Feasibility Study on a Proposed Credit Guarantee Model for Affordable Housing in Kenya

Final Report Presentation

August 2021

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Overview of the Assignment

Lion's Head was mandated to undertake a feasibility study on the establishment of a partial credit guarantee model for the affordable housing market segment, to interrogate the viability of various models and inform the design of the appropriate scheme for implementation.

The problem

Kenya housing finance has remained a challenge

- Limited access to housing finance is a key challenge contributing to the lack of decent housing for the majority of the Kenyan population.
- The high cost of finance and the lack of long-term housing finance products are a big blow to the market.
- Key barriers to increased housing finance uptake include the access and affordability of funding, a complex legal and regulatory framework, collateral requirements and an arduous property registration process.

The Initial Proposed Solution

The Partial Credit Guarantee (PCG)

- Establishment of PCG that will focus on de-risking end-user borrowers making mortgages more accessible.
- PCG was to be primarily funded by the NHDF* from National Treasury budgetary allocations and funding form Insurance and DFIs.
- NHDF transfers 10% deposit (cash) and issues 20% PCG (unfunded) to banks for qualifying mortgages .
- However, the GoK will not pursue the capitalization of the proposed scheme due to budgetary constraints hence the proposed alternative hosts for the PCG.

Proposed Alternative Host

- **The Kenya Mortgage Refinance Company:** PCG would be well-aligned with both KMRC and the GoK's objective of boosting mortgage uptake in Kenya.
- **Existing Guarantee Provider:** PCG can be hosted by a guarantee provider and products developed for the target market segment.
- **Industry Association:** Such as the Kenya Bankers Association that has previously participated in the development and implementation of industry wide initiatives such as Pesalink and Kenya Green Bond Programme.

Key Findings & Recommendations

Case Study Analysis

- **Government Support** : Governments play an important support role for Credit Guarantee Scheme (CGS). This includes providing capital and conducive legal framework
- **Incentives**: Reduced taxes on interest earnings and lower capital requirements for guaranteed loans have been used to encourage lender participation in the target segment.
- **Product variety**: A variety of products to address different needs and income groups are required. This increases their reach to a larger client base and achieving the desired impact
- **Target Market**: Most schemes are designed to target first time home buyers in the lower-income segment
- **Impact**: Despite availability of guarantee products, lenders in case studies remained reluctant to venture into the lower end of the housing finance market hence the schemes have subdued impact

Stakeholder Feedback

- **Key feedback from Financial Institutions:**
  - **Preferred product** is a portfolio partial credit guarantee with coverage ranging from 40%-100%
  - **Demand Aggregation**: Lenders require visibility on the demand for Affordable housing by leveraging on platforms such as an improved version of Boma Yangu that will screen potential pipeline and assist in designing aligned products.
- **Key feedback from Potential Host Institutions**.
  - **Pricing:** If PCG is commercially priced, the cost to the end borrowers will be prohibitive. There will be need to subsidize the PCG product.
  - **Pilot programme**: a majority of potential hosts indicated willingness to support the setup of the PCG

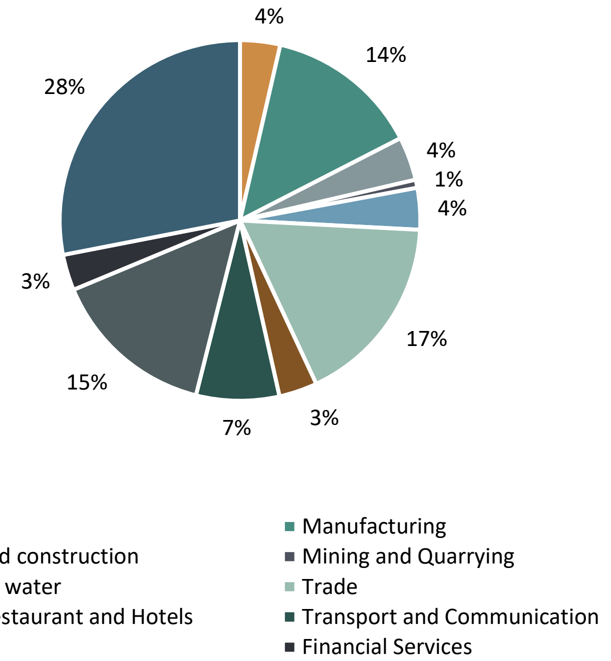
Recommendations

- **Pilot Programme:** It is recommended that the PCG is established through a pilot programme. It is expected that once the pilot phase is completed, the PCG can be permanently hosted by a market institution.
- **Alignment with lenders**: Lenders need to be committed to the target market for the scheme to be impactful. This can be through development of specific housing finance products targeting the market segment.
- **Pricing, Product Design & Distribution**: The pilot programme will need to form partnerships with a core group of selected lenders with wide coverage and commitment to affordable housing. The product design & pricing for the PCG product has to align with lender requirements as well as remain competitive in order to be affordable for borrowers.

Commercial Banks

- The banking sector has seen consistent growth in terms of deposits and loans over the recent past.
- Commercial banks are classified by the Central Bank of Kenya into three peer groups using a weighted composite index.
- The tier 1 banks control 70% of the market share. These banks include Coop Bank, KCB Group, DTBK, Equity Bank, I&M Holdings, NCBA Group, Absa Bank, Standard Chartered and Stanbic Bank.

Private Sector Lending in Kenya



- As of December 2020, Personal/household loans made up the bulk of loans issued by the banking sector amounting to KES. 843 billion or 28% of total lending to the private sector.
- Real Estate loans (both commercial and residential) accounted for 14% of total loans at KES. 444 billion.
- Loans to the building and construction sector amounted to KES 117 billion.
- However, these real estate and building & construction lending figures may not provide a complete picture of the housing sector lending as many Kenyans use consumer loans to finance land purchases and home construction.
- Many homeowners prefer to build incrementally as funds become available and blend funding sources to also include financing from SACCOs, which may offer more flexible terms.

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Microfinance Banks & SACCOs

Microfinance Banks

- In Kenya, Microfinance Banks (MFBs) are divided into:
  - Large – A market share of 5 % and above;
  - Medium – A market share of 1% - 5%; and
  - Small – A market share of less than 1%.
- As of December 2020, there were 3 large MFBs with an aggregate market share of 84%, 3 medium MFBs with a combined market share of 7% and 8 small MFBs with an aggregate market share of 7%.
- According to the latest data from the Central Bank of Kenya, MFB net advances increased by 3% attributed to increased demand for credit across various economic sectors and the adoption of technology as a lending platform.
- MFBs also grant loans backed by social collateral.

SACCOs

- There were 173 deposit-taking SACCOs (DT-SACCOs) as of December 2019.
- SACCOs have traditionally been classified into:
  - Farmers-based DT-SACCOs;
  - Teachers-based DT-SACCOs;
  - Government-based DT-SACCOs;
  - Community-based DT-SACCOs; and
  - Private sector-based DT-SACCOs.
- The total assets portfolio crossed the half-trillion mark to reach KES. 556.71 billion in 2019 - a 12.41% increase.
- The total aggregate member deposits increased by 11.27%.
- SACCOs have a combined membership of 4.78 million, 96.2% are individuals, 3.8% are corporations and institutions.

- The MFBs and SACCO sector does not have statistical data on lending per sector therefore making it difficult to gauge the size of lending towards the housing sector.However, from 2020, DT-SACCOs are required to submit sectoral credit reports to the Sacco Societies Regulatory Authority (SASRA) every quarter.
- This will include a specific category for Land & Housing among other key sectors.

Housing Supply & Demand

Annual Housing Supply & Demand

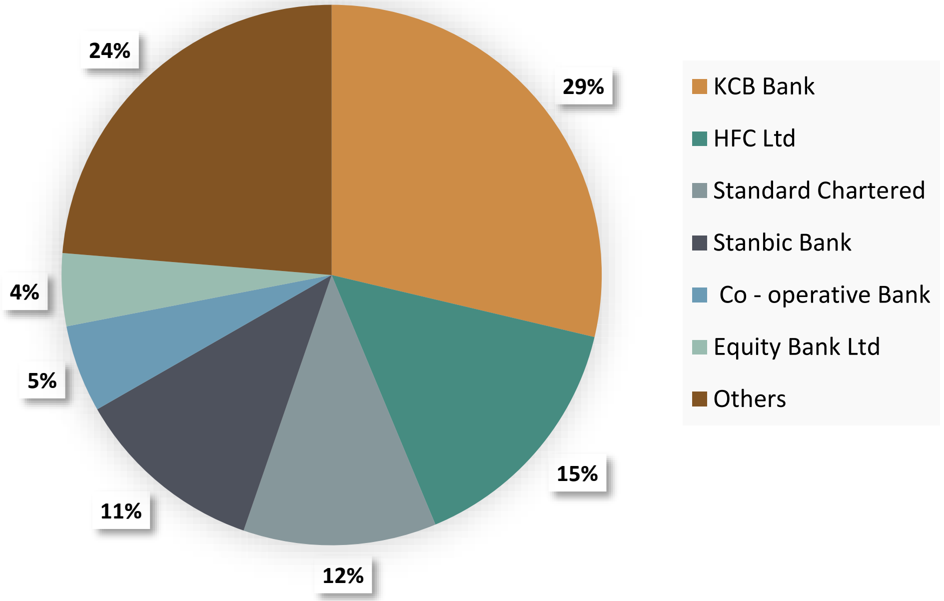
- According to the SDHUD , Kenya has a **housing deficit of 2 million units** with an **annual housing demand of 250,000** units, of which about 70% (170,000 units) are required for the lower end market.
- However, it is estimated that with the current annual **housing supply of about 50,000 units**, only 2% (1,000 units) is targeted to the lower end market.

- The SDHUD's Affordable Housing Programme stratifies the housing market into 4 key categories namely:
  - **Middle to High Income** – These are households earning above KES. 150,000 per month;
  - **Mortgage Gap** - These are households earning between KES. 50,000 to KES. 149,999 monthly income band;
  - **Low Cost** - These are households earning between KES. 20,000 to KES. 49,999 monthly income band; and
  - **Social Housing** - These are households earning below KES. 20,000 per month.
- An analysis of Kenya's workforce indicates that out of a workforce of 18.14 million , 3.09 million are employed within the formal sector while 15.05 million are informally employed.
- Further analysis of the wage distribution indicates that the majority of formally employed workers (63%) earn below 50,000 per month.
- This is in line with the SDHUD's categorization of households within the Social Housing and Low-Cost groups.
- **32% of formal sector** employees earn between KES. **50,000 and KES. 99,999** would fit within the **mortgage gap.**

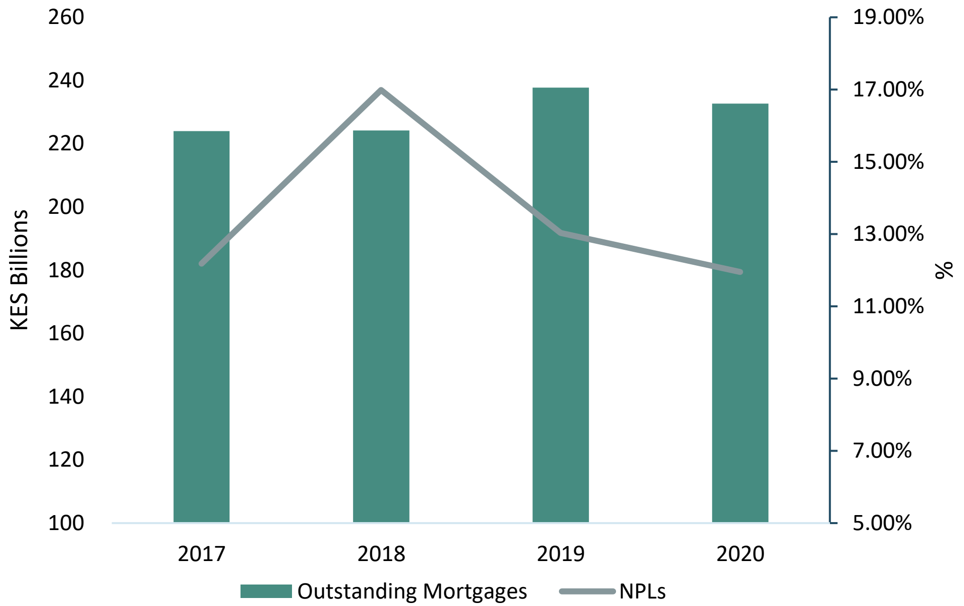
Analysis of the Mortgage Market

The Kenyan mortgage market is made up of both commercial and residential mortgages. The number of institutions offering mortgages to customers has remained fairly unchanged About 76.1% of lending to the mortgage market was by 6 institutions that is, one medium-sized bank (15%) and five tier-1 banks (61.1%).

Mortgage Market Share by Institutions



Kenya Residential Mortgages, 2017 – 2020



- NPLs have also increased from 6% in 2015 to 11.95% in 2020
- However, 2020 NPLs were lower than the 2019 NPLs that stood at 13%, indicative of tighter portfolio management and loan recovery.

Home Loan Products

Category	Example Providers	Examples of Products
Commercial Bank Home Loan Products	Co-operative Bank, NCBA, absa, I&M Bank, Stanbic, KCB, Equity, DTB (Diamond Trust Bank), Standard Chartered	▪ Purchase financing ▪ Construction Financing ▪ Plot purchase ▪ Mortgage Top-Up ▪ Equity Release
Microfinance Bank Home Loan Products	KWFT Microfinance	▪ Nyumba Smart home loan
SACCO Home Loan Products	Bingwa Sacco Ltd, Mwalimu National, Imarisha Sacco, Unaitas, Ukulima Sacco, Stima Sacco, Harambee Sacco, Imarika Sacco, Safaricom Sacco, Tower Sacco	▪ Housing Development Loan ▪ Mortgage ▪ Rental Development Loan

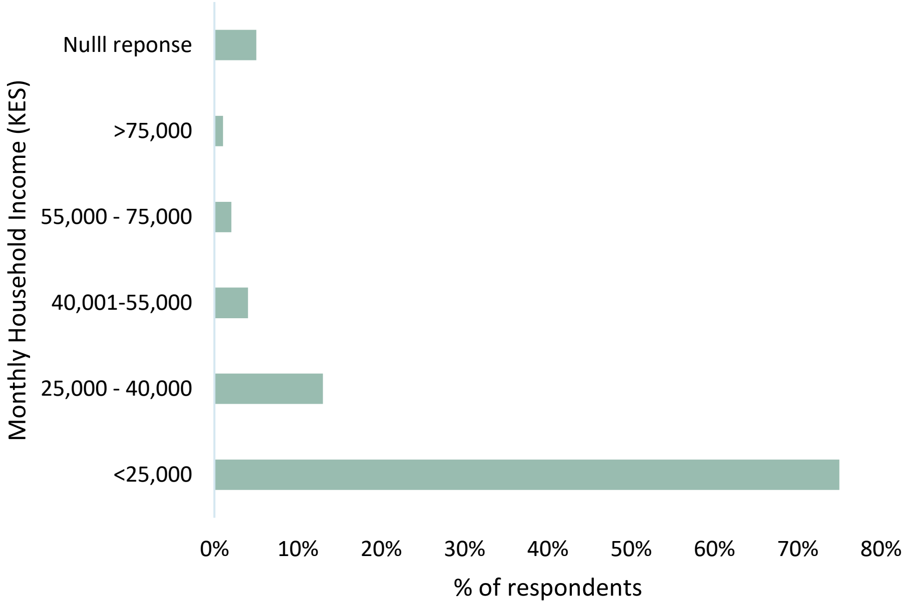
Constraints to Expansion of Affordable Housing Finance & Potential Solutions

Constraints	Description
Affordability	▪ This is a combination of high property prices, low-income levels (especially in rural areas), and the high cost of finance. Few Kenyans can afford homes built by formal developers resulting in mortgage lending being accessible to only a minority of the population.
Access to long-term funding	▪ This is majorly due to the mismatch between short term deposits and longer-term mortgage loans. ▪ Limited access to capital markets funding for mortgages also results in a low supply of long-term capital.
Access to data on housing finance	▪ The unavailability of up-to-date data means that the available data is not likely to be indicative of the current market situation. ▪ It is difficult to identify market prices in Kenya given that there is no standard metric used in determining property prices.
Risk management	▪ Deficiencies in a lender's ability to capture or understand risks mean that lenders must charge a high 'risk premium'.
Legal and regulatory framework	▪ The legal framework is relatively complex. There are sufficient powers available to lenders to enforce collateral. Borrowers are also able to challenge foreclosures, though multiple challenges can undermine the system.
Land and Property Governance	▪ The multiplicity of forms of tenure and methods of transfer creates some confusion, additional cost and legal uncertainty. This hampers the development of an efficient "one-stop-shop" registry system.
Culture	▪ Many Kenyans do not like the idea of the bank owning their homes and may prefer to take out consumer loans to finance the construction of a home. Many prefer to build incrementally as funds become available and to use financing from SACCOs, which offer more flexible terms.

Analysis of the Mortgage Gap

Formal Sector Monthly Wage Distribution

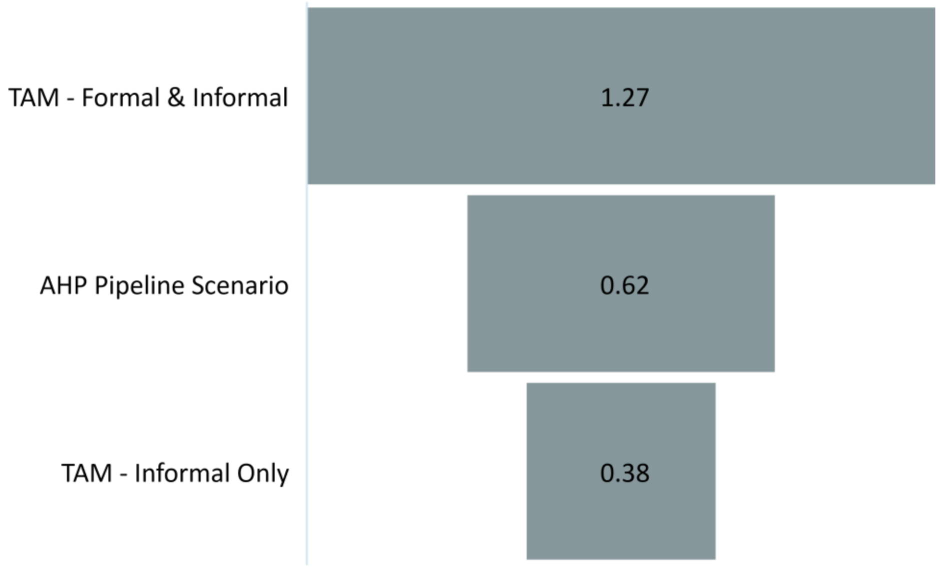
Monthly Household Income Distribution (KES)



- Whereas there are no official statistics on wage distribution in the informal sector, a countrywide income survey carried out in 2018 by IPSOS indicated that that close to 88% of Kenyan households earn less than KES. 40,000 while 7% earn above KES. 40,000.
- Though the income bands provided in the IPSOS survey do not fully align with SDHUD's categorization, the data provided in the survey infers that, at most, 7% of households (both formal & Informal) fall within the Mortgage Gap category.

Potential Impact of the PCG

PCG - Total Addressable Market(TAM) Scenarios



- A PCG programme has been proposed by the SDHUD and is currently being reviewed by the National Treasury.
- As currently proposed, the PCG provides a 20% partial credit guarantee to banks for mortgages for projects under the AHP.
- This is expected to encourage lending, especially to the informal sector that is largely viewed as a higher risk segment.
- The PCG programme could be transformational if it can address the key constraints in the market, especially within the informal sector.
- This would mean opening up the PCG to the market outside the AHP program to achieve a wider market transformation.

- The Mortgage Gap analysis carried out by LHGP indicates that about **1.27 million households fall within the KES. 50,000 – KES. 150,000 income band**, with at least **0.89 million** from the **formal sector** and **0.38 million** from the **informal sector.**
- These **1.27 million** households can **potentially** be the **PCG's total addressable market.**
- According to the SDHUD, there are **about 600,000 units** in various stages of planning in the **AHP Pipeline.**

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Case Studies

Cagamas
National Mortgage Corporation of Malaysia

Overview: CSRP, a subsidiary of Cagamas Holdings Berhad, provides 'first-loss' protection on the mortgage portfolios of housing lenders in exchange for a guarantee fee of c.1.3%.

Products: Skim Rumah Pertamaku (SRP), Skim Perumahan Belia (SPB) – All provide 90% first-loss guarantee.

Criteria:

- Maximum current LTV 95%;
- Loan term up to 35 years;
- Household income up to c. USD 2,400;
- Mortgage maximum value of c. USD 121K; and
- Owner-occupier residential properties.

Fund performance:

- CSRP has provided cumulative guarantees for housing loans and related financings worth USD 1.6 billion, enabling c.33,000 individuals/families to purchase their first house.

PMRC
Pakistan Mortgage Refinance Company Limited

Overview: A Trust established to provide partial credit guarantee for low-income housing to qualified financial institutions targeting the informal sector in exchange for an upfront trustee fee of 2%.

Products: Credit Guarantee Scheme (CGS) – first-loss up to 40% of the outstanding principal.

Criteria:

- Maximum current LTV 90%;
- Loan term up to 10 years;
- Household income up to c. USD 900; and
- Owner-occupier completed residential properties.

Target:

- Has both Islamic and Conventional Credit guarantee scheme Model.
- Designed to increase the accessibility of affordable housing finance to low-income group.

PhilGuarantee
Philippine Guarantee Corporation

Overview: A government owned and controlled corporation, that provides a guarantee system that takes the risk out of private investment in housing by providing risk covers and fiscal incentives to housing credits extended by financial institutions.

Products: Retail Guaranty, Developmental Guaranty, cash flow Guaranty – All provide 100% guarantee of loan.

Criteria:

- Maximum current LTV 95%;
- Loan term up to 30 years;
- Owner-occupier residential properties; and
- Purchase of lot, house, construction, major repair or improvement, or refinancing an existing loan.

Fund performance:

- As of 2018, the total number of units covered by the outstanding guaranty was 133,207.

Key Lessons for Kenya

Constraints	Description	Takeaway
Fiscal Incentives	▪ Reduced taxes on interest earnings and lower capital requirements for guaranteed loans have been used to encourage lender participation in the target segment.	▪ The government could consider providing **tax incentives** which can be a useful tool for attracting participation by lending institutions.
Structuring Multiple Products	▪ Both India's IMGC and Morocco's CGC have a variety of products to address different needs and income groups. This increases their reach to a larger client base and achieving the desired impact.	▪ The proposed PCG should aim to provide **multiple products to better address market needs** factoring in income, loan amount, and the monthly instalments etc.
Focus on informal sector	▪ Malaysia's Cagamas, India's CRGFTLIH, and Morocco's FOGARIM guarantee products are designed to target first time home buyers in the lower-income segment.	▪ The proposed PCG's guarantee product(s) designed should **majorly focus on the informal sector** and address challenges such as affordability and irregular monthly income.
Government support	▪ Governments play an important support role for HCGs.	▪ **Government support is key** to the success of the proposed PCG.
Support for lending institutions	▪ Lenders have remained reluctant to venture into the lower end of the housing finance market due to the predominance of informal employment, whose risks are difficult to assess.	▪ Lenders should be provided with support in building their **credit assessment capacity** especially for informal borrowers.
Design of products	▪ The low-income informally employed do not always earn the same monthly amounts. The repayment system should be able to make flexible (higher or lower) monthly repayments depending on the season and industry.	▪ The product(s) should **stimulate major innovations and modifications.**

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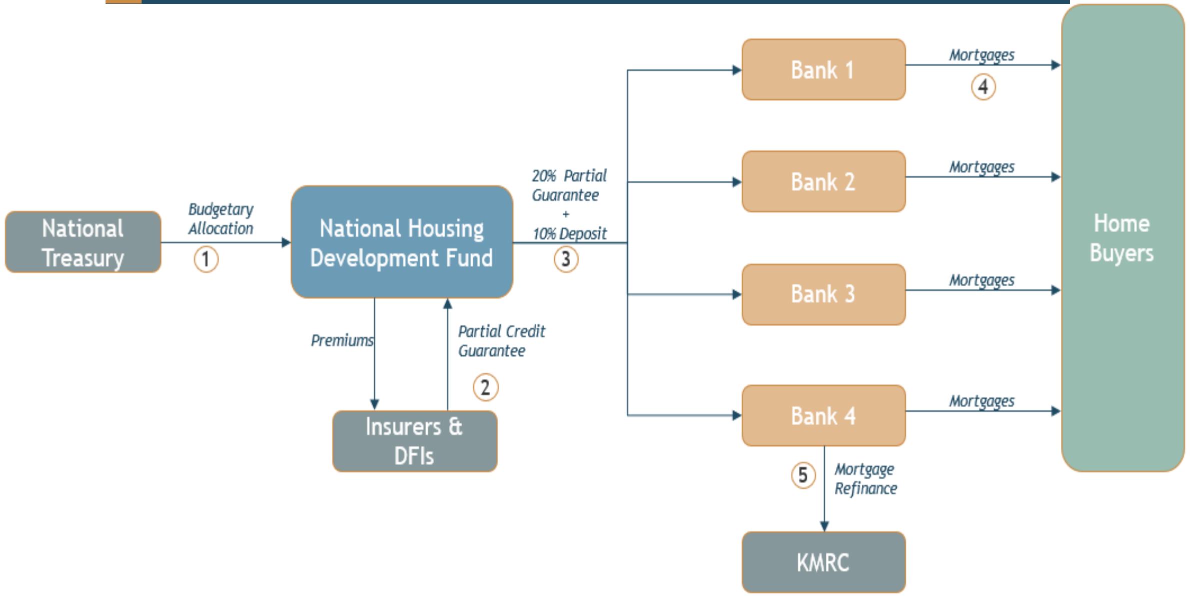
Overview of the initial PCG proposal

The PCG will focus on de-risking end-user borrowers to make mortgages more accessible and affordable to ordinary Kenyans. The PCG presents an opportunity to mobilize end-user finance and, by extension, the delivery of affordable housing units, at a larger scale. The current PCG proposal limits the guarantee cover to mortgages under the AHP program.

Proposed PCG Mechanics



Proposed PCG Mechanism

1) The PCG would have been primarily **funded by the National Housing Development Fund (NHDF);**
2) PCG would have attracted **supplemental funding** from insurers and DFIs;
3) The NHDF will implement the PCG by **transferring a 10% deposit (cash)** and **issuing** a **20% partial credit guarantee (unfunded)** to banks for qualifying mortgages primarily from informal sector borrowers; and
4) The lending institutions, if eligible, would be **refinanced through the KMRC.**

- The guarantee will cover up **to 20% of the approved loans** and allow the banks to provide mortgages at lower borrowing rates.
- In case of default, lenders are expected to follow standard mortgage recovery procedure; and lodge a claim from the NHDF for loss incurred (if any) up to 20% of the outstanding principal.

Review of the Initially Proposed PCG Structure

Governance and Management Structure	▪ The Housing Act is silent on whether the NHDF can provide guarantees but allows NHC to guarantee loans made to individuals (mortgagees) under an approved scheme.
Capital Structure	▪ The National Treasury was to provide KES 10 billion in Supplementary Budget 1 (2019/20 Financial Year) and another KES 10 billion in the subsequent year. ▪ More work was required to determine the level and form of capital required for the PCG to be effective.
Products and Products Pricing	▪ The PCG key customer segment is the informal sector borrower viewed as high-risk. ▪ PCG however does not consider different products that could cater for different income levels.
Products and Products Pricing	▪ The draft PCG proposal from the SDHUD does not provide explicit eligibility criteria for the PCG. ▪ It is important to align these existing eligibility criteria and customer segmentations and explicitly linking these to the PCG once it is included within the regulatory framework.
Calling of the PCG Guarantee	▪ The PCG mechanism outlined in the draft proposal does not specify the number of non-payments considered that will constitute borrower default. ▪ The PCG will need to develop its default definition based on these standards and in alignment with lenders. ▪ The PCG's recovery process and terms do not work in favour of the lending institutions in that they have to prove a loss before compensation.

Stakeholder Feedback

Housing Finance Products	**Portfolio Performance:** Stakeholders interviewed indicated that their housing finance portfolios have underperformed over the last 3-4 years shifting their focus to management of current portfolios and recovery of bad loans. **Target Market & Products:** Stakeholders confirmed inaccessibility of mortgage products to middle-income households in the informal sector due to mismatch of available financing and capital requirements.
Product Preferences	There is a preference for a PCG product that offers a **first loss cover for defaults**. This would encourage financial institutions to develop products that target the low-to-middle income segments, especially within the informal sector.
Underwriting & Eligibility Criteria	Stakeholders indicated that they intend to maintain **high underwriting standards** in originating new loans ensuring potential customers are creditworthy before disbursement. The PCG product should be **aligned with KMRC's eligibility criteria** so that lenders can refinance the mortgages covered by PCG with KMRC.
Pricing	Some lenders argue that the PCG product should **come at minimal to zero cost** as they view this as an initiative by the government to venture into a new and untested market to further government policy.
The Efficacy of Current Market Interventions	**Lack of visibility of supply and demand:** Stakeholders emphasized the need for aggregation of supply and demand for AHP projects. On the demand side, lenders would have visibility on the potential buyers interested in these projects. **KMRC Operationalisation:** Lenders cited the length of time taken by KMRC to operationalize and stringent eligibility criteria as a key concern. **Systemic Interventions:** Some lenders argue the affordable housing sector may require a wider set of systemic interventions that would streamline the mortgage finance sector such as costs, mortgage perfection and foreclosure processes.

Key issues raised by the lenders include:

- **Market Interventions:** Lenders need to have better visibility of AHP's supply and demand;
- **Mortgage Market Performance:** Lenders are cautious and would therefore be unlikely to make large commitments to lending in new market segments;
- **Product Development:** Lending products that are tailored for the target market segment need to be developed

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Affordable Housing PCG Pilot Programme

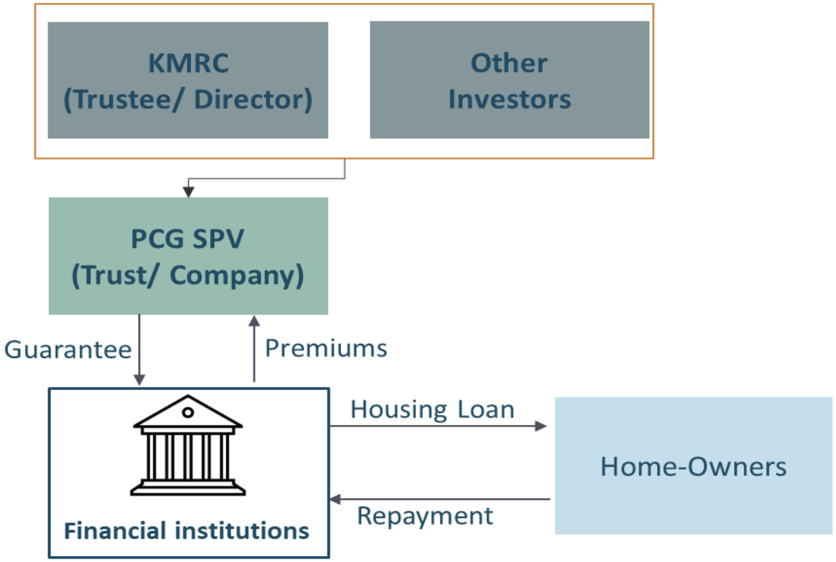
Pillars	**The PCG pilot programme envisages the implementation of the PCG Scheme at a small scale with minimal capital outlay, allowing for an iterative product development cycle in partnership with financial institutions and other key stakeholders.**
Structure	The Pilot programme would need to be housed with an existing institution. This may include an existing guarantee provider, an industry organization or KMRC.
Target Market	The Pilot programme would target the mortgage gap - households earning between KES. 50,000 to KES. 149,999 monthly income band - with a focus on the informal sector.
Product & Pricing	The Pilot programmes would need to develop a PCG product designed for the Kenyan mortgage market with a focus on the target market segment. The pricing of the product would need to be aligned with the potential exposure that lenders would face for underwriting these loans.
Distribution	The pilot programme would look at how best the PCG product can be rolled out and potential partners to drive growth.
Capital Structure	The pilot programme would require funding to cover its initial roll-out and product portfolio.

PCG Structuring Options – Kenya Mortgage Refinance Company

1. The Pilot Programme could be developed **under the auspices of KMRC**. There are global precedents of MRCs operating PCGs including:

- **Pakistan Mortgage Refinance Company (PMRC):** PMRC and the Government of Pakistan for the establishment of a Trust which provides PCG for low-income housing to qualified financial institutions.
- **Cagamas in Malaysia:** Cagamas runs a Mortgage Guarantee Programme that is administered via Cagamas SRP Berhad, a 100% owned subsidiary of Cagamas. The Mortgage Guarantee Programme offers first-loss protection on the mortgage portfolios of participating housing lenders.

Potential Structure of PCG driven by KMRC



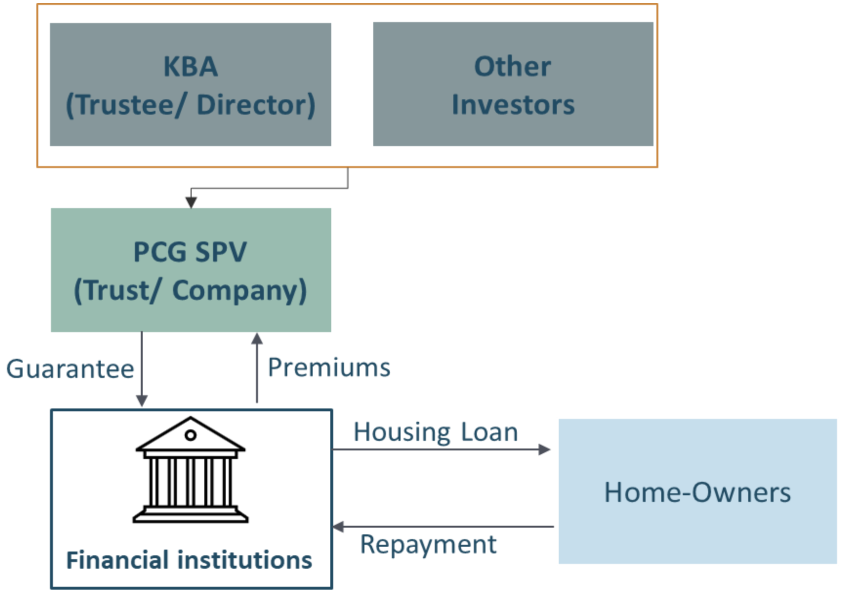
- KMRC’s position as a wholesale mortgage lender provides it with a clear view of mortgage portfolios across the industry and is therefore well-suited to analyse risk, price and operate a CGS for the sector.
- However, given that KMRC is still in the initial stages of rolling out, it would need support for the structuring, capitalization, and operationalization of the Pilot Programme.
- Additionally, KMRC has been designed as a low-risk financial institution and therefore would need to incorporate an SPV or trust to operate the Pilot Programme.

PCG Structuring Options – Kenya Bankers Association (KBA)

2. The Pilot Programme could be housed by **industry associations** such as the **Kenya Bankers Association (KBA)**.

- Using KBA is advantageous as it leverages its convening powers within the financial sector and its track record in leading industry-wide initiatives to develop the pilot programme.
- However, as the implementation of the pilot programme would require technical capabilities that may not lie within these organizations, they may have to develop specialist teams to implement the PCG.
- Additionally, it may be necessary for the KBA to incorporate a special-purpose vehicle to implement the pilot programme as these organisations are not designed to be risk-taking vehicles.

Potential Structure of PCG driven by an Industry Association



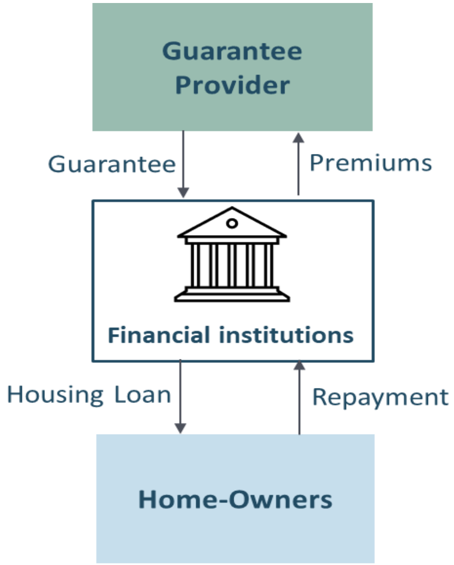
- The KBA has previously led or participated in the development and implementation of industry-wide initiatives including:
  - **Pesalink:** This is a real-time money transfer service within the banking sector in Kenya.
  - **Kenya Green Bond Programme:** KBA together with Nairobi Securities Exchange, Climate Bonds Initiative, FSDA and FMO - Dutch Development Bank championed the development of a framework for the green bond market in Kenya.
- Using an existing guarantee provider leverages the organization's existing resources and competency ensuring efficient product design, development, and modification.

PCG Structuring Options – Guarantee Provider (Proposed)

3. The Pilot Programme could be housed within **an existing guarantee provider**:

- In the housing sector in the Philippines, **PhilGuarantee** is the principal agency for state guarantee finance and it provides guarantees for affordable housing.
- Under this structure, the guarantee provider would develop the PCG product for the target market segment and work with financial institutions to guarantee mortgages that meet specified eligibility criteria in line with the target market segment.

Potential Structure of PCG driven by an Existing Guarantee Provider



- The Pilot Programme can seek to explore partnerships with guarantee providers active in the Kenyan market including African Guarantee Fund (AGF), GuarantCo, and Multilaterals and DFIs.
- Using an existing guarantee provider leverages the organization's existing resources and competency ensuring efficient product design, development, and modification.
- It is recommended that the pilot programme is structured under an existing guarantee provider like GuarantCo because:
  - It has an established presence in Kenya and a track record of providing guarantees for Kenyan projects.
  - It is currently exploring the development of Kenya.
  - It offers local currency guarantees.

Product, Pricing and Distribution

Product

- The Pilot Programme could offer a range of products including a partial credit guarantee (PCG), collateral replacement indemnity among others.
- **PCG** is recommended as the Programme's main product based on the lenders market sounding.
- Some key features that could be considered include:
  - **First-loss coverage** of between 40%-100% principal outstanding;
  - Provide coverage for loans with a **Loan To Value (LTV) of up to 90%;**
  - Should cover **completed owner-occupier residential** properties;
  - Alignment with AHP's definition of **"Mortgage Gap";**
  - Alignment with **KMRC's definition** of affordable housing; and
  - The financing tenors can be up to **35 years.**

Pricing

- Underwriting the PCG product will be based on various underlying factors including:
  - **The outstanding amount** according to a theoretical repayment schedule;
  - **Borrower risk profiles;**
  - **Occupation**, and **income frequency;**
  - **Duration** of the PCG;
  - **Age** of the mortgagee; and
  - **Quality** of the collateral.
- The Pilot Programme would need to work closely with lenders to utilize existing data from potential borrowers within the target market segment to analyse these pricing factors and develop appropriate pricing.
- The Pilot Programme can charge a **premium** systematically related to the cost of guarantees, which might make the guarantee unattractive because of the price or it can price the PCG at a low price but at the cost of losing capital.

Distribution

- For the Pilot Programme to ensure uptake of the PCG, it will need to form **partnerships with a core group** of selected lenders with which it can work to distribute the PCG.
- It is critical to ensure that the selected lenders are **strategically aligned to affordable housing and the target market segment.**
- The Pilot Programme would seek to have different types of institutions within this core group such as **Tier 1 commercial banks**, a **specialized mortgage lender**, a **Microfinance institution** and a **SACCO.**
- This would allow for the Pilot Programme to tap on lessons from across these institutions based on their products, and operational capabilities .
- The partnership with the institutions during the pilot phase would be extended to product development and borrower analysis.

Capital Structure & Potential Funders

- The Pilot Programme would require funding to ensure its implementation.
- The initial capitalization of the Pilot Programme will include amounts necessary to cover operating costs such as market research, product design, development and operations.
- The Pilot Programme would also need to set aside capital to cover potential losses arising from the PCG.
- The initial capital from the PCG can be sourced as follows:
    - **Self-Capitalization:** This can be from the capital set aside from the balance sheet of the guarantee provider running the Pilot Programme.
    - **Donor Capitalization:** The Guarantee Provider can seek grant funding to run the Pilot Programme.
    - **Blended Capitalisation:** The Guarantee Provider can blend funding from its balance sheet with donor funding to operate the Pilot Programme.

Potential Funders

USAID FROM THE AMERICAN PEOPLE

MINISTRY OF FOREIGN AFFAIRS OF DENMARK *Denmark in Kenya*

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