



The housing finance sector framework ensures consistent AIMM assessments of IFC's housing finance investment projects by articulating the development impact thesis, describing core development outcomes, and specifying relevant AIMM indicators.

Housing Finance

Development Impact Thesis

The housing finance framework anchors the assessment of IFC's investment projects that are expected to promote access to housing finance for households and developers, as well as improve the quality and affordability of housing finance products and services. The central development thesis for housing finance projects is that by expanding access to finance for developers and households, financial institutions promote access to better quality housing. Quality housing is associated with social benefits such as better education and health outcomes.

IFC's financing and technical advisory support helps lenders develop or improve products, access new market segments, and enhance risk management capacities, which in turn increases access to housing finance, improves the quality and offering of housing finance products, and contributes to job creation in housing construction, among other benefits (see Figure 1 for typical development gaps addressed by IFC's housing finance projects). In addition, broader IFC and World Bank Group upstream initiatives may complement the investment project, helping to create an enabling environment in the market.

Figure 1

Development Gaps Addressed and Expected Outcomes



Core Development Outcomes

The Anticipated Impact Measurement and Monitoring (AIMM) framework assesses project and market outcomes. Project outcomes under the housing finance framework affect stakeholders, the economy, and the environment. Stakeholder outcomes may relate to increased access to, and improved quality and affordability of, housing finance. Projects may also pursue environmental outcomes related to reducing greenhouse gas (GHG) emissions by supporting green housing, or economy-wide effects through job creation in housing construction.

The AIMM framework uses three market attributes to assess market outcomes—competitiveness, resilience,

and sustainability. In the housing finance context, projects usually seek to promote market competitiveness by supporting a specific innovation (in products or business models, for example); diversification of financial products, services, and funding instruments; or entry into new markets. Housing finance projects may also contribute to the resilience of the housing finance market and the financial system as they strengthen the capacity of financial institutions through increased capitalization or improved risk management practices. Some projects may also add a green housing angle and promote the sustainability of the housing finance market in ways that align with international best practices and principles.

Key Inputs and Building Blocks of AIMM Assessments

Project Outcomes

When assessing potential project outcomes, AIMM begins by analyzing the development challenge that a project seeks to address in the sector or segment of interest—the development gap. The sector or segment-specific development gap is benchmarked against all emerging markets and developing economies using specific core development gap indicators and data collected by IFC from various public sources. The benchmarking methodology groups countries based on their gap levels per indicator: Small, Medium, Large, or Very Large. The project is placed in the appropriate band based on the data available for the country.

The next step is the assessment of the extent to which the project is expected to contribute to addressing the gap—the project intensity. The assessment of the project intensity is based on specific standard indicators, shown in Table 1, designed to measure the extent to which the lender is increasing access to housing finance. Intensity is assessed along a four-bucket continuum: Below Average, Average, Above Average, or Significantly Above Average.

The core project outcomes of IFC's housing finance projects may be in the form of stakeholder, economy-wide, and environmental effects.

Stakeholder effects: IFC's investment projects can pursue different development objectives to directly affect target stakeholders. The key stakeholders are the beneficiary households, whose access to housing financing is expected to improve as a result of IFC's project, and housing developers receiving construction finance. For example, IFC housing finance projects may expand access to housing finance

and/or improve the quality of products or services provided by a lender. The housing finance framework provides the following core development gap indicators: Total mortgage debt outstanding as a percentage of GDP, percentage of total population (age 15+) with an outstanding housing loan, Adequate Housing Index/housing deficit stock, housing deficit flow per 1,000 households, and aggregate housing affordability measure. The same indicators apply to projects that seek to improve access to quality housing finance.

The housing finance framework provides the following two intensity indicators for increased access to housing finance: (i) Number of outstanding residential housing finance loans (% annual growth adjusted for GDP), and (ii) value of outstanding residential housing finance loans (% annual growth adjusted for GDP). The client financial institution may also increase housing finance for mortgage customers by improving the loan terms and the efficiency of the loan application process.

Economy-wide effects: A growing housing sector can generate economy-wide effects by creating jobs, with spillover effects on other industries, such as durable goods manufacturing. This outcome is assessed using two gap indicators (unemployment rate and the share of informal employment) and four intensity indicators (value-added multiplier, annual value-added creation, \$ millions per \$ million invested, and jobs per \$ million invested).

Environmental effects: Teams use intensity and gap measures in the cross-cutting climate finance framework to assess the environmental effects when IFC works with banks and developers to pursue green-certified buildings (such as IFC's EDGE certification). Typically, the AIMM indicator is the resulting GHG emissions avoided.

The AIMM system combines the development gap and intensity assessment to arrive at the project outcomes rating of the project (Marginal, Moderate, Strong, or Very Strong).

Table 1

Gap and Intensity Indicators for Core Project Outcomes in Housing Finance Projects for Competitiveness

	Gap indicators	Intensity indicators
Stakeholder effects	<p>Access</p> <ul style="list-style-type: none"> Total mortgage debt outstanding as a percentage of GDP Source: HOFINET Percentage of total population (age 15+) with an outstanding housing loan Source: FINDEX Adequate Housing Index/housing deficit stock Source: CDI Housing deficit flow per 1,000 households Source: CDI Aggregate housing affordability measure Source: CDI <p>Quality</p> <ul style="list-style-type: none"> Same indicators listed under access 	<p>Access</p> <ul style="list-style-type: none"> Outstanding residential housing finance loans (#), annual growth (adjusted for GDP), % Source: IFC client Outstanding residential housing finance loans (\$), annual growth (adjusted for GDP), % Source: IFC client <p>Quality</p> <ul style="list-style-type: none"> Better loan terms, such as longer tenor, compared to counterfactual [qualitative assessment] Source: IFC client Improved loan application process Source: IFC client
Economy-wide effects	<ul style="list-style-type: none"> Unemployment rate, % Source: ILO Share of informal employment, % Source: National Labor Force Surveys 	<ul style="list-style-type: none"> Value-added multiplier and annual value-added creation, US\$ millions per US\$ million invested Source: IFC estimation based on client data Employment multiplier and jobs per US\$ million invested Source: IFC estimation based on client data
Environmental effects	<ul style="list-style-type: none"> Apply the climate finance framework 	<ul style="list-style-type: none"> Apply the climate finance framework

Market Outcomes

To measure the project's contribution to market catalytic effects, AIMM assesses the stage of the market's development, and the type of market effects expected from the project.

The characterization of the stage of market development is based on elements specific to the sector. The housing finance market is supported by a variety of participants, including specialized non-banking financial institutions, intermediaries such as mortgage refinancing companies, and commercial banks. The housing finance framework focuses on the housing finance market, primarily residential mortgage lenders, but also financial institutions supporting housing developers. The characterization of the stage of market development is based on elements specific to the sector. Table 2 provides some of the elements considered for the competitiveness attribute.

Table 2

Characterization of Market Development Stage in the Housing Finance Framework for Competitiveness

Highly underdeveloped markets	Underdeveloped markets	Moderately developed markets	Highly developed markets
<p>Sector dynamics</p> <ul style="list-style-type: none"> Housing finance dominated by state banks; private financial institutions have less than 50% of housing market share. Limited or no housing-related capital market activity supporting financial institutions. 	<p>Sector dynamics</p> <ul style="list-style-type: none"> Mix of state and private financial institutions, with private institutions serving a range of income segments. Some housing-related capital market activity. 	<p>Sector dynamics</p> <ul style="list-style-type: none"> Single financial institution occupies more than 30% of the market; top five financial institutions have over 80% of the market, with a predominance of private institutions across all segments of lending. Strongly supportive housing-related capital markets. 	<p>Sector dynamics</p> <ul style="list-style-type: none"> No single financial institution has more than 30% of the market share (private or public); top three financial institutions have less than 50% of the market (private or public). Mature capital markets fully support housing finance by financial institutions.
<p>Government involvement and competition policy</p> <ul style="list-style-type: none"> Wholly inadequate or missing regulations on housing finance: No/ineffective foreclosure laws, no secured transaction laws, no/unutilized land or collateral registry, weak collateral regime. Some housing finance regulations or legal framework. 	<p>Government involvement and competition policy</p> <ul style="list-style-type: none"> Regulations in place are uneven and not introduced in a coordinated fashion. Government involvement and regulation generally hinder financial institutions in deploying developer and/or mortgage finance, and in some cases state, banks compete against private financial institutions. 	<p>Government involvement and competition policy</p> <ul style="list-style-type: none"> Broadly supportive and extensive regulation in place that fosters competition among financial institutions and enables them to engage further down market. Government/state banks are limited to catering to segments not served by the private sector (social housing). 	<p>Government involvement and competition policy</p> <ul style="list-style-type: none"> Strong regulations in all key phases of the housing market; no special regulations that give state-owned entities a competitive advantage over private sector; public sector actors compete as private entities (that is, self-sustaining budgets); coordination among or consolidation of agencies responsible for housing policy.
<p>Private sector participation</p> <ul style="list-style-type: none"> Extremely limited private sector participation, typically serving only high-income households/premium housing. 	<p>Private sector participation</p> <ul style="list-style-type: none"> The private sector occupies less than 30% of the market share. 	<p>Private sector participation</p> <ul style="list-style-type: none"> Private sector market share is more than 40% of the effective demand/market share. 	<p>Private sector participation</p> <ul style="list-style-type: none"> Private sector market share is more than 70% of the effective demand in the affordable housing sector (effective demand means commercially viable and having income generally above bottom 20% and below top 20%).
<p>Loan terms and conditions</p> <ul style="list-style-type: none"> Housing finance is extremely limited and deployed through short-term, high-interest personal loans. 	<p>Loan terms and conditions</p> <ul style="list-style-type: none"> High prevalence of short tenors (typically less than 10 years); no or limited quantifiable risk assessment; very high and volatile interest rates; limited or no consumer protection; low financial literacy. 	<p>Loan terms and conditions</p> <ul style="list-style-type: none"> Tenors in the medium range (10–20 years); mortgage products tailored to different borrower segments; consumer rights emerging. 	<p>Loan terms and conditions</p> <ul style="list-style-type: none"> Longer tenors (approaching 30 years); quantification of risk assessment fully reflected in prices (risk-based pricing); balance between consumer and lender rights and well understood by both; financial literacy part of the underwriting process.
<p>Production practices and technologies</p> <ul style="list-style-type: none"> Underwriting practices and policies are ad hoc. 	<p>Production practices and technologies</p> <ul style="list-style-type: none"> No standard underwriting practices or policies not in line with international best practices (no verification of employment, income, valuation procedure, and so on). 	<p>Production practices and technologies</p> <ul style="list-style-type: none"> Standard underwriting practices in place with limited/minor deficiencies. 	<p>Production practices and technologies</p> <ul style="list-style-type: none"> Standard underwriting practices follow international best practices (verification of employment, income, valuation procedure).
<p>Financial integration</p> <ul style="list-style-type: none"> Capital markets are nascent, not considered active, or do not exist. 	<p>Financial integration</p> <ul style="list-style-type: none"> Capital markets primarily limited to government bonds and limited issuance by the private sector; sovereign bond issuances crowd out private sector issuances. 	<p>Financial integration</p> <ul style="list-style-type: none"> Robust capital market activity but bond issuance is primarily short and medium term (maturity <7 years) and use of some capital market products (mortgage-backed securities, covered bonds). Limited participation from institutions with access to long-term funding (such as pension funds and insurance companies). 	<p>Financial integration</p> <ul style="list-style-type: none"> Access to bond market is not a constraint for established mortgage providers and developers; multiple capital market instruments (bonds, securitization) and regular issuances with established yield curves; broad participation of pension funds and insurance companies in long-term bond purchases.
<p>Supply/value chains integration</p> <ul style="list-style-type: none"> The housing construction sector value chain is not well connected. 	<p>Supply/value chains integration</p> <ul style="list-style-type: none"> Limited but unsystematic integration of the housing construction sector with the local value chain. A few developers rely on informal relationships to access suppliers and firms in the housing value chain. 	<p>Supply/value chains integration</p> <ul style="list-style-type: none"> Broad range of mortgage providers integrated with housing construction sector or provide financing for developers; robust housing support services (link to builders and plans). Construction sector well-integrated with local value chain. 	<p>Supply/value chains integration</p> <ul style="list-style-type: none"> Full integration of supply and demand side of housing finance; no or limited information asymmetry between banks and developers; well-established and reliable supply chain for housing developers.

The assessment of the catalytic effects that a project is expected to generate in this market context is anchored on the degree of innovation and scalability. It is ranked on a four-point scale (Modest, Sustaining, Deepening, or Transformational).

Innovation refers to the implementation of new or significantly improved products, practices, processes, and organizational methods compared to existing norms in the market. Scalability encompasses the visibility of the innovation in the market, and the ability for innovation to be scaled given the market conditions in which the project operates (such as policy environment, demand conditions, competitive dynamics, and the capacity of other market players). The degree of innovation may be assessed as Low, Medium, or High, and that of scalability as either Low or High. The type of market catalytic effect is determined by the combination of the degrees of innovation and scalability (Table 3).

Housing finance projects typically use the following indicators to assess market impacts:

- Number of market participants adopting new housing finance products, processes, practices, or business

models and/or improving the quality of housing finance product offerings in terms of better loan terms, such as longer tenors.

- Number of new instruments introduced to raise funds for housing finance, such as bond issuances by mortgage refinance companies or financial institutions.
- Volume of housing finance portfolio in the market.

The AIMM system combines the market stage and the type of catalytic effects to arrive at the market outcomes rating of the project (Marginal, Moderate, Strong, or Very Strong).

Risk Assessment

AIMM incorporates risk assessments to account for uncertainties that may hinder a project’s ability to realize its expected project and market outcomes. Projects facing material risks to achieving expected development outcomes receive a Qualified rating, while those with moderate risks—or where material risks have been adequately mitigated—receive an Unqualified rating. Table 4 presents some examples of risk factors often considered for IFC’s housing finance operations.

Table 3

Assessment of Market Catalytic Effects

		Degree of innovation		
		Low	Medium	High
Degree of scalability	Low	Modest	Sustaining	Deepening
	High	Sustaining	Deepening	Transforming

Table 4

Examples of Relevant Risk Factors for Housing Finance Projects

Risk factor	Example
Operational factors	<ul style="list-style-type: none"> • Experience and track record of the financial institution in the target market (for example, residential vs commercial). • Expansion into markets (for example, expansion to new housing types), delivery using new channels (for example, online origination), or other product innovations. • Risks from new lines of business (for example, a generalist financial institution building a housing finance business). • IFC providing Advisory Services that mitigate any of these operational risks.
Sector factors	<ul style="list-style-type: none"> • Specific regulatory risks (for example, land registry and governance, and building codes). • Central bank supervision perimeter and capacity (for example, underwriting standards, consumer protection, and financial literacy requirements). • Supporting government policies and programs (such as affordable housing). • Market competition for housing finance lending, or for the target (specialized) market segment. • Concentration in the banking sector, or the housing finance market segment (barriers to entry). • Incentives to adopt innovations (such as high mortgage rates, short mortgage lengths, transaction fees, transparency fees). • Regulatory scope and capacity (for example, for new products, will new regulatory frameworks need to be established?). • Certainty of central bank policy, and historical variations in interest rate and inflation.
Macroeconomic factors	<ul style="list-style-type: none"> • Macroeconomic conditions.
Policy factors	<ul style="list-style-type: none"> • Government commitments and supporting policies (such as affordable housing or urban development). • Legal infrastructure that supports housing finance: Well-defined property rights, functioning property and lien registries, collateral regimes, credit systems, and legal protection of creditor rights. • Environmental aspects, such as environmental protection regulations/enforcement, and ecological construction.

Scoring Adjustment

AIMM uses a scoring adjustment mechanism to explicitly recognize projects that make a material contribution to addressing negative climate and environmental effects through mitigation or adaptation efforts, and those that make a significant contribution to economic inclusion and expansion of economic opportunities to underserved groups. Projects that meet the eligibility criteria for the scoring adjustment (linked to the level of ambition embedded in their expected results) are awarded additional points to their overall AIMM score.