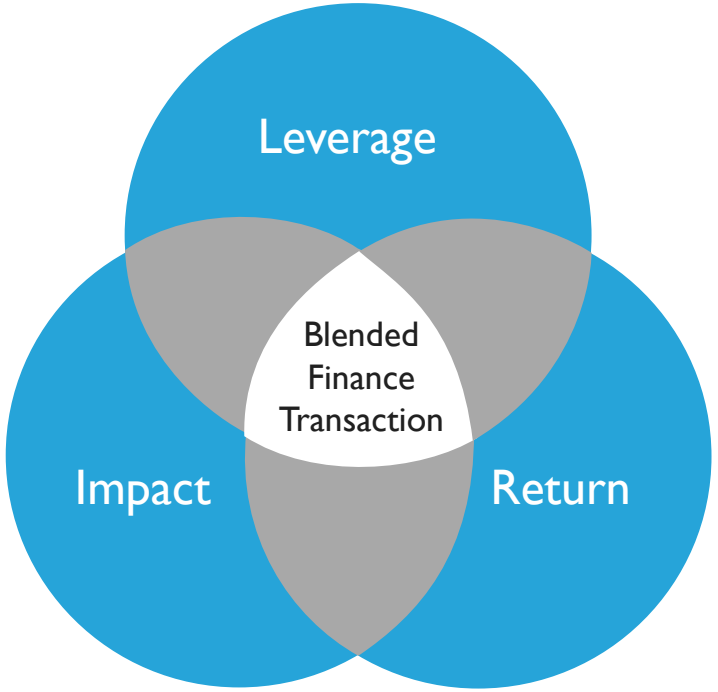
KEY CHARACTERISTICS OF A BLENDED FINANCE TRANSACTION

Three signature markings that Convergence believes are important to a blended finance transaction

1. **Leverage -** The amount of commercially priced capital mobilized by each dollar of concessional capital

2. **Impact -** Underlying activity contributes to the SDGs in a developing country; however not all parties need to have development intent

3. **Return -** Transaction expected to achieve a positive financial return; returns range from concessional to market rate and depend on the type of private sector investor in the deal



BLENDED FINANCE COMPARED TO OTHER FORMS OF FUNDING

TYPICAL FORMS OF FUNDING

	Aid / Philanthropy	Impact & Social Investors	Commercial Investment
Returns	Social returns; 100% financial trade-off	Social and financial returns (in the context of a social market) and preservation of original capital investment	Market beating net returns (on top of preservation of capital) and no real consideration of social returns
Impact targets	Embedded	Variable	Variable
Risk appetite	Risk-seeking	Neutral to averse	Risk averse
Liquidity required	Low	Medium	High
Vehicles	Grants, Returnable Grants, Concessional Loans, Guarantees	Growth Equity, Debt, Mezzanine, Structured Finance	Growth Equity, Debt, Mezzanine, Structured Finance
Key actors	Aid Agencies, Donors, NGOs, HNIs	Impact Investment Firms	Banks, Institutional investors

Social Enterprises / Financial Institutions

BLENDED FINANCE

Aid / Philanthropy	Impact & Social Investors	Commercial investment

Blended finance structure (eg: Fund, Facility, Bond, Note)

Social Enterprises / Financial Institutions

Blended Finance combines all of these disparate approaches into one structure, where each actor takes on a risk-return profile that is acceptable to them, while concurrently achieving their objectives

BLENDING ACROSS DIFFERENT LEVELS

1.Project Level - Public & private capital blended within a single project or company's financial structure

2. Fund Level - Public and private investors pool resources to be invested in multiple projects or companies

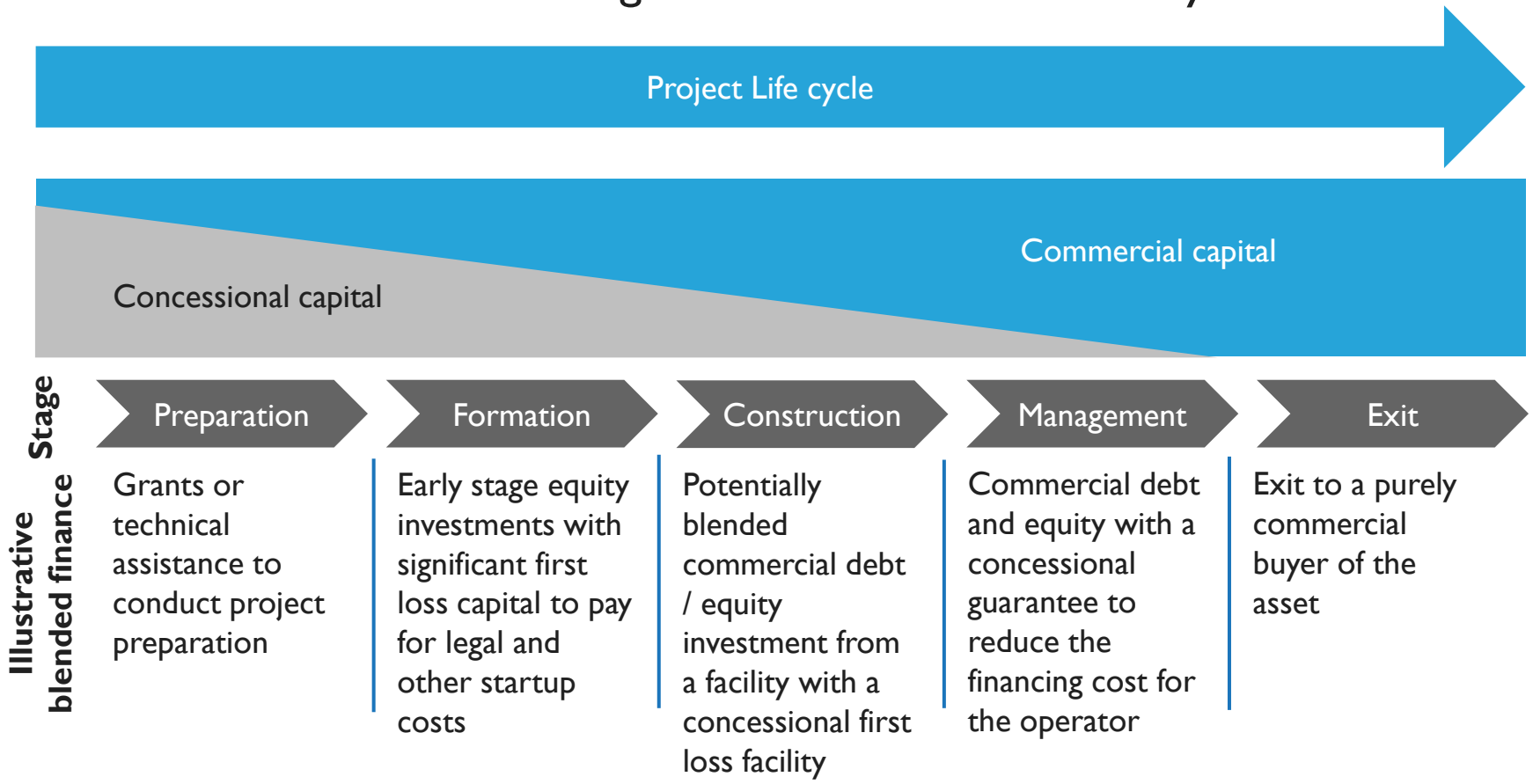
3. Fund-of-Funds - Funds that invest in other funds

4. Facility - Long term institution set up to blended different forms of capital

Examples of Blending Across Different Levels	
Project Level	• Mwenge Expansion Project • Kikagati Hydropower Project • Kigali Bulk Water Project
Fund Level	• Climate Investor One • African Local Currency Bond Fund • Novastar Ventures Africa Fund II (NVAF II)
Fund-of-Funds	• Mastercard Africa Growth Fund • Sarona Frontier Markets Fund 2 • Global Energy Efficiency & Renewable Energy Fund
Facility	• Global Environment Facility • GuarantCo • NMB Bank - NASIRA

BLENDED FINANCE CAN BE DEPLOYED ACROSS PROJECT LIFE CYCLE

- Blended finance can be used to support full project lifecycle until project reaches commercial viability
- Blended finance can be tailored to each stage - minimize concessionality



Illustrates the proportion of concessional vs commercial capital at each stage

NUMEROUS BARRIERS IMPEDE CAPITAL FLOWS INTO FRONTIER AND EMERGING MARKETS

Developing countries constitute 49% of global GDP, however only a small fraction of the USD 220 trillion in global capital markets flows to these countries. Here is why:

1. Liquidity is often weak or non existent
2. Local financial markets often do not function efficiently
3. Private investors have knowledge and capability gaps
4. Challenging local investment climate
5. Private investors have limited mandates and incentives
6. Individual investment opportunities are often too small
7. High volatility impedes stable investment returns

The most significant barrier to private capital flow in emerging markets is that returns are often not commensurate with the high level of risk (real or perceived)

VARIABLES AFFECTING RISK-ADJUSTED RETURNS

Risks

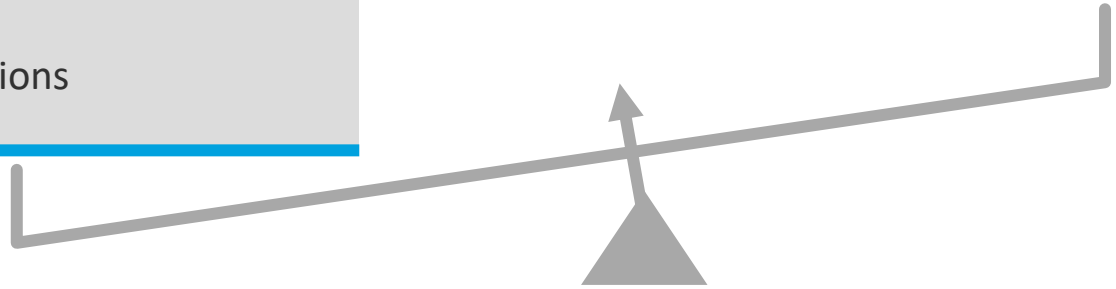
Emerging markets face unique risks:

- Macroeconomic
- Political
- Regulatory
- Business
- Hard & Local Currency
- Liquidity
- Tax Conditions

Returns

Emerging markets returns are realized based on certain variables:

- Seniority
- Tenor
- Exit
- Credit Spread
- Growth Rates
- Leverage



BLENDED FINANCE IS A STRUCTURING APPROACH TO SHIFTING RISKS & MANAGING RETURNS

Public and donor capital can be used to shifting risk or manage returns bringing risk adjusted returns in line with donor requirements

Shifting Risks

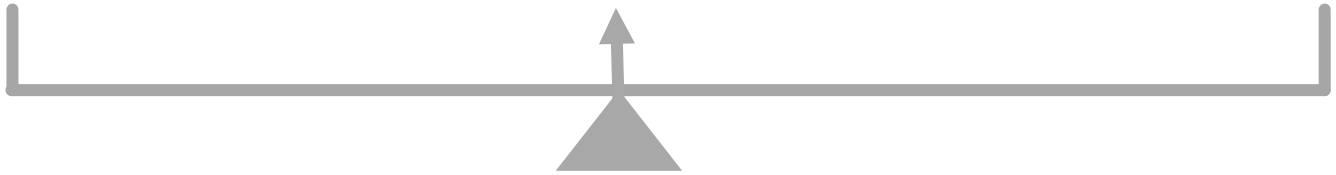
Public investors & donors can **shift** risks by

- Improving credit worthiness
- Limiting downside loss exposure
- Insuring against unforeseen events
- Providing TA and advisory services
- Eliminating funding shortfalls
- Amongst others…..

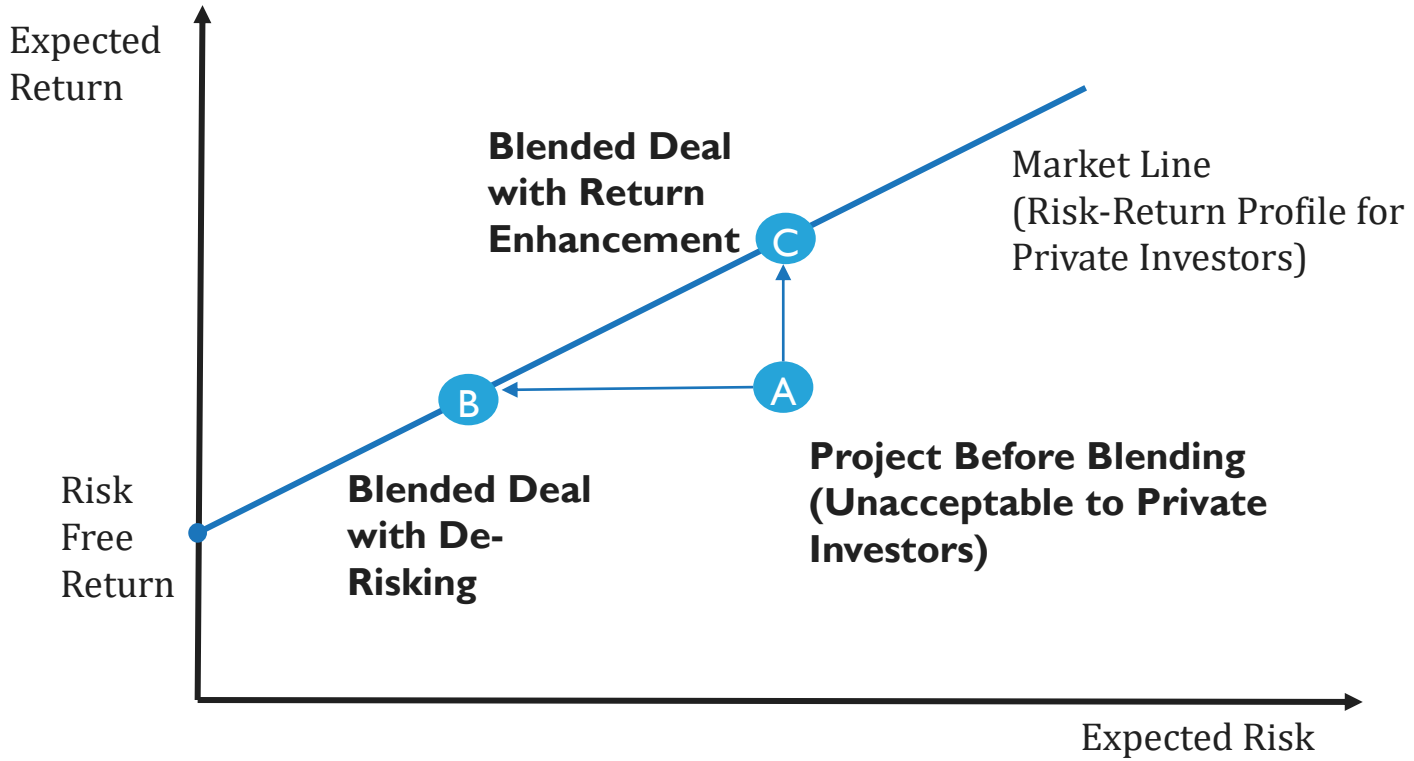
Managing Returns

Public investors & donors can **enhance** returns by

- Providing incentives for successful performance outcomes
- "Topping up" returns
- Providing interest rates subsidies
- Amongst others…..



BLENDED FINANCE ENTAILS STRUCTURING TO ADJUST THE RISK-RETURN PROFILE OF AN INVESTMENT



The goal of Blended Finance is to create acceptable risk-return profiles to mobilize private sector investment to SDG projects in developing countries.

BLENDED FINANCE CAN SUPPORT YOUR MANDATE BY



BLENDED FINANCE IS NOT A PANACEA

- Development capital providers (development aid agencies & foundations) have multiple tools to finance SDGs grants, development finance and blended finance

- Blended finance is a good development tool only if:
  1. Goal is to catalyze additional finance
  2. Transaction adheres to best practices

- Blended finance best deployed to mobilize commercial finance that otherwise would not have invested in developing countries to achieve SDGs



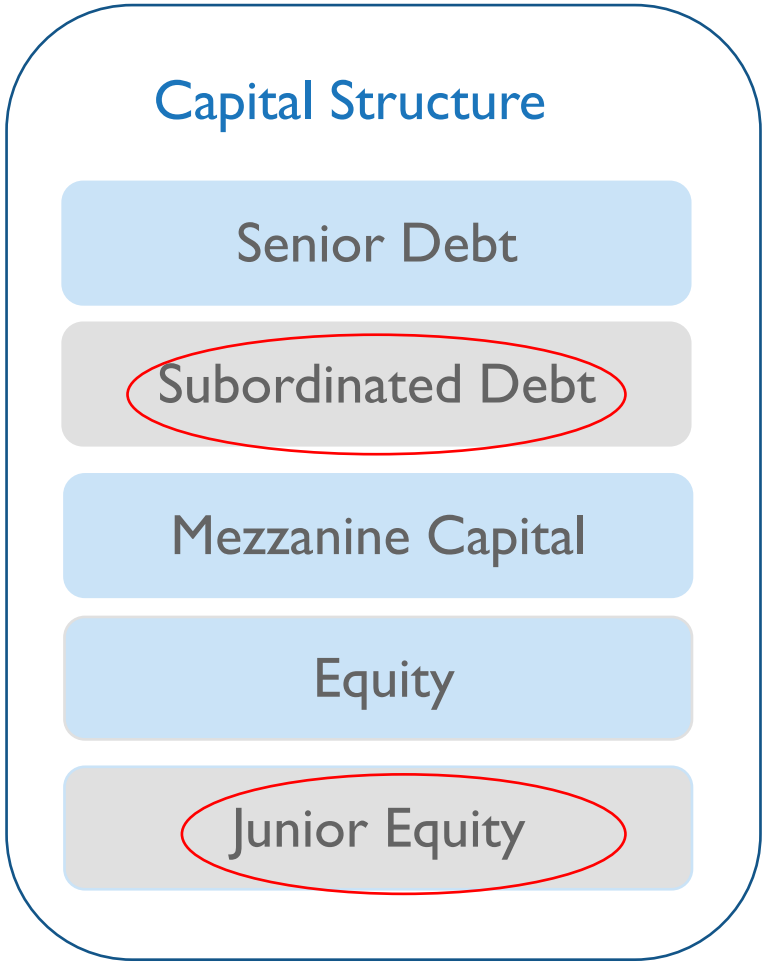
Blended Finance Archetype and Examples

COMMON ARCHETYPES OF BLENDED FINANCE

No	Blended Finance Instrument	Role of Blended Finance
1	Credit enhancement guarantee	Enhance credit rating to enable sub-national government to access a market which would otherwise be closed
2	Viability Gap Funding	Close the gap between economic feasibility and financial feasibility by making the project bankable (indirectly improving the equity IRR to match market expectation)
3	Mezzanine or subordinate loan on concessional terms	Close the gap between economic feasibility and financial feasibility by making the project bankable (reducing the amount of commercial equity and debt required). The repayment of the loan will create a pool of capital to be used for future BF transactions.
4	Deferred equity to PPP IBE	Improving the equity IRR for the commercial investor to market rate
5	Minimum Revenue Guarantee	Reducing risk that is outside of the control of the private partner and potentially beyond the capacity of the contracting agency to absorb (eg. role out of a distribution network/ actual consumer demand)
6	Payment of interest subsidy to lender	To facilitate higher leverage than is usual in the market thereby reducing the overall cost of capital
7	Interest rate and currency swaps	To facilitate access to long tenor fixed rate financing in the international market thereby reducing the overall cost of capital and demonstrating that PPPs would have greater financial feasibility if it were not for Indonesia's restricted money/currency markets
8	Direct funding of part of capex or prep works	To reduce the cost of private finance without losing the benefits of private participation and to speed up delivery

1. FUNDED RISK PARTICIPATION: CONCESSIONAL DEBT & EQUITY (1/2)

- Concessional debt or equity provide **favorable terms** of rates relative to market pricing; developmental capital bears non-market risk-return
- Subordinated (debt) or junior (equity) **protects** senior investors by taking first losses on the value of the security
- The use of direct investment instruments on concessional terms helps shift the risk-return ratio for private investors to an acceptable level
- Concessional finance can help bring down the **weighted average cost of capital** for a project



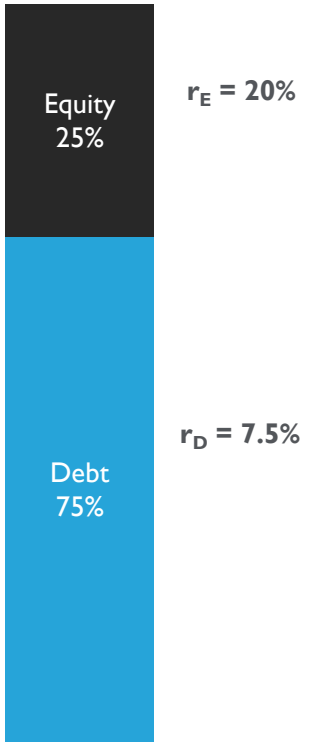
1. FUNDED RISK PARTICIPATION: CONCESSIONAL DEBT & EQUITY (2/2)

Concessional risk participation to enhance private investor debt	Concessional risk participation to enhance private investor equity
Subordinate return of principal until all private principal returned "first loss"	Cap returns upto a certain level of IRR with upside accruing to commercial investors
Longer maturities versus shorter maturities	Returns into reserve to create larger risk cushion for private investors
Caveat: Concessional participants target mobilising private investment and not subsidising private sector	

CONCESSIONAL DEBT OR EQUITY - ILLUSTRATION OF APPLICATION

Blended finance can help reduce the weighted average cost of capital of a project. By adding new tranches and re-configuring existing ones there is a change in the **risk adjusted returns which enables the transaction to become bankable.**

Basic Capital Structure

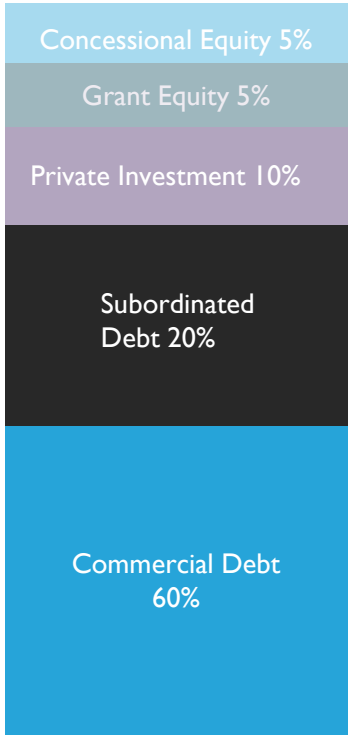


$r_E = 20\%$

$r_D = 7.5\%$

× **PV(Cashflow) at WACC 10.625% < 0**

Blended Capital Structure



$r_E = 5\%$

$r_E = 10\%$

$r_E = 20\%$

Blended Equity
$r_E = 13.75\%$

$r_D = 4\%$

$r_D = 7.5\%$

Blended Debt
$r_D = 6.625\%$

✓ **PV(Cashflow) at WACC 8.3% > 0**

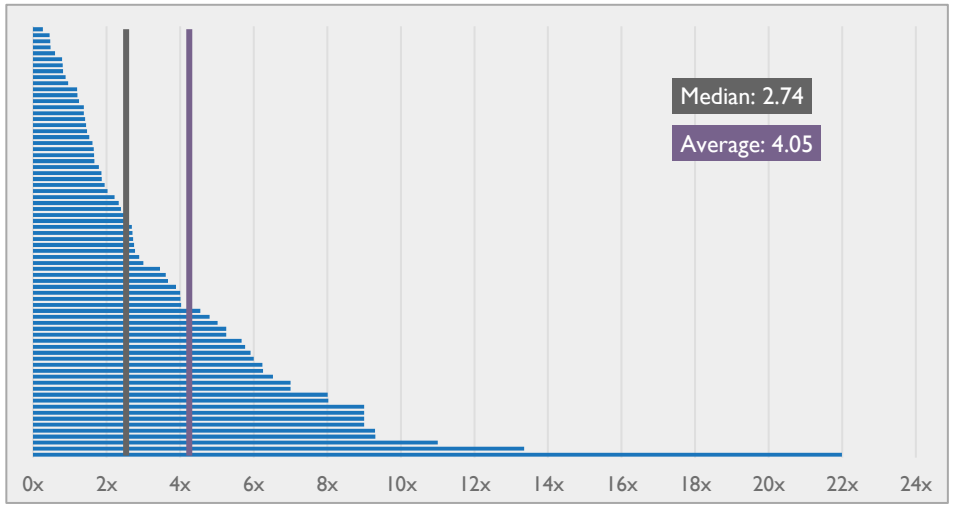
LEVERAGE RATIO DISTRIBUTION FROM CONVERGENCE DATABASE

- The historical average leverage ratio has been **4.05** for blended finance funds that are recorded in Convergence's deals database

- Measures commercial capital mobilized by concessional capital; commercial capital includes capital mobilized by private investors & MDB's/DFI's at market rates

- Leverage ratios are sometimes **lower** due to the need for **demonstration effect** and high **perceived risk**, however should increase over time as investors comfort level goes up

LEVERAGE RATIOS OF SELECT DEALS



Leverage ratios vary significantly across sectors and geographies according to **perceived** and **real** risks – e.g., average leverage has been greater for Latin America compared to Sub-Saharan Africa.

APPROACHES TO MINIMUM CONCESSIONALITY – WORLD BANK GROUP CASCADE APPROACH

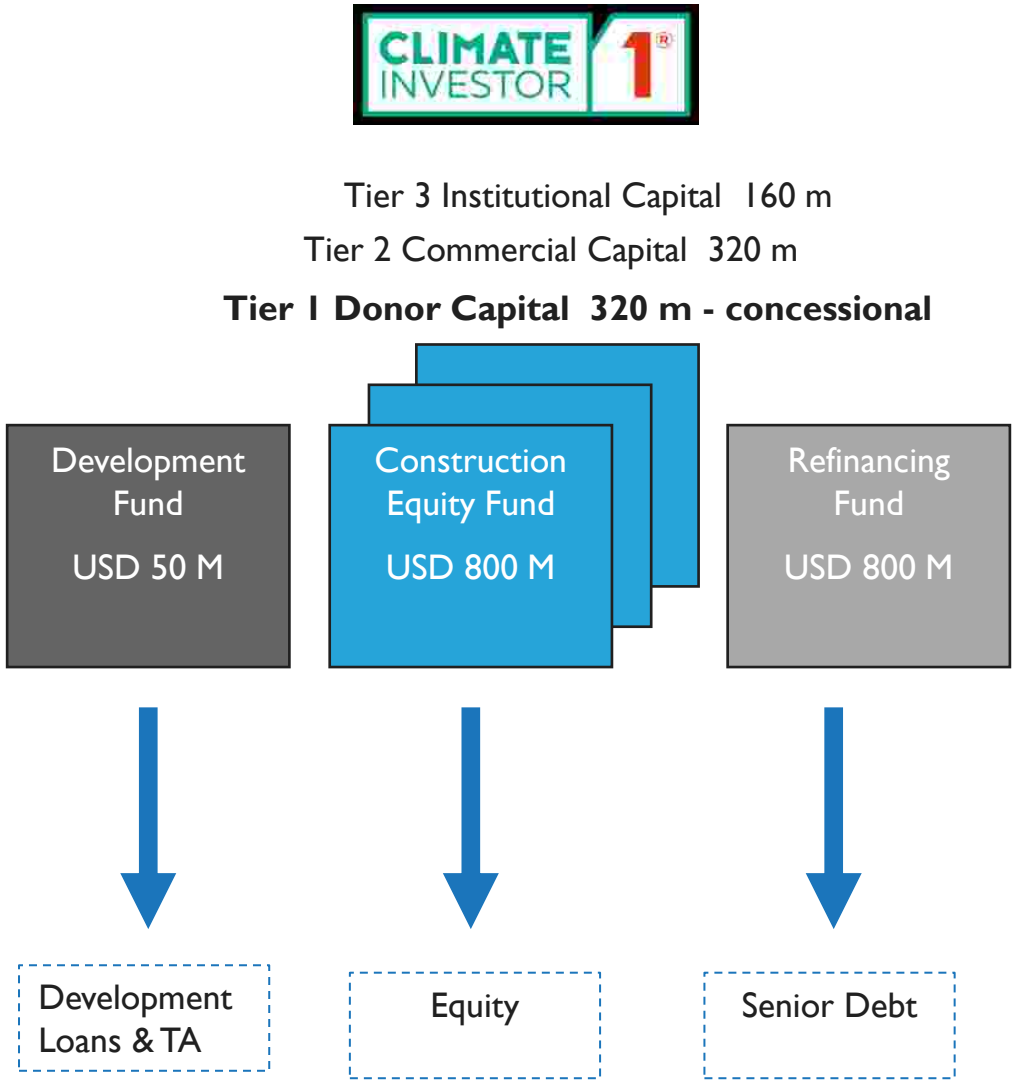
- **In general terms, if commercial finance is available in a given market, then it should be prioritized so that limited public funding is being used when/where other sources are not available**



Source: World Bank Group

EXAMPLE - CLIMATE INVESTOR ONE

- Invests in **renewable energy projects** that serve 7 million individuals in emerging countries and avoid GHG emissions of 1.2 million tons of CO_2 equivalent
- Offers life-cycle support through **three funds** that are designed to address barriers specific to each stage
- Mobilizes private sector financing through **catalytic public sector funding**; investors and donors can participate in a fund and a tranche according to their risk-return profile
- Development Fund comprised of **non-repayable donor contributions** while Construction Fund has **first-loss tranche** (Tier1) that is capitalized by donor contributions
- Recently announced financial close at USD 850 million



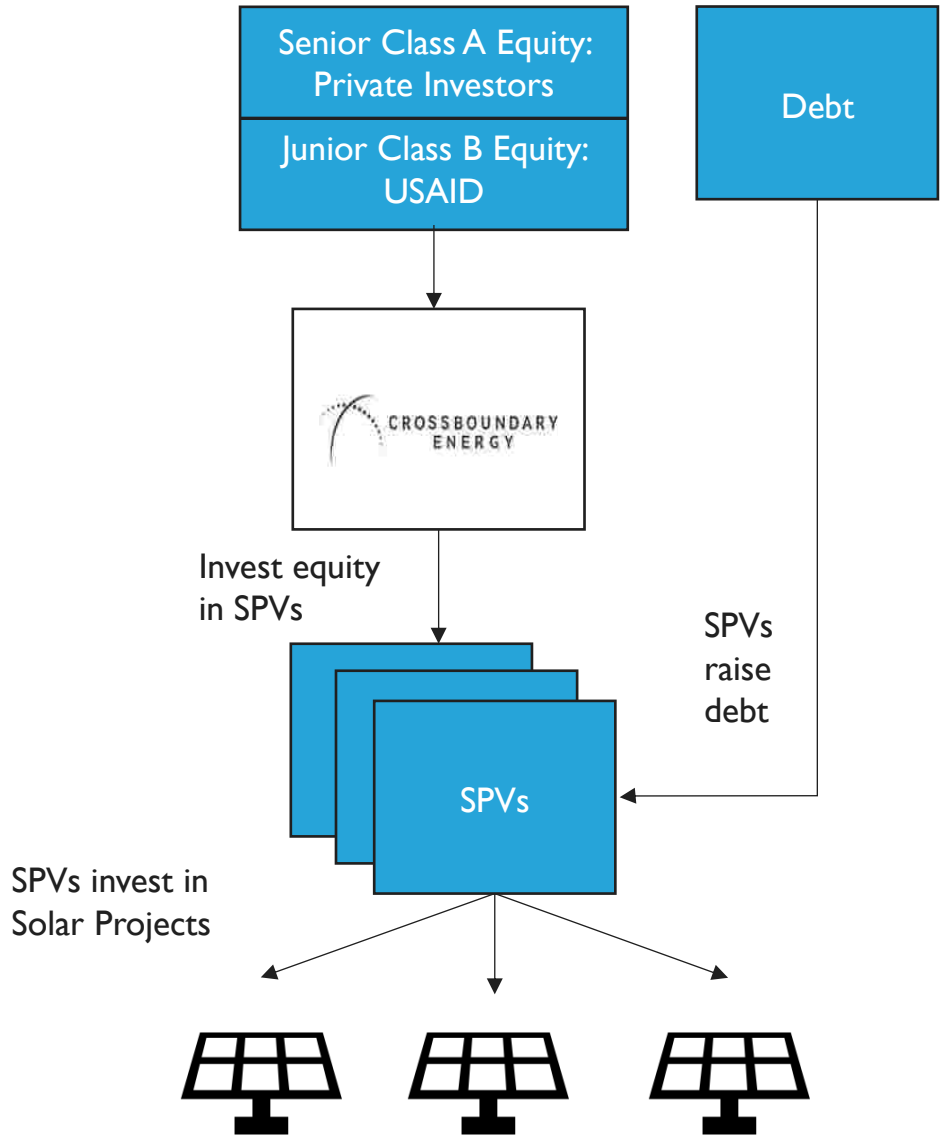
EXAMPLE - CROSSBOUNDARY ENERGY

- CrossBoundary Energy finances the construction, operation and maintenance of solar projects with the goal of establishing commercial and industrial solar as an investable asset class in sub-Saharan Africa

- The Fund adopts an innovative **two-tier equity capital structure**: USAID contributed junior class B equity in order to catalyze private investment into the larger Class A senior tier

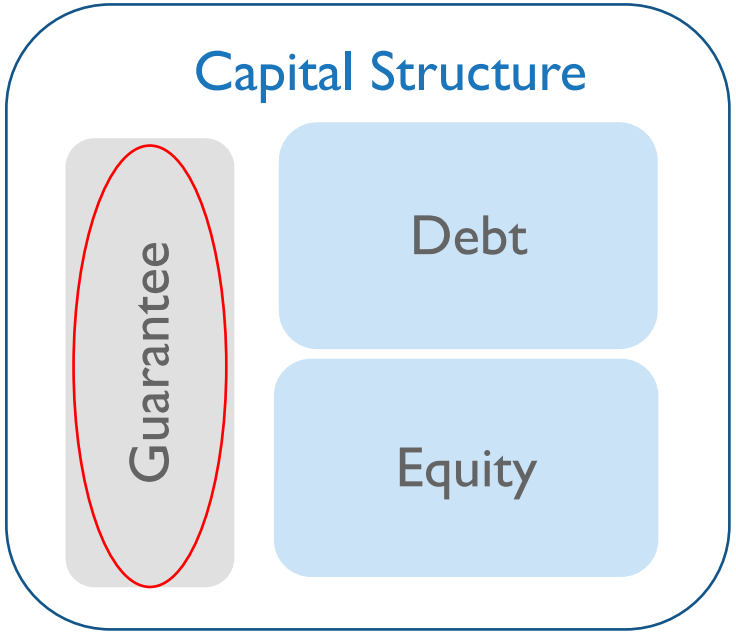
- The fund in turn **invests equity into SPVs that can also raise debt** leading to an increase in total available capital

- Donor aid agency can provide valuable support beyond subordinate capital, such as signaling credibility and facilitating connections to relevant partners



2. CONTINGENT (UNFUNDED) RISK PARTICIPATION: GUARANTEES

- Risk reduction tools that protect investors against capital losses
  - **Guarantees** provides protection to investors if guaranteed event occurs (eg: payment default of borrower);Provides investors secondary level of comfort that investment will be repaid if obligor is not able to fulfill its contractual obligations (payments)
- **Lowers cost of financing** for obligors as guarantor typically has better credit rating than obligor
- Helps **narrow gap between real and perceived risk** & typically requires no immediate outlay of cash/capital
- Primarily **backstops debt** (e.g. loans and bonds) and provide credit enhancements

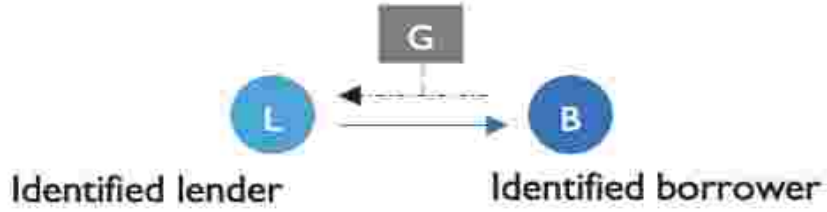
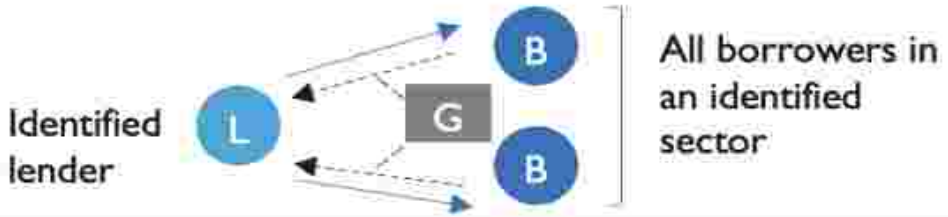
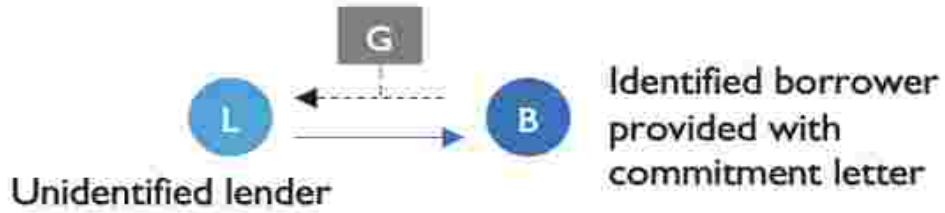
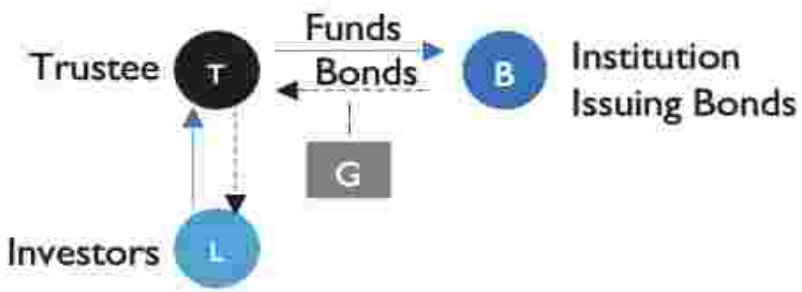


AfDB, MIGA, USAID/DFC & Sida are active users of guarantees for development

MOST COMMON FORMS/TYPES OF GUARANTEES

#	Type	Description
1	**Credit**	•Risk of obligor non-payment for any reason; commercial, political or otherwise
	Political Risk	•Risks imposed by a government's actions or inactions (impacting ability of obligator)
	Performance	•Assurance for satisfactory completion of a project by a contractor/sub contractor
2	**Full**	•Full amount of (debt) obligation
	Partial	•Portion of (debt) obligation
3	**First Loss**	•Assurance for first losses on a transaction or portfolio
	Second Loss	•Assurance for losses on a transaction or portfolio beyond a threshold

EXAMPLES OF STANDARD GUARANTEE PRODUCTS

#	Type of Guarantee	Diagrammatic Representation
1	**Loan Guarantee**	
2	**Portfolio Guarantee**	
3	**Portable Guarantee**	
4	**Bond Guarantee**	

MAIN BENEFITS OF GUARANTEES VERSUS LOANS AND GRANTS

- Some advantages over the traditional lending operations of MDBs & DFIs:

1. Support the targeting of specific classes of risk
2. Enable mobilization of other sources of funding (especially from private sector)
3. Shorter maturities than standard MDB/DFI loans, hence capital can be recycled faster

- Some advantages over traditional grants from development agencies and foundations:

1. Stronger ability to mobilize commercial capital (private sector) to create larger pool of financing for development
2. Pay for specific, targeted outcomes/outputs vs cash paying for inputs with uncertain impact

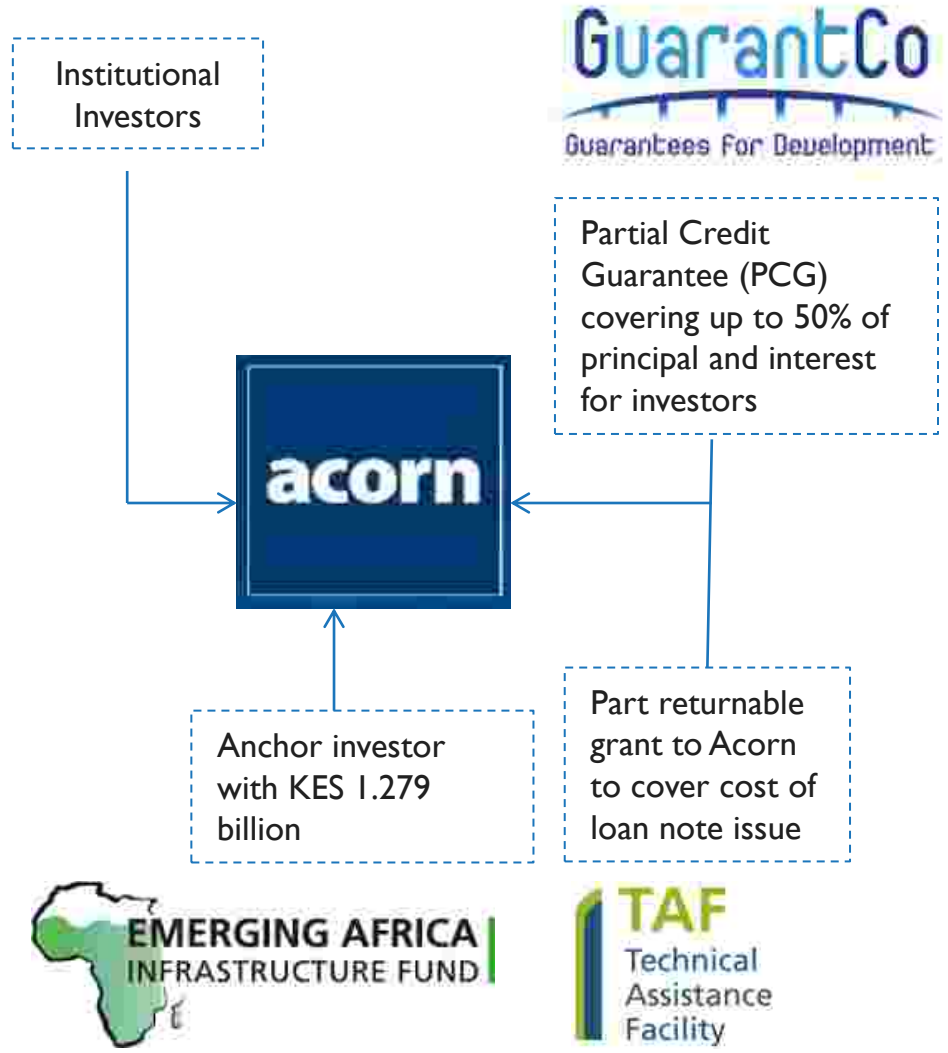
QUESTION: OPTIMAL USE OF PUBLIC SECTOR GUARANTEES, SUPPORTING INTERMEDIARIES?

- **Direct** public sector guarantees may be sub-optimal; investors do not require "AAA" or "AA" risk or zero capital weighting
- Partial credit guarantees only achieve two notch improvement
- Providing guarantees to **intermediaries** improves their ability to underwrite risk by **3-4 times leverage**. Intermediaries that provide guarantees as their core business include the following

1. **African Guarantee Fund (Rated AA-):** Swedish Sida provides AGF with a guarantee; in turn the organization can then provide a guarantee equal to four times what was provided by Sida while maintaining its rating
2. **GuarantCo (Split rating AA-/A+):** Ratings agencies allow GuarantCo to provide guarantees of up to two times its capital without downgrade; with counter-guarantee counting as capital
3. **Credit Guarantee & Investment Facility (Rated AA):** Ratings agencies allow the organization to provide guarantees of up to three times its capital

EXAMPLE - ACORN HOLDINGS CREDIT-ENHANCED PROJECT BOND

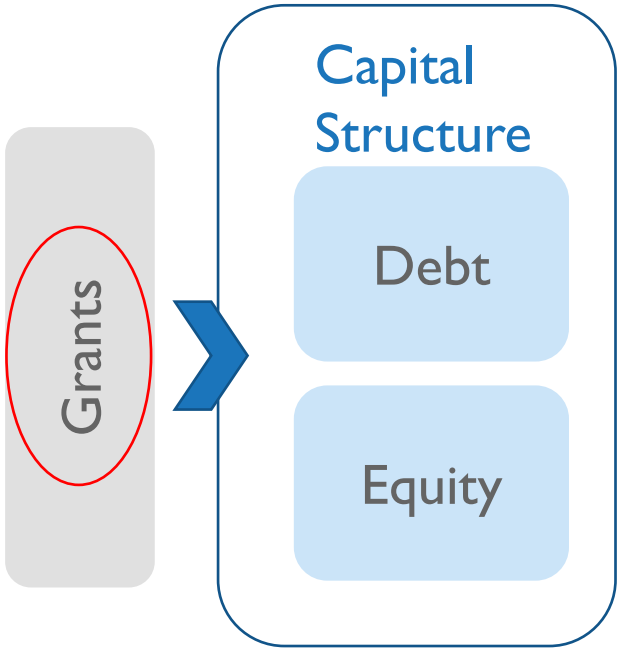
- Acorn Holdings – student accommodation property developer in Kenya
- Medium-term note program issuance of KES 4.3 billion ($41 million) in October 2019 – listed on the Nairobi Stock Exchange (NSE) with dual-listing on the London Stock Exchange (LSE) in January 2020
- Project bond with deferred draw down structure to provide green-certified accommodation for 5,000 students
- Rated B1 by Moody's



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3. DESIGN/PREPARATION FUNDING GRANT

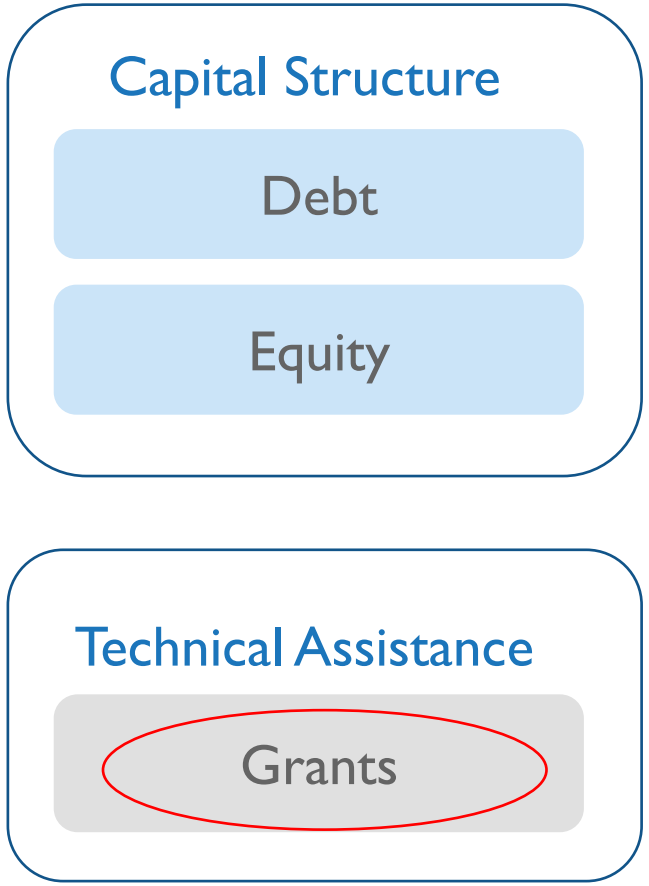
- Grants that support costs and activities that lead to **bankable/investible SDG projects**
- Typically provided by those who seek to **catalyze** and seed SDG projects that are currently not happening
- Typical examples include feasibility studies, proofs of concept and technical studies to prepare projects that are technically sound, sustainable and bankable/investible
- Examples include Convergence Design Funding Program and Rockefeller Foundation's Zero Gap Portfolio
- Early stage support can be **highly catalytic** in nature



4. TECHNICAL ASSISTANCE SUPPORT

- **Grant funds usually spent on:**
  - Technical studies
  - Training, capacity building and advisory services
  - M&E of specific interest to grantor

- **Typical objectives:**
  - Increase quality of project implementation
  - Demonstrate feasibility of projects in risky areas or with unproven business models that could be commercially viable
  - Cover ancillary costs that would otherwise drive private investors' returns below acceptable level
  - Achieve systemic results (e.g., sector reforms) beyond the transaction
  - Useful to prove business models, especially in less mature sectors and riskier geographies

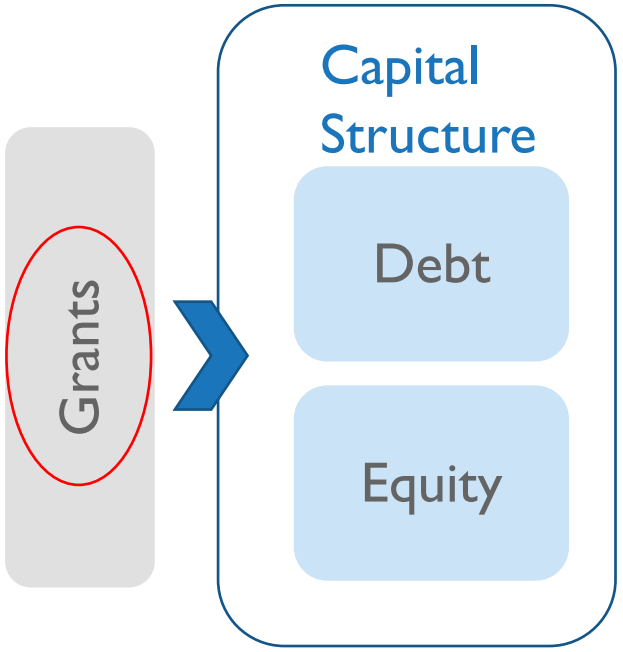


5. VIABILITY GAP FUNDING & SMART SUBSIDIES

- **Grant payments** used to
  (1) reduce total up-front investment required or
  (2) support ongoing economics/financing of SDG project

- Viability gap funding typically required to **reduce** cost of **implementation** to affordable level for developing country

- **Smart subsidies** typically required due to lack of financial **viability** at market terms – e.g., inability to increase user charges to sufficient levels to pay full cost of capital at market rates (e.g., renewable, clean energy projects)



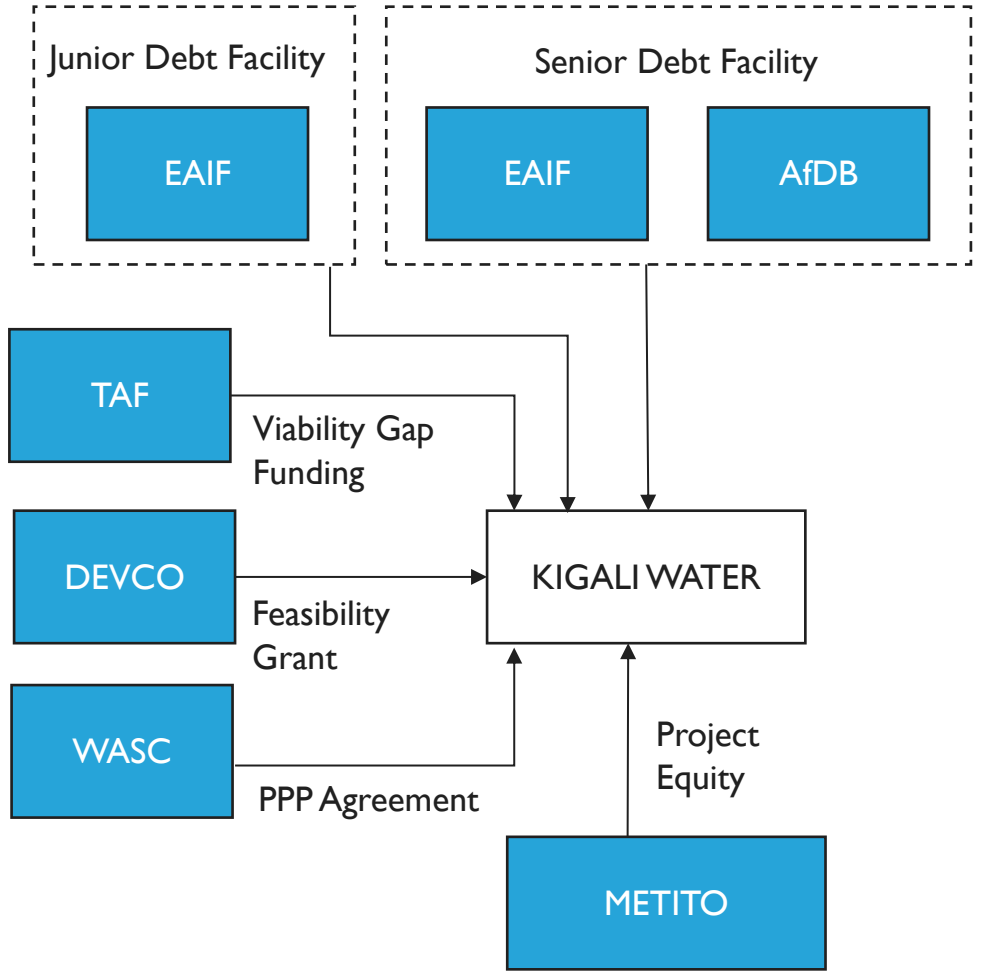
EXAMPLE: KIGALI BULK WATER SUPPLY PROJECT

- Kigali Water Limited (KWL), arranged by the Emerging Africa Infrastructure Fund (EAIF), is building Sub-Saharan Africa's first water supply project using a PPP model in order to attract private sector investment

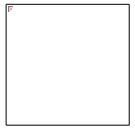
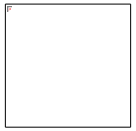
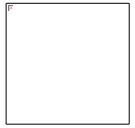
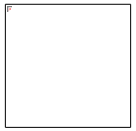
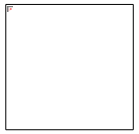
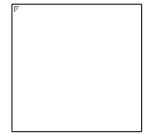
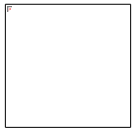
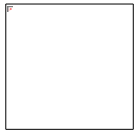
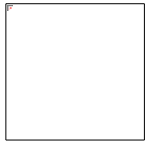
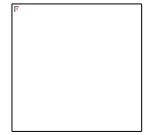
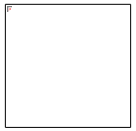
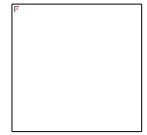
- KWL, a subsidiary of Metito received a 27yr BOT license; KWL will sell potable water to the public utility - Water & Sanitation Corp. of Rwanda

- EAIF led financing of $40.6M of the $60.8M project; EAIF provided $2.6M in junior debt and $19M in senior debt with a matching amount from AfDB with an 18yr tenor

- PIDG company, DevCo provided a grant for legal, financial, technical, environmental and feasibility while TAF provided $6.5M in viability gap funding to reduce upfront costs



USE OF BLENDED FINANCE ARCHETYPE FOR EACH STAGE OF A HOUSING PROJECT

		Blended Finance Instrument				
Stage	**Description**	**Project preparation grant**	**Technical assistance funds**	**Concessional debt/equity**	**Concessional guarantee**	**Outcome-based financing**
Stage 0: Defining the Objectives of the Deal	Aligning strategy, impact, and investor mandates					
Stage 1: Market and Impact Pre-conditions	Feasibility, market studies, early impact definition					
Stage 2: Structuring the Deal	Risk allocation, capital stack design, regulatory preparation					
Stage 3: Fundraising	Sequencing and securing capital, aligning mandates					
Stage 4: Implementation and Monitoring	Execution discipline, impact tracking, adaptive management					

RISKS ASSOCIATED WITH VARIOUS VALUE CHAIN STEPS WITHIN THE AFFORDABLE HOUSING AND THEIR POSSIBLE INTERVENTIONS (1/1)

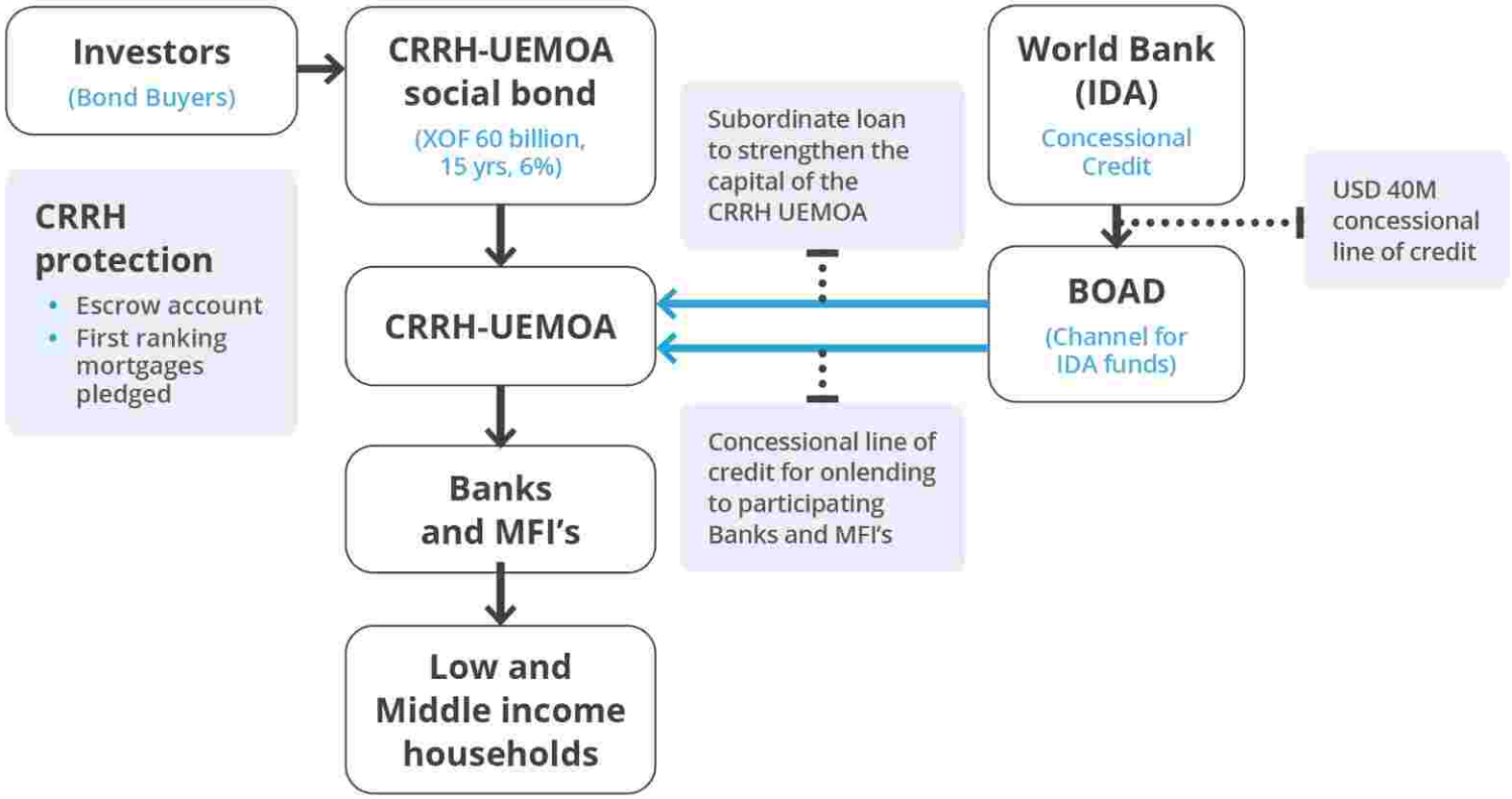
Enabling Environment	Value Chain Steps	Typical Risks	Possible Interventions	Traditional Finance Instrument and Source	Blended Finance Instrument
Policy and regulatory environment Infrastructure Market demand	0. Project preparation	Weak feasibility studies, poor project structuring, lack of pipeline, high upfront soft costs	Outsourced feasibility studies, including market review and analysis	Equity - Deal sponsor	Project preparation grants, technical assistance funding
Policy and regulatory environment Property and land administration	1. Land acquisition and tenure	Unclear land titles, tenure disputes, zoning changes, high upfront land costs	Land titling support, technical assistance funding, concessional capital for land banking, policy reform funds	Equity - Deal sponsor	Technical assistance funding, concessional debt/equity
Infrastructure	2. Bulk infrastructure provision	Lack of serviced land, delays in utilities (water, sewerage, power, roads)	Blended municipal infrastructure funds, viability gap financing, public guarantees, DFI co-investment	Equity - Deal sponsor Mezzanine debt - DFI, mezzanine funds, commercial banks	Project preparation grants, public guarantees

RISKS ASSOCIATED WITH VARIOUS VALUE CHAIN STEPS WITHIN THE AFFORDABLE HOUSING AND THEIR POSSIBLE INTERVENTIONS (1/2)

Enabling Environment	Value Chain Steps	Typical Risks	Possible Interventions	Traditional Finance Instrument and Source	Blended Finance Instrument
Macroeconomic stability Availability of capital	3. Development and construction	Micro/small/mid-sized developers under-capitalized, cost overruns, low technical capacity, construction delays	Concessional construction loans to reduce lender exposure, especially if the project fails, equity top-ups, working capital facilities, technical assistance for developers, supply-side subsidy alignment, tax credits	Debt - Commercial banks	Technical assistance funding, concessional debt/equity
Policy and regulatory environment Property land administration	4. Regulatory and approvals	Lengthy permitting, unpredictable fees, corruption risk, holding costs escalate	Risk-sharing facilities to cover delays, technical assistance to streamline approvals, performance-based grants to municipalities	Equity - Project sponsor	Technical assistance funding, concessional debt/equity, outcome-based financing
Market demand	5. Housing finance and demand	Low affordability, high interest rates, short loan tenors, weak credit systems	Concessional mortgages, guarantee schemes for lenders, mortgage liquidity facilities, blended housing funds to support offtake, demand-side subsidy alignment	Debt - Commercial banks, mortgage companies	Concessional debt, guarantees

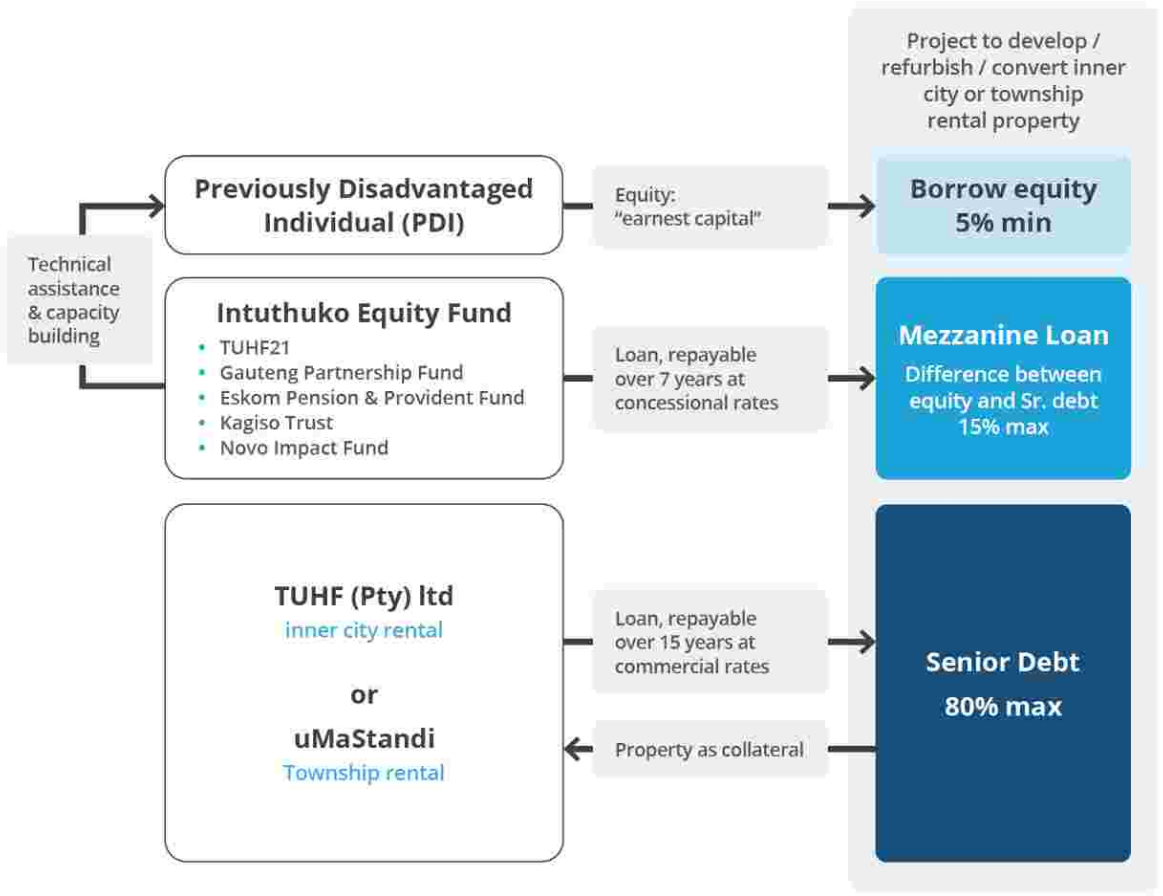
CASE STUDY 1 CRRH – UEMOA

- **Blended Archetype:** Concessional debt
- **Stage concessional capital entered the transaction:** Stage 2 (Structuring the Deal)
- **Risks addressed:**
- High cost of mortgages
- Balance sheet and capacity risk
- Housing segment risk



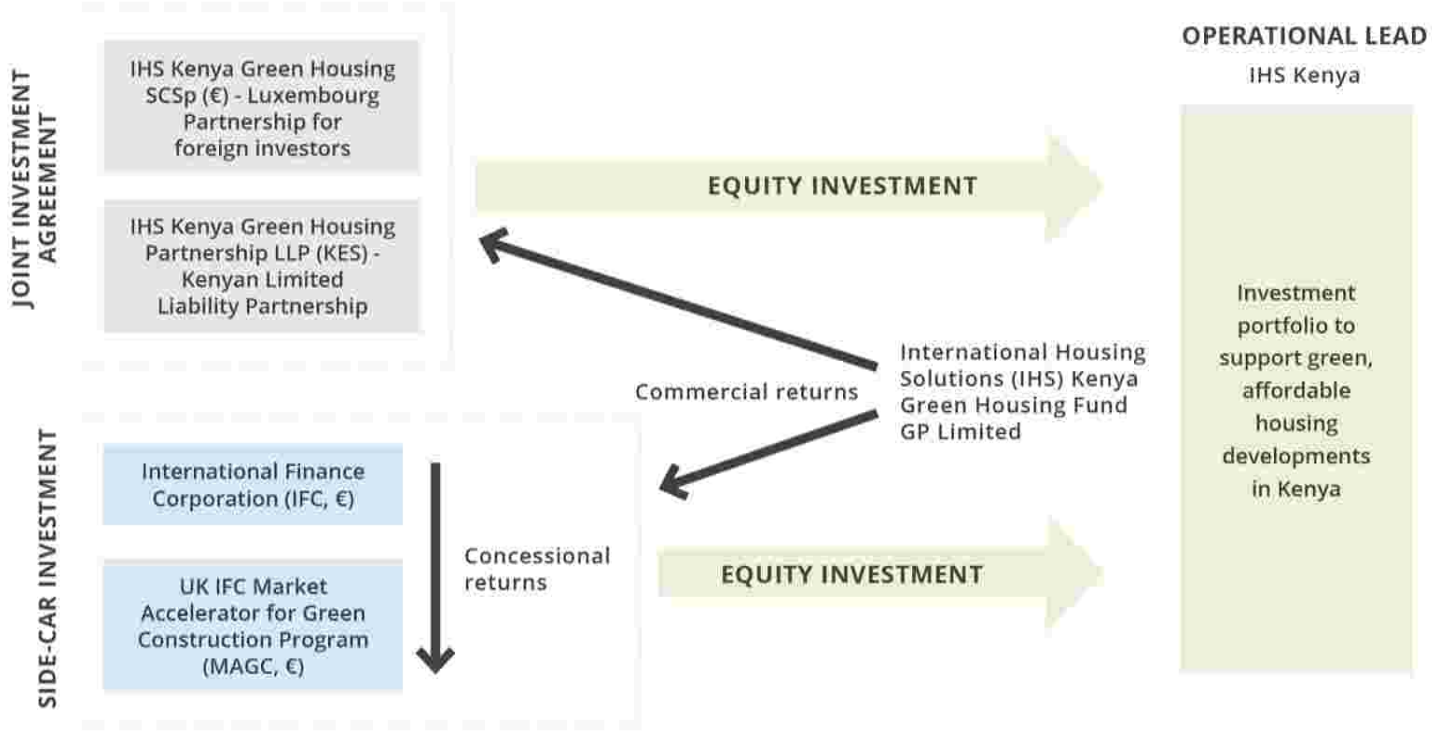
CASE STUDY 2 INTUTHUKO EQUITY FUND

- **Blended Archetype:** Technical Assistance Funding, Concessional Debt
- **Stage concessional capital entered the transaction:** Stage 1 (Market and Impact Preconditions), Stage 2 (Structuring the deal)
- **Risks addressed:**
- Lack of developer track record
- Capacity and executional risk
- Scalability and pipeline risk



CASE STUDY 2 IHS KENYA

- **Blended Archetype:** Concessional Equity
- **Stage concessional capital entered the transaction:** Stage 3 (Fundraising)
- **Risks addressed:** Concessional equity was used to improve the overall risk-return of the transactions, specifically addressing risks including:
- Single sector and single country concentration
- Devaluation
- Market downturns
- Limited exit options
- Construction and execution challenges
- Unpredictable and slow permitting
- Construction cost inflation
- Project sourcing issues



GROUP EXERCISE

BANKENVELD
DISTRICT CITY

https://youtu.be/YiJwR_D-AF4?si=pATvpMDWXgNVmOZM



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BLENDING GLOBAL FINANCE

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Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

MAS Monetary Authority of Singapore

OLAYAN

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PILLAR

Supporting Sustainable Homes

HOUSING ADVISORY PLATFORM

IFC International Finance Corporation
WORLD BANK GROUP

Creating Markets, Creating Opportunities

What is Pillar?

A housing advisory platform offering housing developers tools that:

- Assess their **business** strengths, areas for enhancement and recommendations for capacity building
- Assess the **quality of their master planned communities** and recommend improvements, from a social sustainability lens.
- Tailored coaching helps plug key capacity gaps



Benefits For Users



Housing Developers

- Validate and enhance business proficiency and project quality/standards
- Provides a roadmap for continuous improvement



Financial Institutions/Investors

- Support due diligence of a housing developer
- Helps reduce risk of loans and investments



Governments

- Aids screening/selection of partner developers and projects
- Can help to inform government policy

KEY OUTCOMES

Stronger Developers	More Socially Sustainable Housing Projects Coming to Market	Better-Informed Banks	Increased Financing	Greater Supply

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Supporting Sustainable Homes

Business Assessment

- **Understand the operational standards and proficiency** of a housing developer.
- A company **health check.** What's working well and areas for enhancement.
- Examines **4 key areas** of the business – **financial, business, operational and organizational** management**.**
- **Tailored coaching** to address capacity gaps.

Financial Management

- Accounting and Reporting
- Financial Risk Management
- Budgeting
- Debt Obligations
- Liquidity and Cash Flow
- Profitability

Business Management

- Track Record
- Ongoing Projects
- Regulatory Compliance
- Rental Market
- Construction and Selling Price

Project Operations

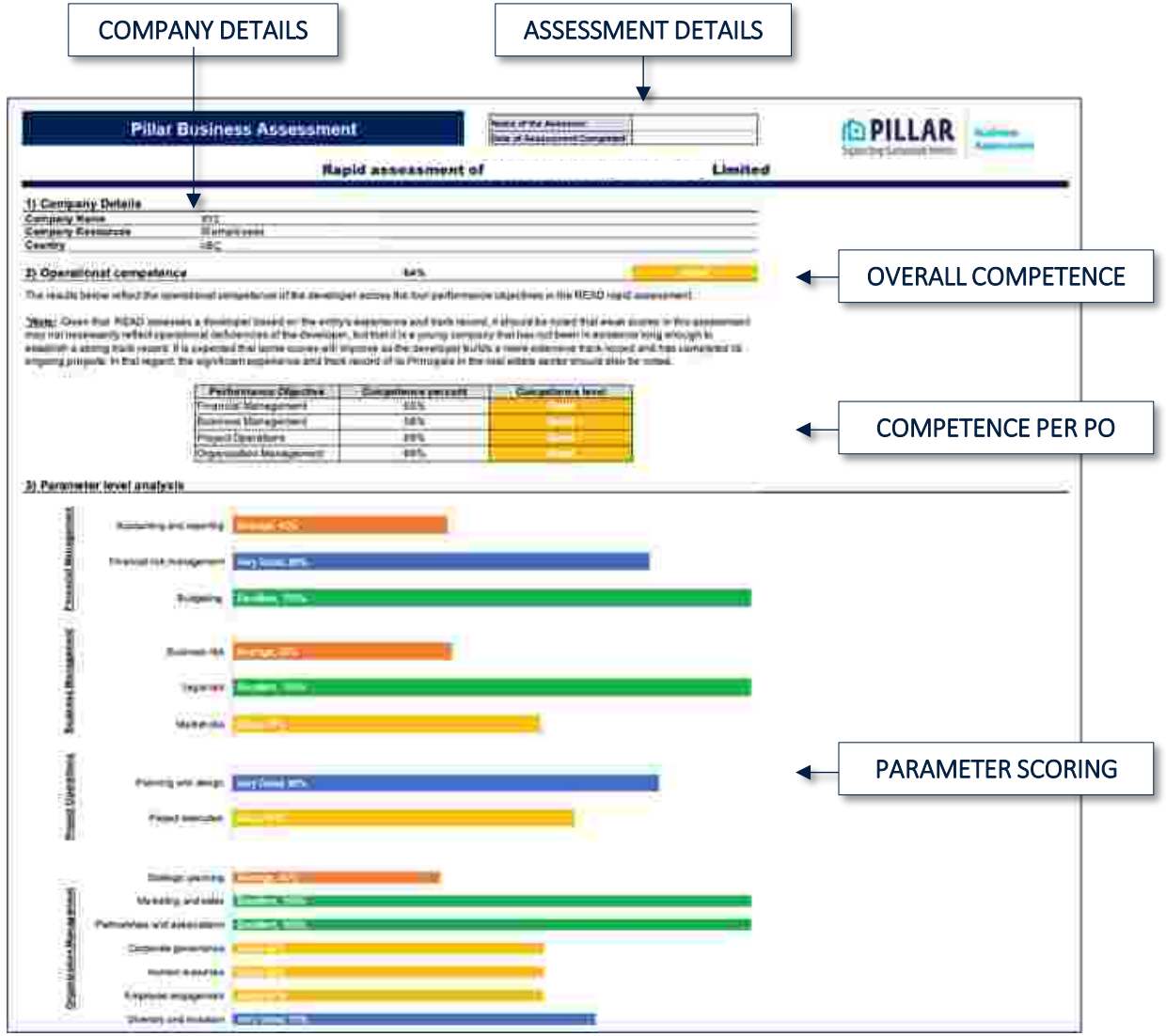
- Planning and Design
- Project Execution
- Green Certification
- Approach to Climate mitigation/adaptation

Organization Management

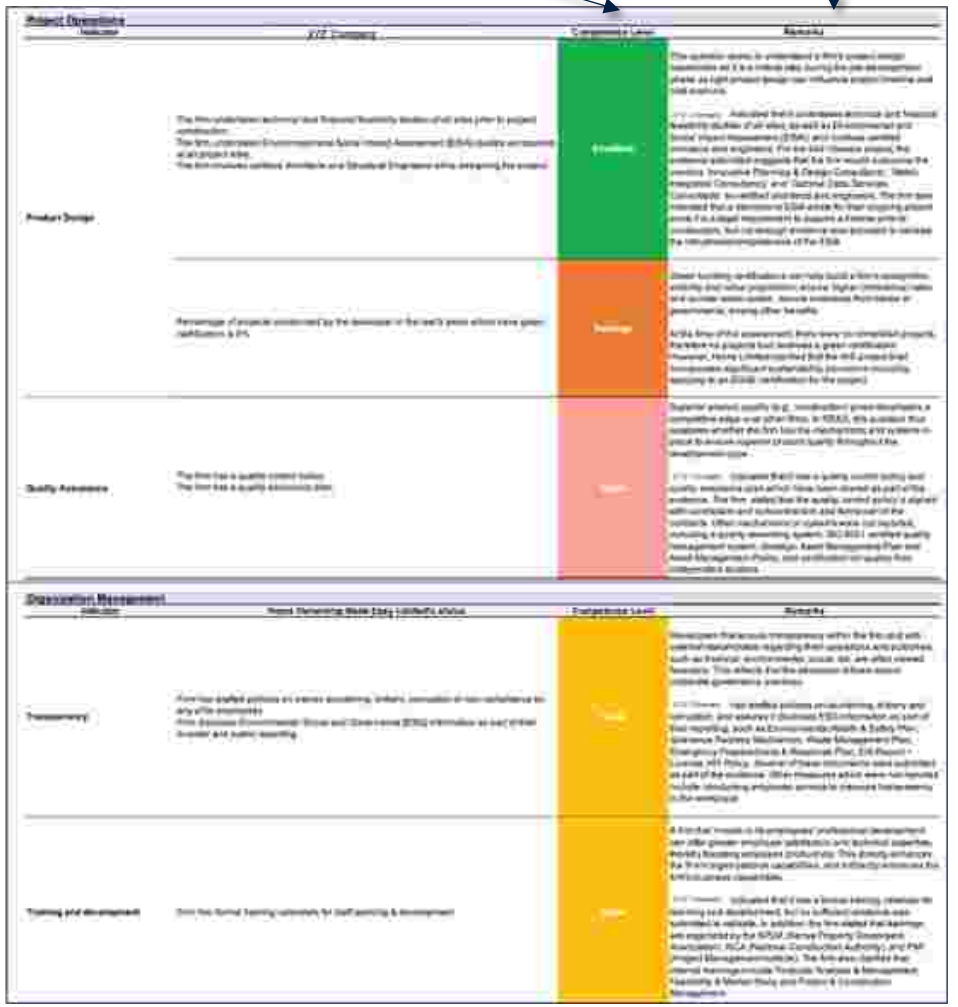
- Strategic Planning
- Marketing and Sales
- Partnerships and Associations
- Corporate Governance
- Human Resources
- Employee Engagement
- Diversity and Inclusion

Snapshot of The Results Dashboard

1. OVERALL AND PARAMETER LEVEL SCORE (OUT OF 100%)



2. INDICATOR LEVEL SCORE AND EXPLANATION



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Snapshot of The Results Dashboard

3. REMARKS AND RECOMMENDATIONS

Additional remarks and recommendations

Financial Management: obtained a score of 65% (Good) in this Performance Objective. The **parameters with higher scores are 'Budgeting' and 'Financial Risk Management', while 'Accounting and Reporting' was given a lower score**, mainly due to the absence of an external auditor's opinion and not having an integrated report in place. The firm indicated that, at the time of the assessment, audited financial statements for FY1 and FY2 were being prepared by an external auditor for purposes of banks and financiers' disclosures, but these were not submitted as part of the evidence; and clarified that the external auditor was preparing an accounting report according to the IFRS framework. It is recommended that:

→ The **firm discloses its audited financial statements and opinions with financial institutions and prepares an integrated report** according to the International Integrated Reporting Council (IIRC), which includes the following elements: organizational overview, governance, business model, risks and opportunities, strategy and resource allocation, performance and outlook).
→ The **integrated report is published on the firm's website and shared** with potential investors, financiers and other relevant stakeholders.

With regard to financial risk management, Home Limited stated that their **financial risks are majorly project-based and mitigated through internal (finance department) and external (bank relationship manager/loan officer, project quantity surveyor, auditor) systems**. In addition, the firm has processes for assessing and mitigating financial risks as validated by the Risk Management Plan for the project. This plan includes risk identification and qualitative and quantitative analyses; response planning; provisions for risk monitoring, controlling, and reporting; and a risk matrix, among other items. This is considered a good practice which should be continued and enhanced over time. Additionally, the **firm assured that it uses robust construction analysis jointly with its contractors and subcontractors** and that it prepares project budgets separately from overall firm master budget, as validated by the Utawala 440 project financials. It also explained that projects will rely in 20-30% on pre-sales. It is recommended that:

→ The firm considers using **escrow accounts to ensure most of pre-payments are used exclusively on the project** in question.
→ Conducts **internal or external audits to identify significant weaknesses or deficiencies in the firm's internal financial control mechanisms** which was not reported at the time of the assessment.
→ Ensures that **non-budget expenses are infrequent**, and that approval is required by senior management and financiers.

PO RESULTS SUMMARY

PO RECOMMENDATIONS

PO RECOMMENDATIONS

Business Management: obtained a score of 58% (Good) in this Performance Objective. The parameter with the higher score is 'Legal Risk', while 'Market Risk' and 'Business Risk' were given lower scores. Most of these parameters assess a developer's track record in terms of e.g., years of experience delivering residential real estate, number of units sold at completed and ongoing projects, maximum number of units at a completed project, completion rate of ongoing projects, etc. Given that the firm has been in operation for 2.5 years and that, at the time of the assessment, there were no completed projects and that ongoing projects were at a pre-development phase, the tool assigned lower scores to these parameters. It is expected that these scores will improve as the developer builds a more extensive track record and has completed its ongoing projects. **Nonetheless, as described in the specific comments for the indicators 'Experience in target segment' and 'Track record', Principals have significant experience delivering real estate projects and have previously participated in delivering multiple projects at other companies, including residential and mixed-use. Although the READ tool assesses a developer based on the entity's experience and track record, given Home Limited is a very young company that has not been in existence long enough to establish a strong track record, the significant experience and track record of its Principals should be noted.**

Other questions indicate positive aspects with respect to business management. In terms of delivering basic infrastructure (e.g., water, sewerage, electricity, etc.) at residential projects, the firm suggested (not validated by evidence) that it has made provisions for all the selected infrastructure at its ongoing projects, such as including all relevant costs in Bill of Quantities and having project consulting engineers study, design and quantify all necessary infrastructure in line with the project brief. Likewise, the firm complies or ensures will comply with all legal requirements for projecs. And in terms of energy efficient services, **the firm stated that the IHS project brief incorporates significant sustainability provisions including applying to an EDGE certification** (e.g., energy, water, materials) and that it is planned that 100% of the IHS project has at least some energy efficient services. It is highly recommended that:

→ The firm indeed **pursues EDGE certifications for its ongoing and future projects** as these can help build the firm's recognition, visibility and value proposition; ensure higher commercial rates and quicker sales cycles; and secure potential incentives from banks or governments.

Regarding compliance with legal and regulatory requirements for project execution, the firm indicated that it complies with building plan sanctions, occupancy certificates, environmental clearances, land title clearances, and other building level approval, although no evidence was submitted nor required for this assessment. Lastly, the firm indicates that 60-100% of its land reserves are earmarked for affordable housing projects which is valued positively in READ as it suggests a higher potential for lower-income housing projects.

PO RESULTS SUMMARY

PO RECOMMENDATIONS

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Social Sustainability Assessment

- Assesses a **specific master planned community**/development
- Socially sustainable developments are communities where **residents have a good quality of life and affordable access** to facilities and amenities.
- Ensure master plan schemes are **well-integrated into the wider urban systems**.
- **Tailored coaching** to address capacity gaps.

Assessment across phases of development

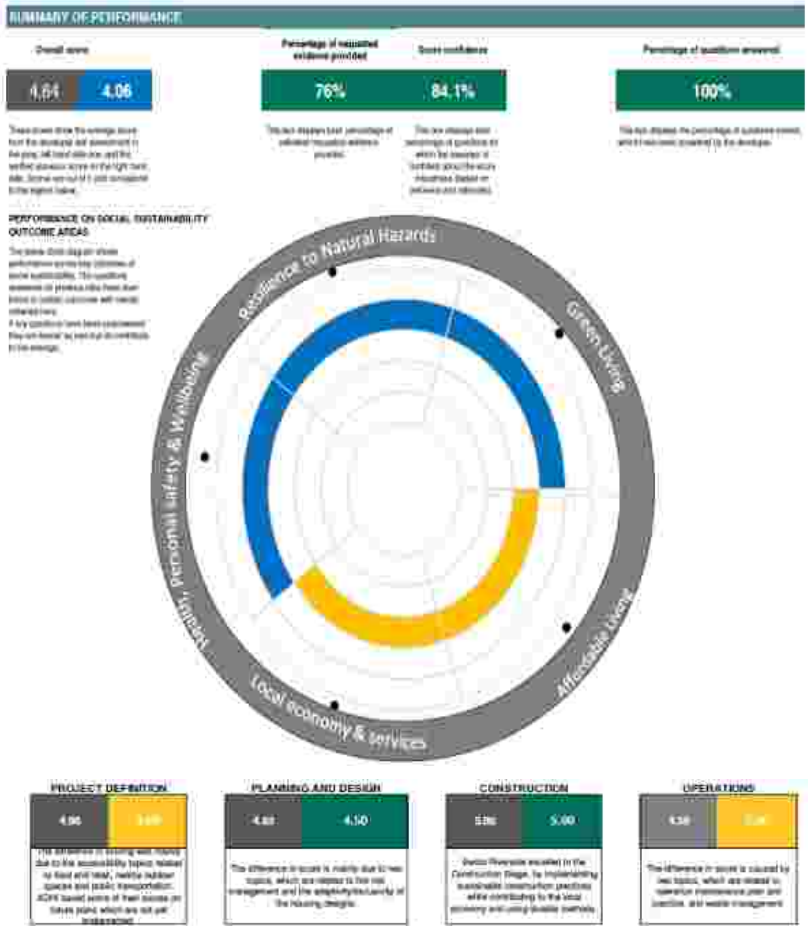
1. PROJECT DEFINITION ---- **2. PLANNING AND DESIGN** ---- **3. CONSTRUCTION** ---- **4. OPERATIONS**

Outcome areas provide information on the project's **contribution to key concepts of social sustainability**. They are:

Affordability	Cost of housing, food, transport, services, amenities and resident's access to financial products/services
Local Economy and Services	Access to employment hubs, use of local suppliers, inclusion of community facilities.
Personal Safety, Health and Wellbeing	Crime prevention measures, safe public transport, emergency response plans, unit design, access to services, green/recreation spaces, maintenance.
Resilience to Natural Hazards	Resilience of the development to existing and projected future climate and natural hazards.
Green Living	Does the development design include considerations related to climate mitigation/carbon reduction, biodiversity protection and promotion, and environmental stewardship?

Snapshot of The Results Dashboard

1. OVERALL SCORE (OUT OF 5) BY OUTCOME AREA AND PROJECT STAGE



2. DETAILED SCORE & EXPLANATION BY OUTCOME AREA AND PROJECT STAGE



3. ASSESSOR COMMENTS AND RECOMMENDATIONS

Recommendations on low scoring areas:

- **Safety** - Consider incorporating passive surveillance and other Crime Prevention Through Environmental Design (CPTED) principles in both the development and its interface with the wider local community, alongside current safety measures (https://www.saferspaces.org.za/understand/entry/crime-prevention-through-environmental-design-cpted);
- **Affordability** - Ensure that wider services such as schools are affordable to the low-middle income residents this development is aimed at, and that the development can maximize positive contribution to the wider area in terms of affordable public amenities and services.
- **Inclusivity and disabled access** - The development meets SANS 10400 but could provide enhanced access e.g. doorway widths 40 inch, accessible light switches, handles, disabled toilets etc. (https://www.bathnes.gov.uk/sites/default/files/sites/design_for_accessibility_guide_updated.pdf)
- **Maintenance** - Maintenance policy and plan could include measures to ensure ongoing affordability and cost stability of utilities and service costs for residents. Policy could add detail on customer enquiry response mechanism (response time, priority system etc).

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Snapshot of Results: PILLAR PERFORMANCE

PILLAR PERFORMANCE

A snapshot of the social sustainability assessment results that clients can use for marketing their project.

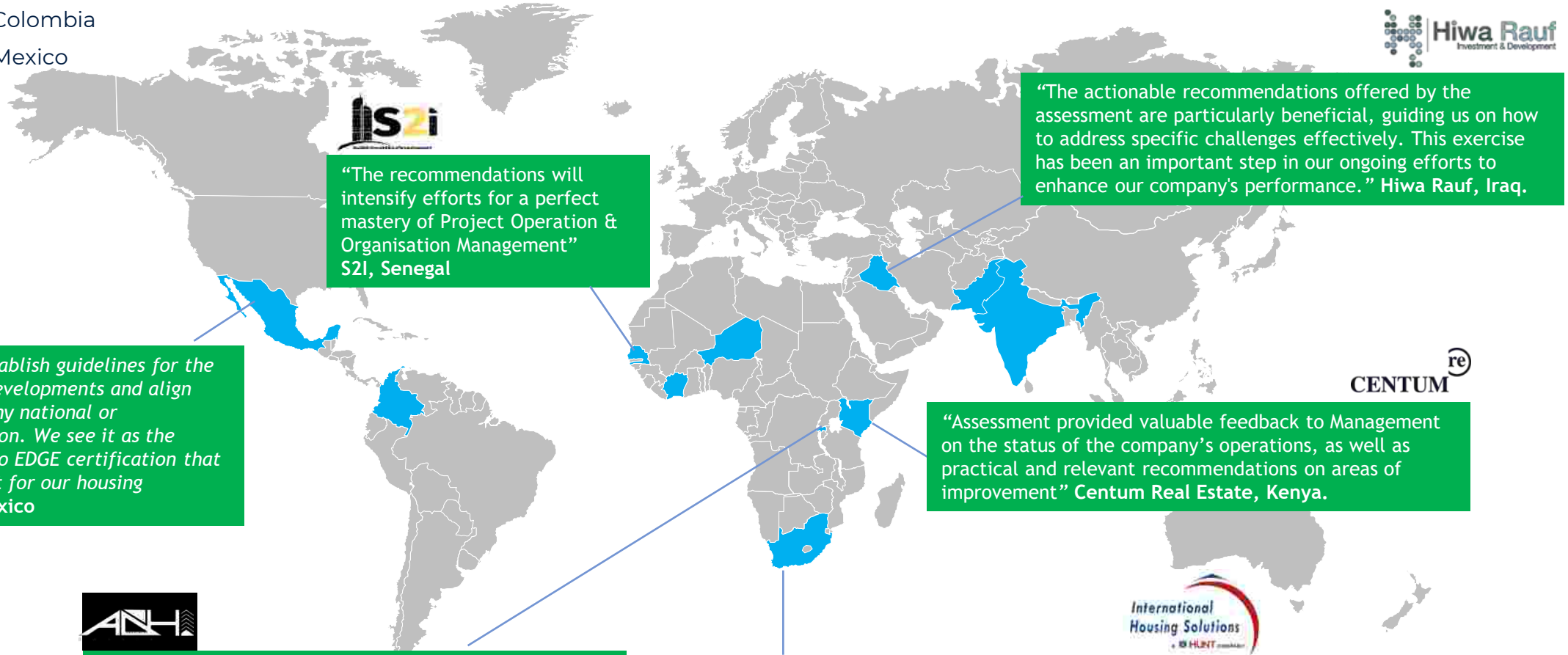


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Global Engagements

Engagements in:

- Cote d'Ivoire
- Senegal
- Niger
- Kenya
- Rwanda
- South Africa
- India
- Pakistan
- Iraq
- Colombia
- Mexico



"The recommendations will intensify efforts for a perfect mastery of Project Operation & Organisation Management" **S2I, Senegal**

"The actionable recommendations offered by the assessment are particularly beneficial, guiding us on how to address specific challenges effectively. This exercise has been an important step in our ongoing efforts to enhance our company's performance." **Hiwa Rauf, Iraq.**

"The tool helps us establish guidelines for the design of our urban developments and align good practices with any national or international institution. We see it as the perfect complement to EDGE certification that we currently carry out for our housing projects" **Vinte, Mexico**

"Assessment provided valuable feedback to Management on the status of the company's operations, as well as practical and relevant recommendations on areas of improvement" **Centum Real Estate, Kenya.**

"The assessment provided practical recommendations and validated our strengths while highlighting opportunities for improvement in key areas of social sustainability" **ADHI, Rwanda.**

"Supports the creation of sustainable living environments and renders the product more appealing and also more cost effective in greening initiatives and providing convenient access to critical services" **IHS, South Africa.**