

Green, Resilient and Inclusive Housing Finance

The global affordable housing crisis demands urgent action. More than one billion people live in slums globally – a figure that is expected to double by 2030 – and 1.6 billion people live in sub-standard housing. An estimated 100,000 homes would have to be built per day through 2030 to meet demand. With 60% of the world's population expected to live in cities by 2030, rapid urbanization is contributing to the demand for affordable and sustainable housing. This represents a US\$16 trillion financing gap – as well as an opportunity for developers, investors, and lenders alike.

The World Bank Group is developing and supporting innovative solutions to harness those resources and channel them towards initiatives that will expand access to affordable housing in developing countries. Ensuring more people have access to safe, sustainable, and affordable homes is key to economic growth, improvements in health and education outcomes, as well as social and political stability.



A view of Cambodia's capital, Phnom Penh. Photo: IFC

Example's of IFC's Strategic Interventions

Providing Liquidity to Public Sector Mortgage Originators in Mexico

- Mexico is estimated to have a housing deficit of at least 2.2 million homes and growing.
- Introducing new mortgage financing options would expand the market to underserved populations.
- FHipo was established in 2014 as the first investment vehicle that allows the general public to invest in residential mortgage portfolios in Mexico, contributing to the financing and development of the housing sector. Through FHipo, investors can access the residential mortgage market in Mexico while lowering mortgage costs for workers.
- To date, IFC has issued three debt facilities amounting to US\$260 million with a 7-year tenor to a Special Purpose Vehicle controlled by FHipo. The Project's main objective is to support the consolidation of the first Mexican mortgage REIT, while increasing liquidity of residential mortgage originators.

Overview of IFC's Work in Housing Finance

For more than 30 years, IFC has supported the expansion of residential mortgage lending and affordable housing in emerging markets.

IFC is the leading international investor in housing finance in emerging markets and has committed US\$7 billion to the sector since 2000 with an aggregated portfolio of US\$3.8 billion across 93 projects as of March 2023.

To catalyze the development of sound and widely accessible housing finance markets, IFC:

- Invests in financial institutions and mobilizes capital across the globe, serving as a reliable source of long-term funding
- Works with funds to support construction of green residential buildings
- Provides advisory services to strengthen financial institutions' capacity in housing finance
- Works with regulatory agencies to improve the enabling environment

IFC's approach to Housing Finance is to engage at market level through various initiatives including:

- Supporting Mortgage Refinancing Companies (MRCs) as vehicles for capital markets refinancing while working with policy makers to fast-track reforms, the banking sector, and housing developers.
- Investment in Covered Bonds and Mortgage-backed Securities (MBS), which unlock local currency capital.
- Loans to mortgage real estate investment trusts (MREITs) traded on the Stock Exchange, which provide liquidity for mortgage originators.
- Developing innovative Housing Finance products tailored for women, low-income, unbanked, and underserved clients.

Greening Affordable Housing in India

- India has a significant shortage of affordable housing. The latest Ministry of Housing and Urban Affairs's demand-based assessment has pegged India's affordable housing shortfall at approximately 10 million houses by 2022.
- India's urbanization rate, currently at 34%, is expected to surpass 50% by 2050 (UN-Habitat, 2017), creating demand for 25 million additional affordable units and driving investment opportunities of US\$620 billion by 2030.
- In 2021 and 2022, IFC provided a total of US\$650 million to HDFC Ltd—India's largest Housing Finance Company.
- Expected outcomes include increasing affordable home-ownership for low-income populations, increasing green affordable units, and reducing GHG emissions.

Catalyzing the mortgage sector in the WAEMU region

- The WAEMU region is facing massive housing deficits, estimated at about 11.5 million housing units. Caisse Régionale de Refinancement Hypothécaire de l'UEMOA (CRRH), a regional mortgage refinancing player and key engine to support affordable housing in the WAEMU zone is the only mortgage refinancing company in WAEMU. To date, CRRH has issued eight bonds providing approximately US\$400 million equivalent in refinancing to 37 banks spread across 7 countries, enabling 8,807 mortgages with an average size of US\$30,890.
- IFC has invested US\$2 million equivalent in equity shares and a combined US\$18 million in two long-dated local currency bonds.
- IFC played a key role in the successful placement of these bonds, attracting the participation of institutional investors and supporting deepening of the regional bond market with the objective of making housing finance more affordable in the region.

Upstream and Advisory Initiatives

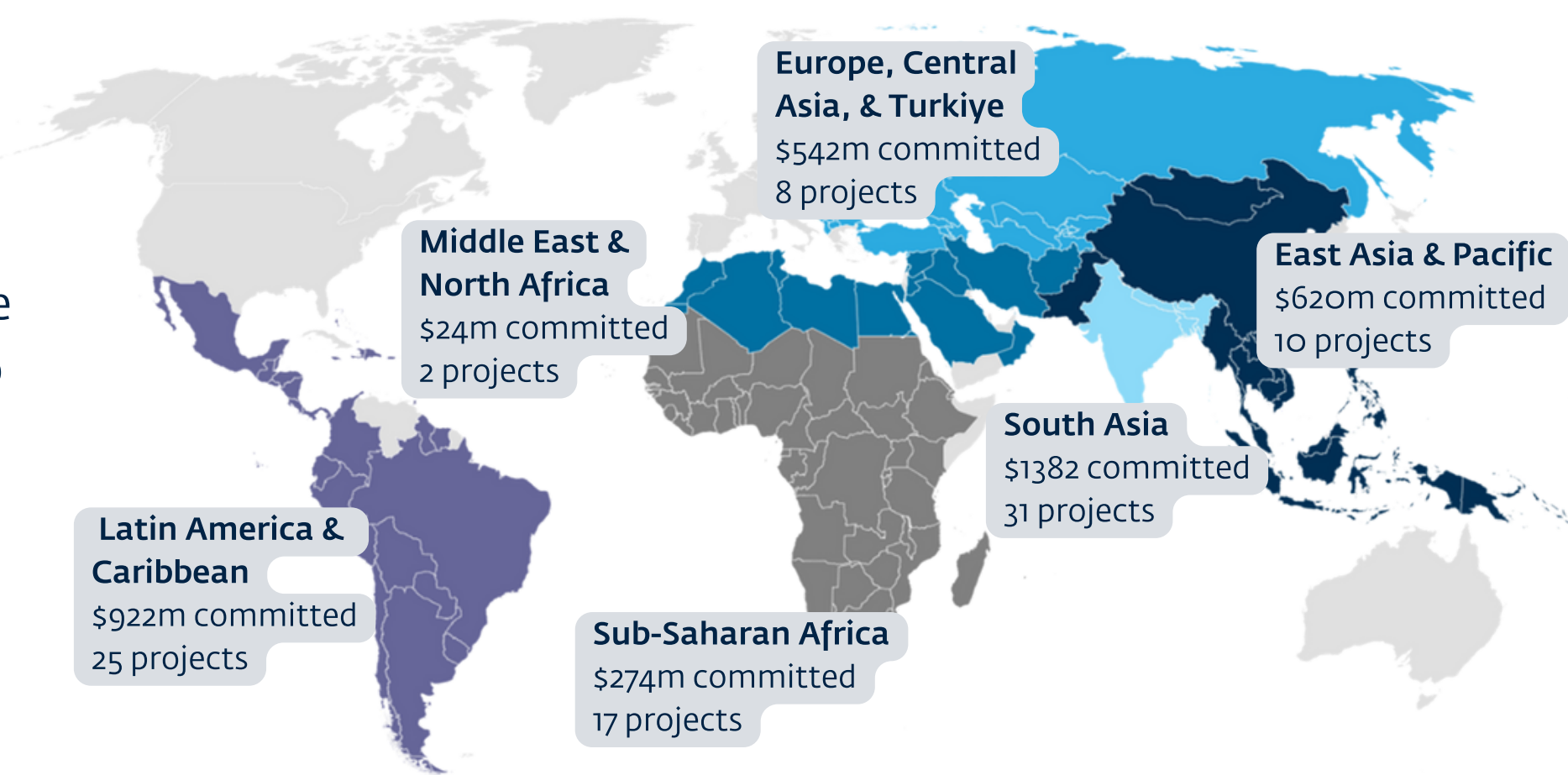
EDGE and Greening Self-Constructed Buildings

- IFC created EDGE (Excellence in Design for Greater Efficiencies) to respond to the need for a measurable and credible solution to prove the business case for building green and to unlock financial investment. IFC has now piloted the first ever green building rating and certification process for self-constructed units.
- The initiative has i) built the technical and process capabilities of financial institutions; ii) developed the value proposition, business case, and business model for affordable housing finance companies; iii) designed a process for earmarking the green affordable housing portfolio for climate tagged investments for IFC; and iv) built a successful and standard model for replication in other geographies.

PILLAR

- Pillar is a global housing advisory platform that supports continuous improvement of developers' business proficiency and helps them design affordable and socially sustainable communities rooted in an understanding of local conditions. Pillar helps identify and build bankable projects through two advisory tools:
 - Pillar Business Assessment: Assesses developers' overall proficiency through analysis across four key dimensions: Financial Management, Business Management, Project Operations, and Organization Management.
 - Pillar Social Sustainability Assessment: Assesses a specific project's social sustainability across the four phases of development: Project Definition, Planning and Design, Construction, and Operations.

IFC's committed investments in the housing sector is US\$3.8 billion across 93 active projects



Global Rent-to-Own

- Global Rent-to-Own (RtO) is an innovative pathway to home ownership.
- The team developed a “go-to-market” framework which can be applied at the country level and includes a financial and operating model, architecture/stakeholder mapping, legal and regulatory requirements, market conditions, and target market segment.
- The team identified partners in multiple countries with an estimated total US\$250 million investment over the next three years. Four projects have so far been identified in Mexico, Romania, Kenya and Senegal.
- Rent-to-Own is a compelling example of a replicable approach in a priority area such as affordable housing.

Housing Microfinance (HMF)

- Since 2012, IFC has provided an innovative Housing Microfinance (HMF) lending product to support incremental self-help construction that is more affordable, greener, and more resilient against natural disasters.
- In the Kyrgyz Republic more than 57 thousand households with an average income below US\$400 have received an HMF loan through IFC partners (as of July 2022). Nearly 300 thousand tons of CO₂ was saved as the houses became more energy efficient. Moreover, FIs saw an improvement in their performance as the rate of non-performing HMF loans was 3-4 times lower than that on other loans in their portfolios.

Irawati Devi was able to replace her home's makeshift partitions with brick walls thanks to microfinance loans. Harhua Village, India. Photo: Dominic Chavez / IFC

