



TERMS OF REFERENCE

For Provision of Consultancy Services on Medium-Term Impact Survey Services for the Kenya Mortgage Refinance Company Limited (KMRC)

Background

The Kenya Mortgage Refinance Company (KMRC) is a non-deposit taking financial institution established in 2018 under the Companies Act 2015. Its mandate is to provide long-term funds to primary mortgage lenders (PMLs) for purposes of increasing availability of affordable home loans to Kenyans. KMRC is providing concessional, fixed, long term finance to the primary lenders who include Banks and Saccos so that they can transfer the same benefits to 'wananchi', making home loans more accessible to especially the moderate to low-income earners in the country.

By increasing the supply of affordable housing finance, KMRC acts as a key lever in the push to increase homeownership in Kenya. Noting that Kenya's mortgage market remains underpenetrated, relative to the potential demand for home ownership, KMRC recognizes the upside potential and the downside risks of facilitating home ownership to the moderate to low-income earners.

KMRC is regulated by the Central Bank of Kenya (CBK), with the Capital Markets Authority (CMA) providing oversight over its bond issuance operations.

More details can be found on the KMRC website: <https://kmrc.co.ke/>.

Overall Objective

This medium-term survey (MTS) is undertaken to assess among other things the extent to which KMRC's funding to the industry, specifically the Participating Primary Mortgage Lenders (PMLs) has had an impact and met the intended objective upon which the Company was initiated. The MTS will measure the business model and performance to date (in terms of relevance, effectiveness, and efficiency) and determine its likelihood to achieve its intended outcomes and impact, including sustainability.

Specific Objectives

The specific objectives of this medium-term survey exercise include:

- To evaluate the value added by KMRC to its stakeholders – shareholders, PMLs and the public (home buyers)
- To examine the extent to which KMRC's current business model is effective as a vehicle for supporting achievement of the Government's Affordable Housing Program goals and objectives.
- To survey the extent to which KMRC's model meets the needs of its clients' (Participating Primary Mortgage Lenders) housing finance liquidity needs.
- To ascertain the degree to which the concept of a Mortgage Refinance Company as a liquidity facility is aligned with the country's housing finance needs, with a special focus on the lower income segment of the population. Ideally, the consultant will seek to identify the extent to which KMRC is able to generate tangible impacts in terms of Inclusion, Stability, Depth as well as increased Sustainability.
- To establish the factors that may have contributed to the slow uptake of the KMRC mortgage funding by the participating PMLs. What adjustments or improvements, if any, should KMRC consider for this business modality going forward (e.g., eligibility criteria, targets, approval process)?

- To recommend the adjustments and improvements, if any that KMRC should consider incorporating in its model to optimize on funding impact, thus increase the affordability and accessibility of home loans to Kenyans.
- To appraise the Company's leadership on the effectiveness of the KMRC business model in the Kenyan housing finance market
- To find out the extent to which KMRC's Credit (lending) related operational policies and processes are effective in helping the Company achieve its funding targets and objectives. What adjustments should be considered?
- To determine the depth to which KMRC's partners and stakeholders (including end borrowers) understand the Company's business model and its role in the housing finance market.
- To establish the extent to which KMRC has had an impact on building local capacities and promoting financial literacy among Kenyans.
- To examine the degree to which KMRC's brand and reputation are tied to its fulfilment of the expected results and overall objectives.

The outcomes (results) of this assignment will help KMRC to review and/or restructure its short-, medium- and long-term strategic plans to effectively resolve the affordable housing finance challenges. KMRC will also be able to better understand its target audience's preferences with regards to the Company's current product/service offering, and thus make necessary adjustments as will be required.

The Company will also utilize results of the survey to gauge the level of the country's understanding of what a Mortgage Refinance Company (MRC) entails, whether one (MRC) was a necessity in the country, whether KMRC's awareness efforts have reinforced its stakeholders' understanding on its operations and whether it's (the Company) meeting its objectives. The survey will therefore adopt both a retrospective as well as forward-looking approach to gather information for the exercise.

Assignment Background

In Kenya, the right to housing is embedded in the constitution, which provides that *"Every person has the right to accessible and adequate housing, and to reasonable standards of sanitation."*

Kenya has an annual housing demand of 250,000 units with an estimated supply of only 50,000 units, culminating in a housing deficit of 2 million units, or 80% deficit. Housing affordability is a key challenge in Kenya with many people unable to afford to buy or build their own home. Only 2% of the formally constructed houses target lower-income families. About 6.4 million people, or of Kenya's urban population live in informal settlements. Many families are at high risk of diseases such as malaria, respiratory infections and/or parasitic jiggers' infestation.

Kenya needs to build 250,000 units annually for at least four years to plug its cumulative housing deficit of 2 million units. The lowest cost of a new house is estimated at \$11,000 (Kes1.1 million), and only about 11% of Kenyans earn enough to support a mortgage. Public and private housing developers have previously concentrated on the middle and high-income groups. The government pledged to build 500,000 housing units for the lower and middle-income population segments by 2022. The units were to be sold at a price range of US\$6,000 to US\$30,000. But by the end of 2021, the five-year plan had yielded only 431 units or 0.8% of the target. Provision of affordable housing remains a problem, not only for developing countries like Kenya, but also many developed countries. The rapid increase in urban population, high cost of construction, finance costs, and escalating prices of urban land are hurdles in Kenya.

The availability of and access to housing finance is a significant determinant in a household's decision to acquire, build, or rent a house. It is estimated that less than 15% of Africa's urban population can afford to purchase developer-built housing. In many countries in Global South, (Latin America, Asia, Africa and

Oceania) mortgage-finance systems tend to be underdeveloped, thereby limiting access to finance and contributing to higher borrowing costs. Only few African countries have huge mortgage markets, where mortgage loans as a percentage of GDP is; Morocco (18%), Tunisia (9.2%), Namibia (19%) and South Africa (34%). In Nigeria, Cameroon, Egypt, Côte d'Ivoire, Ghana and Tanzania for instance, housing finance amounts to less than 1% of GDP. Limited and expensive mortgages limit access to finance for housing.

On the supply side, developers need financing to build the mass housing projects that are needed to address the continent's housing deficit. The financial service sector needs to diversify the breadth of products and services offered so that they increasingly target low-and middle- income households.

Scope of Work

The consultant will deliver the following: -

- Provide a holistic assessment of the housing finance market.
 - Provide a general overview of the housing finance landscape around the world,
 - Carryout a comprehensive review of Kenya's housing finance market regarding players, products, current and future financial needs
- Map out all the financial and non-financial service providers in the market and other actors involved in housing finance. This includes those directly offering financial solutions to the consumer and those offering financial solutions to SME's (actors within the housing ecosystem);
- Identify the short mid and long-term market sustainability goals of housing finance.
- Through a defined sample size, identify the demand side housing finance current and future housing finance needs particularly for low-and middle-income households. Consequently, identify the extent to which KMRC is meeting and/or satisfying those needs.
- Comprehensively review the degree to which the KMRC product offering as designed is relevant to reach its goals and objectives.
- Examine the extent to which the KMRC lending business aligns with the Government's Affordable Housing development plan.
- Find out if the housing finance needs satisfied thus far (results) are sustainable.
- Identify lessons learned from the exercise and the Company ought to be cognizant of, going forward.
- Propose policy changes resulting from the impact assessment.
- Impact: have there been any unforeseen positive/negative effects of KMRC's lending activities to end users and PMLs?
- Cross-Cutting Theme - Gender Equality - Extent to which client profiles for the different financial products show equal participation and benefits for the different population groups.
- Innovation: In what aspects did KMRC manage to bring innovative solutions to meet the needs of the target groups, provide unique methods to overcome housing and housing finance challenges, and demonstrate exemplary approaches within the low- and middle-income housing development context?

Deliverables

The service provider will be expected to submit:

- **An inception report:**
 - Present fully elaborated Impact Assessment proposal including detailed methodology for data collection, processing and analysis methodology, sampling frames and methodology, list of proposed

interviewees, interview guides and client survey draft questionnaires and other survey tools, outline of the final report, work plan and schedule of activities.

- Demonstrate understanding of how the consultant will handle the assignment analysis, findings, and recommendations.
- The inception report is to be submitted within three calendar weeks of selection and subsequent notification of award to the consultant (contract signing).

- **Pilot report**
 - To be submitted within one calendar week of the submission of the Impact Assessment Inception Report. This report will provide the results of a small pilot survey together with proposed changes to the survey instrument and questionnaire.

- **Draft Report**
 - A draft report detailing an analysis of the housing (in general) and housing finance market.
 - Should include the trends, players, market dynamics, etc.
 - The draft report is to be submitted within ten weeks of the date of contract signing.

- **Final report**
 - The final report is to be submitted one calendar week after receipt of comments on the draft impact survey report.
 - Final report, incorporating findings and recommendations should consider all the comments that would have been shared in the Draft report.
 - The final reports should be written in a clear and simple style, documenting the results of the Impact Assessment in accordance with the above terms of reference.

- **Final Workshop**
 - Within one calendar week of the submission of the Impact Assessment Report, the results should be presented to KMRC staff and representatives of different partners and stakeholders. This will be dependent on the complexity of the evaluation findings.

- **Report Format**
 - Both Reports (Draft and Final) will be submitted Microsoft Word digital format (hardcopy if requested)
 - A Power-Point presentation of the findings of the evaluation: Depending upon the complexity of the evaluation findings, KMRC could consider organizing a stakeholders' meeting at which to make a presentation to the partners and stakeholders.
 - Policy changes report resulting from the findings.

N/B - All reports and data collected must be provided to the project, together with copies of all questionnaires, audio/video recordings (if any), transcripts and all other relevant material and information collected or generated during the survey.

Duration and Payment schedule

The consultant will be paid on the Lump Sum basis against timely and acceptable deliverables over an envisaged contract period of 3 months. The payment schedule is as set out below:

No	Deliverable	Payment Amount	Timeline (After Contract Signature)
1.	Completion of the Inception report	10%	3 weeks
2.	Pilot Survey Report	10%	4 weeks
3.	Draft report	30%	10 weeks
4.	Final Report	0%	11 weeks
5.	Final workshop	50%	12 weeks

Payments will only be made once deliverables have been submitted to KMRC and subsequently deemed acceptable.

Duration

The KMRC Medium-Term Survey is expected to be conducted over a period three (3) months from the commencement date. The start date will be communicated to the consultant.

Qualification of the Consultant

The consultancy firm to be selected should have extensive experience. Consulting firms will be required to fulfil the following requirements.

- i. Demonstrate at least 5 years proven experience of working with financial institutions on impact surveys evaluations.
- ii. The experience should be illustrated with names of at least 3 assignments undertaken within the last five (5) years in the financial sector that are of similar nature (reference letters/contracts/LPOS would be required).
- iii. Key technical personnel (Consultants) proposed for the assignment. The consultant must show proof through attaching CV of at least 3 experienced key personnel proposed for the assignment: -
 - Lead Consultant – with a minimum of 8 years' experience in evaluating financial sector DFI funded programs, especially in the global partnership models in the financial sector development space; familiar with different models of the partnership governance structure and business model.
 - Have a minimum of bachelor's degree in finance, Business Administration, Banking, or its equivalent.
 - Experience of mortgage lending in other emerging economies would be a plus
- iv. Local Experts with international and local expertise in undertaking impact surveys
- v. Experience and Understanding of the housing finance in the context of Africa.
- vi. Have experience in collaborating with government agencies and Development Finance Institutions
- vii. Demonstrate resource capacity to deliver on the scope of work described.
- viii. Provide reference letters from at least 3 clients.