

The built environment currently contributes 37% of global greenhouse gas emissions (GHG); the urban population of Africa and Asia is expected to increase to 4.5 billion by 2050; yet 70% of the buildings that will be needed in Africa and Asia by 2050 are still to be built. The challenges of the climate crisis and rapid urbanisation are inextricably linked.

If we are to meet the targets of the Paris Agreement on climate change and achieve the 2030 Agenda for the Sustainable Development Goals, it is essential to scale up climate-smart construction in rapidly urbanising areas throughout Africa and Asia. Local finance, however, is often constrained by a lack of confidence in the market which disincentivises investment.

With support from the **Global Innovation Lab for Climate Finance**, **Reall** are pioneering a financial instrument that aims to address both the climate and the affordability challenges simultaneously.

## THE **GREEN AFFORDABLE HOUSING FINANCE** PLATFORM WILL ACCELERATE THE DEVELOPMENT OF GREEN, AFFORDABLE HOUSING FINANCE ECOSYSTEMS ACROSS AFRICA & ASIA THAT ARE **SELF-SUSTAINING & LOCALLY DRIVEN**.

### PLANS FOR PILOT IN **KENYA**

Reall will pilot the green finance



instrument in Kenya, where the affordable housing market is critically constrained, but where the impact potential is high.

With homeownership in Kenya as low as 21%, Kenya exists as a microcosm for the global challenges and opportunities which characterise the green, affordable housing market for climate-smart affordable homes. Through use of IFC's EDGE certification, Reall estimates that **30 million tons of CO<sub>2</sub>e** (carbon dioxide equivalent) could be avoided in meeting Kenya's deficit of two million houses. The pilot will employ technology developed by alternative credit assessor Syntellect, which has been used to secure **14,000 mortgages** for unbanked households in India.

#### TARGET GEOGRAPHY:





# BUILDING THE NEED:

Constructing low-cost green homes at scale

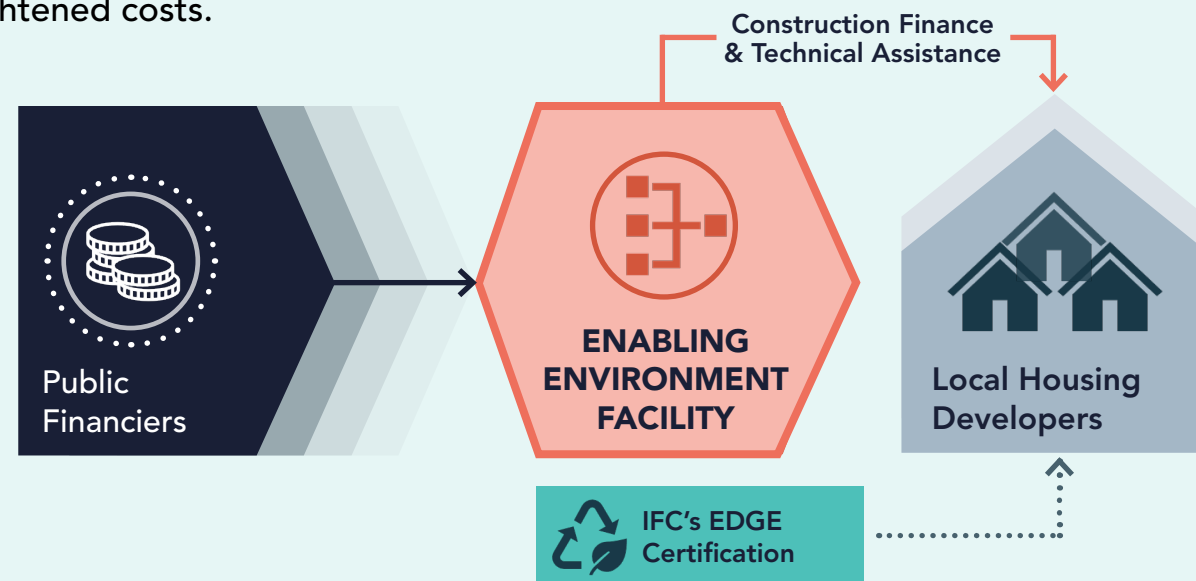
Across Africa and Asia, current housing construction typically uses established non-green building methods. Confidence in green construction is low, and new technologies are relatively unknown. This feeds perceptions that green buildings are uneconomic and out of reach for people on low incomes.

Lenders will typically limit loan sizes available for construction, limiting available finance for developers which reduces the scale and pace of housing construction.

Finally, low demand due to a lack of available mortgage finance, constrains investment further with lenders unwilling to cater for low and informal income borrowers. Without a reliable route for potential homebuyers to purchase the homes built, developers are discouraged from scaling their operations.

## OUR SOLUTION

An Enabling Environment Facility (EEF), operated by Reall, identifies, supports, and provides direct catalytic concessional finance to affordable housing developers to build green-certified homes. The EEF will also provide technical assistance to housing developers facilitating the adoption of green building techniques and generating data to break market perceptions of heightened costs.



With housing developers then able to demonstrably construct green homes, a Guarantee Facility encourages local financial institutions to fund developers by de-risking loans, through use of construction guarantees. By guaranteeing a proportion of lost principal and interest, the instrument incentivises local lending into green affordable housing.

This will enable local financial institutions to build a track record in lending for green construction, deepen relationships with local housing developers, and increase their available capital to construct more green homes.

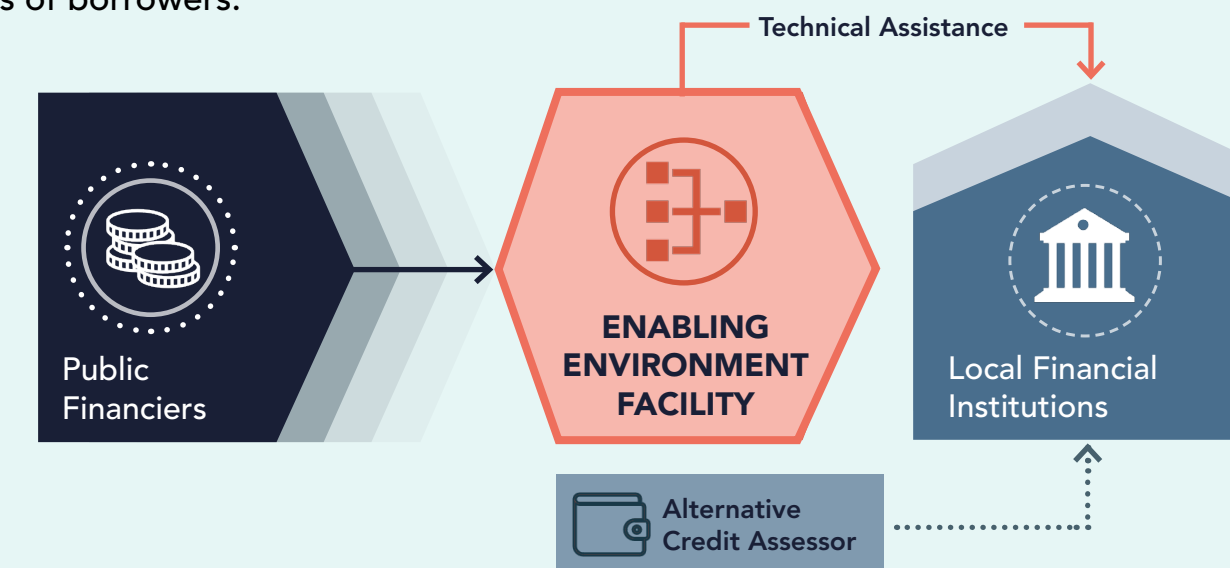


# INCREASING ACCESS:

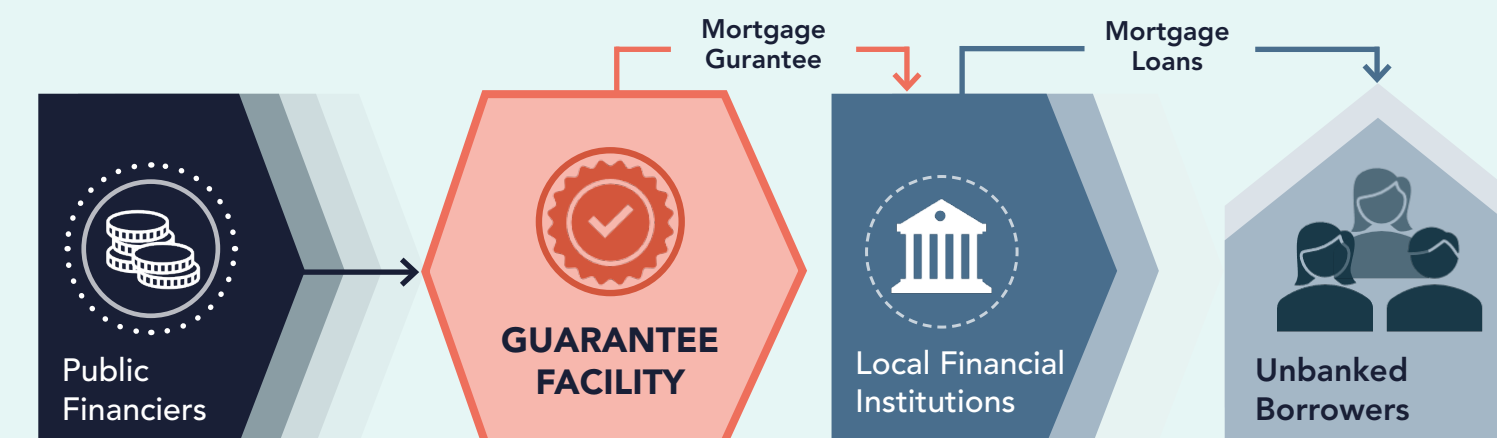
Mortgages for informal & low-income earners

## OUR SOLUTION

The EEF provides technical assistance to local financial institutions, ensuring uptake of alternative credit assessment tools. This technology digitises lending processes and employs machine learning to accurately assess unbanked borrowers, unlocking access to mortgages, as well as rental and tenant purchase scheme options. In addition, loan performance data will be collated and disseminated to demonstrate the viability of lending to a new income class of borrowers.



The Guarantee Facility builds on the rollout of alternative credit assessment tools by offering partial credit guarantees to local lenders, enabling financial institutions to extend mortgages to potential homebuyers to purchase those green affordable homes built. By guaranteeing a proportion of mortgage principal, the instrument de-risks lending to low and informal income borrowers – driving up loan numbers, expanding into untapped markets and thus stimulating demand for green affordable homes.



Currently, potential borrowers living on low and informal incomes in Africa and Asia are locked out from securing housing finance.

Lenders perceive unbanked borrowers to be high risk and typically utilise conventional lending processes that provide no viable route to housing finance for informally employed households.

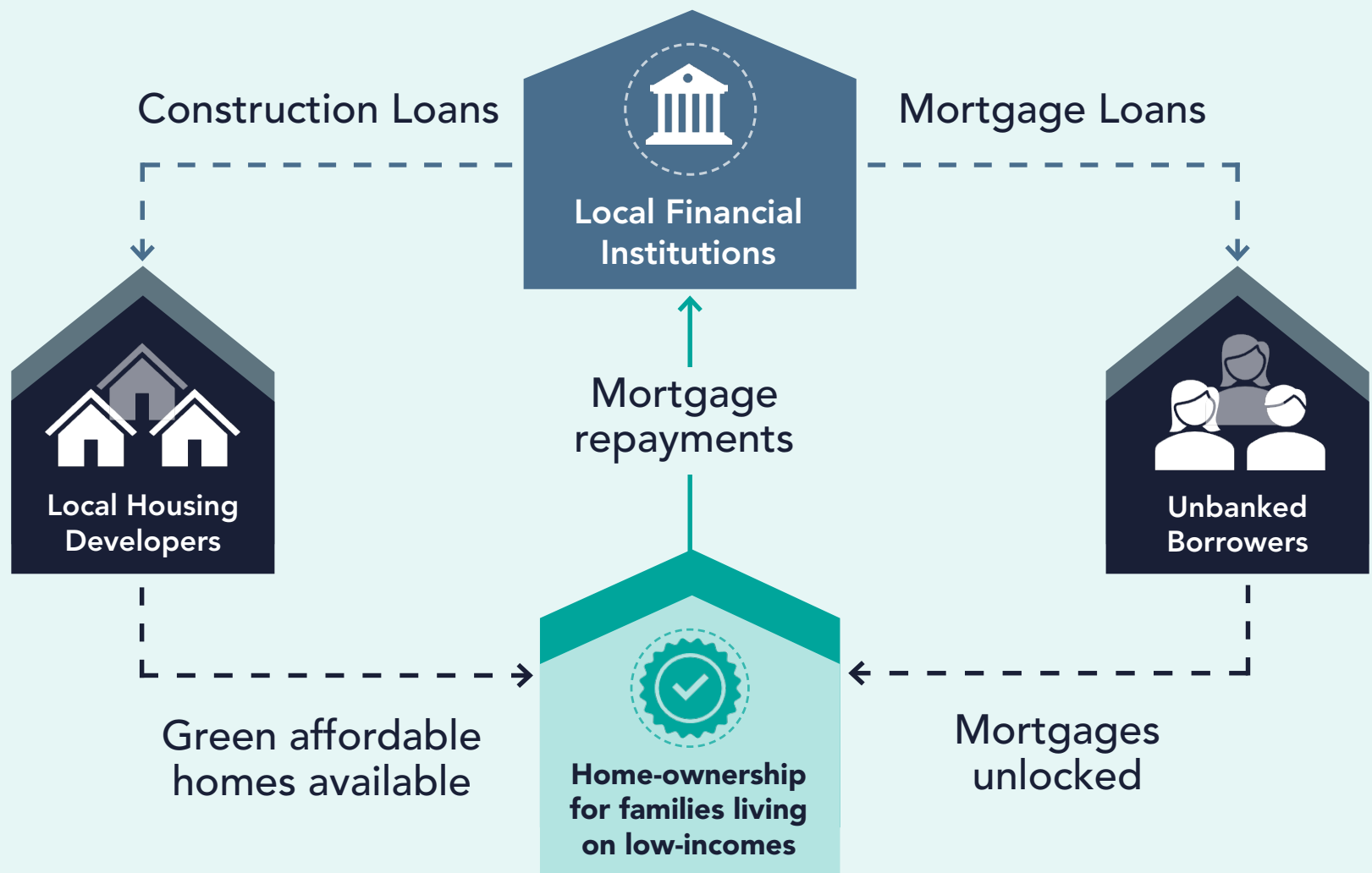
Mortgage terms are characterised by large deposits and income thresholds that are inaccessible for the vast majority of the population, with women and marginalised communities disproportionately affected.

Yet, there exists compelling evidence that customers on low and informal incomes represent a viable market opportunity, when more accurately assessed for loans through alternative credit scoring technologies.



# FOSTERING A GREEN AFFORDABLE HOUSING FINANCE ECOSYSTEM

CLIMATE-SMART AFFORDABLE HOMES ARE A COMBINED RESPONSE TO



By building up the capacity of green affordable developers, and lender confidence in the green, affordable housing market, the instrument fosters an ecosystem that can ultimately operate without reliance on public finance, the Enabling Environment Facility and Guarantee Facility.

By incentivising financial institutions to scale up their lending, this approach aims to catalyse – and ultimately normalise – local construction and mortgage lending for climate-smart affordable homes.

THE THREE GREATEST CHALLENGES OF OUR TIME - CLIMATE, URBANISATION & POVERTY.