

Evaluation Summary

Credit lines to Rand merchant bank (RMB), Nedbank and Amalgamated banks of South Africa (ABSA) in affordable housing

Country: **South Africa**

Sector: **Low-cost housing**

Evaluator: **BebelGroup South Africa**

Date of the evaluation: **July 2017**

Key data on AFD's support

Projet number: CZA 3010-6007-6009

Amount: €120 M in non-sovereign loan (€40 M to each bank)

Disbursement rate: 83% (Nedbank's 2nd tranche of funding was cancelled)

Signature of financing agreement: RMB:
June 2006 – Nedbank: October 2006 – ABSA:
September 2007

Completion date: RMB: March 2016 – Nedbank:
December 2018 – ABSA: July 2017

Total duration: RMB: 10 years – Nedbank: 12 years
– ABSA: 10 years

Context

In 2003, a **lack of access to affordable mortgage finance** was identified as a **key constraint facing low-income households**. Low levels of borrower financial literacy and a lack of access to bridging finance for developers constituted additional challenges in the context of the affordable housing market.

Actors and operating method

The financial intermediaries were Rand merchant bank (RMB) a.k.a. First national bank (FNB), Nedbank and ABSA.

The targeted beneficiaries were low-income households and the affordable housing market segment.



Objectives

To align with Financial sector charter's (FSC) vision of mobilizing private sector funding to support housing policy in favour of low- and middle-income families –through support for the creation of new housing stock and the facilitation of access to housing finance.

Expected outputs

- **RMB/FNB:**
 - Development of affordable housing units
 - financial product to fix the interest rates of mortgage loans for low-income households.
- **Nedbank:**
 - Provision of mortgage loans,
 - grants to low-income households,
 - borrower education programme.
- **ABSA:**
 - Provision of mortgage loans,
 - fund to subsidize guarantee premiums for riskier borrowers,
 - training programmes for municipal housing employees, previously disadvantaged estate agents, and first-time home buyers.

Performance assessment

Relevance

The intervention targeted a relevant problem by seeking to enhance low-income household access to affordable housing. The intervention aligned well with AFD's country strategy and with South African housing policy. The intervention was **relevant** and externally **coherent** at the time of its design, and continues to be so. However, the intervention did not pay specific attention to the **spatial implications of the affordable housing programmes** of the three banks.

Effectiveness

The capital components of the credit lines were used in isolation from the Comparative financial advantage (CFA), and were thus unlikely to have been used to provide loans that were additional in any respect. **No control group was factored into the design of the programme**, therefore the intervention was less effective in **knowledge generation** than it could have been. However, all banks succeeded in providing CFA supported loans to borrowers who met the eligibility criteria, and the approaches taken by the banks each **demonstrate unique promise**. Furthermore, the training elements of the intervention appear to have achieved positive results.

Efficiency

The amount of time spent by AFD resources was standard given the size of the project. However, **from start to finish, the credit lines spanned over a longer period of time than is usual**. This may be due to the global financial crisis, which disrupted the implementation of the credit lines. Inefficiencies did arise as a result of **AFD's inexperience (at the time) negotiating with South African commercial banks**.

Impact

The beneficiaries of the affordable housing mortgage loans benefited from the advantages associated with **home ownership**. Nevertheless, with the exception of the FNB portfolio, **concerns were raised concerning the location of the houses purchased** using the mortgage finance – particularly regarding their relative distance from social and commercial amenities. The obligations associated with servicing a mortgage loan have put strain on many beneficiaries' ability to pay their other accounts. While mortgage loans are more accessible to the affordable housing market segment today than they were before the implementation of the intervention, **this is more likely due to the emergence of the FSC than to the specifics of the AFD intervention**.

Sustainability

With the exception of the ABSA portfolio, the vast majority of affordable housing mortgage holders have been **successful in servicing their loans and maintaining ownership of their properties**. At the same time, a significant proportion of beneficiaries remain uncertain over whether or not they will be able to afford their houses in the future. Although all three banks have continued with the implementation of borrower education of some sort, **the financial innovations explored in the context of the AFD project proved to be unsustainable in their existing form without on-going AFD support**.

Added value of AFD's contribution

The AFD capital constituted a significant proportion of the amount of finance being channeled towards the affordable housing segment at the time and assisted the banks in achieving the targets outlined in the FSC. However, **it is likely that affordable housing mortgage provision of a similar magnitude would have taken place even without AFD's support**, due to the fact that the banks were committed to the FSC targets and would have had access to similar forms of capital in the absence of the AFD's intervention. Nevertheless, the credit agreements that the three banks had signed with AFD served as a "push" for the banks to re-enter and re-focus on the housing finance market after the financial crisis.

Conclusions and lessons learnt

Exploring ways of increasing access to affordable housing for low-income households remains **a relevant and worthwhile pursuit**.

The approaches implemented by the three banks are each **worthy of further exploration**.

Future AFD interventions should clearly **specify how the intervention in question is envisioned to achieve its long-term objectives**, and should incorporate a **control group** so that meaningful learnings and knowledge generation can be achieved.