Annual Review - Summary Sheet

This Summary Sheet captures the headlines on programme performance, agreed actions and learning over the course of the review period. It should be attached to all subsequent reviews to build a complete picture of actions and learning throughout the life of the programme.

Title: CLIFF (Community-Led Infrastructure Finance Facility) Phase 2B		
Programme Value: £21m (including cost extension from July 2016 – March 2017 of £3m)		**Review Date: system will generate**
Programme Code: 204609-101	**Start Date:** March 2014	**End Date:** 31 December 2017

Summary of Programme Performance

Year	**2015**	**2016**	**2017**					
Programme Score	**A+**	**A**	**A**					
Risk Rating	**Medium**	**Medium**	**Moderate**					

Summary of progress and lessons learnt since last review

The CLIFF programme has performed well and is on track against nearly all outputs. Whilst the last Annual Review was positive it also set out key recommendations and a separate set of investment ready indicators that the CLIFF programme needed to meet to support its evolution to an investment model. The Reall team (the UK based NGO that oversees CLIFF) have responded well to the recommendations and have largely met all the investment ready indicators (these are reported against under Output 1). DFID and Reall have worked collaboratively over the last year to support progress towards this.

Due to a delay in the design of the next phase of the CLIFF programme it has been agreed to grant a cost extension of £4m from June to December 2017 for Phase 2b. This will enable CLIFF Housing Development Enterprise (HDE) partners to continue to deliver against a pipeline of housing projects and support the housing partners to become investor ready. The latter would be critical for a third phase of the programme as Reall prepare to take on concessional financing.

Whilst there have been delays in the design of this programme the CLIFF programme continues to perform well and increasingly is raising its profile as a programme testing and implementing innovative approaches to affordable housing. It is important that Reall focuses on this alongside the critical need to attract concessional finance throughout this cost extension period.

Summary of recommendations from last annual review – *updates in italics.*

1.Reall to update DFID regularly – outside of the formal quarterly update meetings - on the process for re-structuring partners so assessment and regular feedback on progress can be undertaken. *This has been undertaken throughout the year, and when significant progress/events occurred, via email/phone/face to face.*

2. DFID to work with Reall on an overall strategy and monitoring approach to assess HDE financial sustainability and investor readiness which enables Reall to draw on DFID support and ensure DFID keeps oversight of the wider process underway within CLIFF to shift to an investor model. *There has been good progress on Organisational Development Framework (ODF) which allows for full assessment of HDEs across all competency areas from start up to full profitability.*

3.Reall and DFID to agree a set of indicators which DFID will track on HDE financial viability and investor readiness. *Completed – see output 1.*

4. Reall to hold follow up discussions with DFID and the Swedish International Development Agency (SIDA) in autumn 2016 to discuss the future funding model of the Reall portfolio for third phase of CLIFF. *Reall facilitated discussions on the CLIFF funding model with SIDA and DFID. Discussions with SIDA led to Letter of Intent for provision of a guarantee against future investments in November 2016.*

5. Given the challenges in meeting expectations across Output 4, Reall should provide a bi-monthly update on progress in order for DFID to assess any potential shortfall in results early and work with CLIFF to address these. This will also enable DFID to work with Reall to produce a realistic logframe amendment for the cost extension period from June 2016. *This was completed.*

6. Reall to share early findings from the Cardiff University study on measuring job creation with DFID to assess quality of research and ensure this feeds into evidence for CLIFF Phase 3.
This has been completed with a second phase to be undertaken in the upcoming year.

7. Documenting case studies of best practice – CLIFF has been operational since 2003 and is taking an innovative approach to supporting NGO organisations turn into more commercial affordable housing providers. Documenting this process, understanding how they become investment ready is a really important area and we recommend Reall look into how they can document and disseminate this learning. *There has been good progress and HDE studies have been completed with further studies (4 per year) to be undertaken.*

8. DFID to revisit risks on a quarterly basis with the CLIFF programme team. *This is now done on a quarterly basis.*

Summary of recommendations for the next year

- Reall and DFID to continue to measure performance against HDE restructuring.
- Reall to draw up additional investment ready indicators, and formally incorporate these into the logframe for the cost extension so they can be tracked and reviewed as part of output 1.
- Reall to update DFID on the progress of Linkbuild in the Philippines to check it has been able to meet its operating costs.
- DFID and Reall to set reduced targets for Output 3 for the rest of the programme period.
- Reall to continue to promote key innovations that are taking place across HDE partners where they could contribute to wider development debates on affordable housing models.

A. Introduction and Context (1 page)

DevTracker Link to Business Case:	**4314182**
DevTracker Link to Log frame:	**4821543**

Outline of the programme
The Community-Led Infrastructure Financing Facility (CLIFF) programme was initiated in 2002 after research funded by the UK's Department for International Development (DFID) revealed an important global slum finance gap. The programme supports Global Goal 11 on ensuring access for all to adequate, safe and affordable housing and basic services and upgrade slums. The programme continues to support DFID's current strategic framework for economic development.

CLIFF was designed in recognition of a market failure in the provision of urban land, housing, basic services and tenure for groups and individuals who, whilst poor, could afford appropriate provision. To bridge this gap, CLIFF builds local institutions (Housing Development Enterprises) that enable slum dwellers to access affordable housing with basic services through the provision of micro-mortgages and property development. CLIFF partners with national and local governments, third sector organisations, banks and the media to cater to the housing needs of the poorest 40% of people living in some of the world's most populous slums.

To date, CLIFF has constructed over 23,220 housing units, unlocked 662 Ha of land for low-cost housing and created 34,560 direct jobs and 278,642 indirect jobs across Africa and Asia: The Philippines, Nepal, India, Burkina Faso, Ghana, Angola, Zimbabwe, Malawi, Tanzania, Kenya, Nigeria, Uganda, Pakistan and Mozambique. In addition, based on data from all but two of Reall's CLIFF implementing partners, on average 47.5% of leadership roles are occupied by women. The programme also contributes to economic development by creating financial service providers and products, construction and supply chain jobs and land rights.

CLIFF was developed and is managed by UK-based charity, Reall, formerly known as Homeless International. DFID has supported the CLIFF programme since its inception, with additional support from SIDA. CLIFF is currently in Phase 2b, amounting to £21m of DFID support – the cost extension will take this up to £25m. Phase 2b has been very successful in capacitating and growing HDEs in contexts where, in the absence of state support, delivery mechanisms have to rely on affordable end-user cost recovery and market-based cross subsidy mechanisms.

DFID has supported the programme through the following phases:

Phase 1: 2002 to 2008 - £6.8 million;
Phase 2a: July 2009 to March 2014 - £15 million
Phase 2b: March 2014 to December 2015 - £18 million
Approved no-cost extension of Phase 2b: December 2015 – June 2016
Approved cost extension for Phase 2b: July 2016 – March 2017 - £3 million
Approved cost extension for Phase 2b: April 2017 – December 2017 - £4 million

B: PERFORMANCE AND CONCLUSIONS (1-2 pages)

Annual outcome assessment

CLIFF Phase 2b has two purpose (outcome) indicators:

1) HDE's that are regarded as capable intermediaries, planners, and service providers within urban institutional arrangements (Public and private)
2) HDE's that are operationally and financially sustainable to ensure service provision for the urban poor over the long term (without dependence upon on international aid)

The overarching outcome of the CLIFF programme is to increase the access of the urban poor to public, private and civil society sector resources for housing and basic services delivery. The two purpose indicators above relate to the development of HDEs to become viable entities that can receive investment for housing. In this way as HDEs partners become viable affordable housing providers, they will be enabling an increase in access to resources for housing for the urban poor as set out in the outcome statement.

The CLIFF programme has demonstrated its ability to transition HDEs into investor ready housing providers and critically to ensure they are financially sustainable. Whilst there is still a substantial level of capacity building that needs to be undertaken to ensure that the CLIFF programme can ensure all HDE's reach a viable investment position, this work is well underway and CLIFF is on track.

As part of transitioning HDEs, Reall have developed a series of investment and organisational frameworks and competencies that all HDEs need to adhere to. Reall have also brought in additional staff with technical skills in investment and organisational and business development to enable them to progress.

The cumulative results of the CLIFF programme - number of houses built and number of people benefiting from access to services - illustrates the achievements in increasing access to housing and basic services. CLIFF remains a key part of delivering on DFID's support to improved urban development. CLIFF provides much needed housing infrastructure in and around cities enabling the urban poor to improve their livelihoods through improved resilience and access to services.

Overall output score and description

CLIFF Phase 2B continues to perform well and has scored an A. Key achievements have been delivering against housing and job creation targets – this output was exceeded. Reall have also really taken on board DFID's push to see greater sharing of innovative approaches to housing and finance models that the HDE network has been developing, and has performed strongly against this output.

Summary of output scores:
Output 1- A
Output 2 - A
Output 3 - B
Output 4 – A+
Output 5 – A
Output 5 - A

Key actions

Key recommendations for the year ahead are listed above.

Has the logframe been updated since the last review?

Yes, a revised logframe for the cost extension has been agreed.

C: DETAILED OUTPUT SCORING (1 page per output)

Output Title	CLIFF implementation expanded through establishment of new HDEs or CLIFF Implementing Partners (IPs) in current and additional participating countries.		
Output number per LF	1	**Output Score**	*A*
Risk:	Minor	Impact weighting (%):	16%
Risk revised since last AR?	N	Impact weighting % revised since last AR?	N

Indicator(s)	Milestones	Progress
1.1 Number of Housing Development Enterprise (HDE) partnerships established	No new milestone.	No change

Key Points

Reall has continued to focus on preparing existing HDE partners for investment rather than establish new partnerships and this was done in agreement with DFID. DFID and Reall agreed that the project should focus activity on ensuring Reall and existing CLIFF HDEs are in an optimum position to take on concessional or commercial financing in line with the strategy of transitioning into an investment-financed network from 2017/18. The majority of these indicators (which were not formally recorded in the logframe) have been met below and on this basis this output has scored an A.

As reported in 2016, Reall has continued to expand activity in Mozambique and will be finalising the CLIFF vehicle structure in early 2017/18.

At UK Hub level, Reall has developed the Members Framework Agreement (MFA), which represents a significant step towards a more formalised and standardised operating arrangement. A new Directorship for Business Development and Marketing was created in 2017/18 to lead on the contractual and network relationships between HDEs and Reall. The criteria within the MFA will help guide Reall's assessment and partnership criteria going forward and is the culmination of a significant area of work throughout the year.

Summary of responses to issues raised in previous annual reviews (where relevant)

Reall and DFID developed a set of key performance indicators (KPIs) outside the logframe to track investor readiness, as mentioned above. These were updated on a quarterly basis and reported to DFID. These KPIs were tied to the last cost extension, and provided DFID with updates on partner restructuring and investment readiness activity. Performance against the indicators is shown in the table below.

	Indicator	Target
1.	HDEs appropriately structured (legal and governance) to be able to operate as self-sustaining enterprises	9 HDEs by 31/3/17 **Partially Met** • *Pakistan* • *Uganda* • *Zimbabwe* • *Nepal* *To be completed in 2017/18:* • *Philippines – slow negotiation process* • *Kenya – delayed negotiations* • *Tanzania – delayed negotiations and loan default* • *Angola – Restructuring / Converted HDE*

		Although negotiations with Tanzania and Kenya were delayed Reall took action in January Q4 to expedite these discussions, and has come to agreements with both HDEs. The Philippines as had issues regarding operations – which are discussed under output 2.
2.	Reall investment readiness gap analysis complete and action plan underway	75% of action plan complete by 31/3/17 **Met** – *Full implementation of action plan on track*
3.	Experienced enterprise / investment staff in place at Reall	Director of Treasury, Funds and Investments and Director of Business Development recruited and in place by 30/9/16 **Met**
4.	HDE standard investment readiness assessment template in place, thus ensuring consistency, efficiency and facilitating shared learning	By 31/8/16 **Met**
5.	HDEs becoming / making significant progress towards being fully investment ready	Investment readiness assessments complete and development plans drawn up and being implemented for/by 12 HDEs by 31/3/17 **Partially Met** *Initial ODF Assessments took place across a selection of key thematic areas including financial management and board reporting.* *Full ODF assessment will be staggered throughout 2017/18 for all partners.*
6.	HDE competency framework operational	Main body of the HDE competency framework (being developed under the I3 initiative) defined and in place by 31/3/17. **Met**

Recommendations
Reall and DFID to continue to monitor performance on HDE restructuring.

Reall to draw up additional investment ready indicators, and formally incorporate these into the logframe for the cost extension so they can be tracked and reviewed as part of output 1.

C: DETAILED OUTPUT SCORING (1 page per output)

Output Title	Financial and technical capacity and reputation of existing and new IPs strengthened to access greater public, private and civil society sector resources to deliver adequate and sustainable housing and basic services for slum dwellers through innovative practice and influence on policy.		
Output number per LF	2	**Output Score**	***A***
Risk:	Minor	Impact weighting (%):	16
Risk revised since last AR?	N	Impact weighting % revised since last AR?	N

Indicator(s)	**March 17 Milestone**	**Progress**
2.1 Operational Finance: IP's ability to cover own operating costs	4 HDEs	Not met - 3 HDEs
2.2 Capital and Capacity Finance: IP's ability to cover 25% of capital and capacity costs	6 HDEs	Met - 6 HDEs
2.3 Capacity: IPs technical capacity sufficient to maintain and expand services without external assistance.	7 HDEs	Not met - 6 HDEs
2.4 Reputation: Formal recognition of IP's ability to innovate and deliver adequate and sustainable housing and basic services projects by relevant public, private and civil society bodies.	13 HDEs	Met - 13 HDEs
2.5 Integration: CDE's have effective partnerships with relevant organisations and departments in the public and private sectors.	13 HDEs	Met - 13 HDEs

Key Points

There has been a slight underperformance on indicators 2.1 and 2.3 and this is linked to a single partner; Linkbuild in the Philippines.

Although previously reaching the acceptance criteria in FY16, Linkbuild did not meet the criteria for Indicator 2.1 in this financial year due to a significant overall loss on their balance sheet. This is due to the nature of housing project delivery, which is capital intensive within certain annual periods, and which makes up revenue through housing completion and sales in the next period. Their next audited accounts are due in June 17, and Reall expects to see Linkbuild meeting the criteria for 2.1.

Across the portfolio, CLIFF partners met targets for Indicators 2.2, 2.4 and 2.5 as expected. Notably, partners in Nepal and Zimbabwe were seen to take great strides forward in their first full year of activity post restructuring. The more longstanding partners such as NACHU in Kenya and AMC in Pakistan continue to perform well.

To note that indicators 2.4 and 2.5 saw no change on the previous year. This is because this milestone was exceeded in the 2016/17 year. If CLIFF had taken on new partners this year, this would have been expected to increase.

Summary of responses to issues raised in previous annual reviews (where relevant)

N/A

Recommendations

Reall to update DFID on the progress of Linkbuild in the Philippines to check it has been able to meet its operating costs.

C: DETAILED OUTPUT SCORING (1 page per output)

Output Title	Mobilisation and leverage of financial (e.g. cost recovery, loan finance, construction contractor investment) and non-financial (e.g. land, basic services, technical skills) resources from the public and private sectors, as well as from community contributions, for the delivery of adequate and sustainable housing and basic services for slum dwellers.		
Output number per LF	3	**Output Score**	***B***
Risk:	Moderate	Impact weighting (%):	16%
Risk revised since last AR?	N	Impact weighting % revised since last AR?	N

Indicator(s)	Milestones	Progress
Leverage: Value of (non-CLIFF) investments in Partners and Projects	£52,130,711	Not met - £47,914,423
Fund Redeployability: Value of Recycled Funds/Funds Redeployable	£37,068,154	Not met - £32,723,210
Land: Area of land mobilised by approved CLIFF-supported projects from public and private sectors	745 Hectares	Not met - 714 Hectares

Key Points

The CLIFF programme did not meet the indicators across this output and this is linked to less project developments taking place than anticipated due to lack of funding being secured in the medium term. Furthermore Reall takes a strong risk management approach to managing capital loans to HDEs and applying strict criteria on approving housing projects through its investment committee. This can mean that project development is delayed to ensure sustainable projects are delivered.

Reall has not met the redeployable fund target for this year. As funding commitments beyond March 2018 have not been confirmed HDEs were finding it difficult to plan large housing developments and therefore this has meant less funds being recycled for projects. As HDEs have not put forward large long-term developments, Reall has not invested as much capital in loans as expected in 2016/17 and therefore the amount of funds available for redeployment has fallen short of the proposed target.

CLIFF has struggled to hit cumulative targets around leveraging of financial and non-financial resources. After a good result against target in the previous year, partners have felt limited in brokering large deals for multi-year projects due to lack of confirmed funding in the medium term. There remain some key successes with the amount of investment leveraged. This includes the Nepal partner’s continued working relationship with local finance providers who are providing a high level of end user financing for micro mortgages, and partners in Mozambique and Zimbabwe leveraging significant value from negotiated land from local municipalities.

A number of partners have reached the level of project development where purchasing significant parcels of land for integrated neighbourhood development is both feasible and cost effective. Reall as an investor is unable to commit to large land investment due to future funding uncertainty, however. This has had a material effect on the purchase of land for CLIFF projects by either inhibiting partners from starting new developments, or limiting them to small projects with a rapid turnover time, allowing them to realise their returns and complete housing before Reall’s confirmed funding pipeline expires. This can be evidenced by the portfolio’s ability to hit housing targets under output 4, but not the related resource mobilisation targets under this output.

Across all these indicators Reall and DFID should consider reducing the targets for the cost extension period, given future funding is still to be confirmed. In addition to its strong risk management approach, Reall will not approve future investment projects without clear line of sight on completion and resale, which is to be commended. However this output underlines the immediate need for Reall to diversify its funding partners, continue with applications to impact investors and DFIs and seek to secure funding beyond solely grant finance in the next year.

Summary of responses to issues raised in previous annual reviews (where relevant)

Reall continued to pursue options for ongoing funding in 2017/18, as recommended in the AR 2016. This is a specific focus for the cost extension.

Recommendations

DFID and Reall to set reduced targets for this output for the rest of the programme period.

C: DETAILED OUTPUT SCORING (1 page per output)

Output Title	Adequate and affordable housing and basic services solutions developed as a result of CLIFF.		
Output number per LF	4	**Output Score**	***A+***
Risk:	Minor	Impact weighting (%):	20%
Risk revised since last AR?	N	Impact weighting % revised since last AR?	N

Indicator(s)	**Milestones**	**Progress**
Housing Units: Number of adequate and affordable housing units constructed for the slum dwellers as a result of CLIFF.	20,244	Met - 20,296
Service Units: Number of basic services constructed for slum dwellers as a result of CLIFF.	44,526	Met - 50,134
Beneficiaries: Total Number of Non-Unique Beneficiaries of Approved CLIFF Interventions	457,708	Met - 458,683
Beneficiaries: Total Number of Unique Beneficiaries of Approved CLIFF Interventions	242,954	Met - 243,205
Employment: Number of jobs created directly as a result of CLIFF.	30,366	Met - 30,444
Employment: Number of jobs created indirectly as a result of CLIFF.	242,928	Met - 243,552
Loans: Number of loans (beneficiaries accessing loans)	30,210	Met - 33,072

Key Points

CLIFF has marginally exceeded targets on housing and basic services delivery in 2016/17. Partners who have contributed to the bulk of this target have done so by broadening their project expectations in various ways – from delivering an innovative home loan product directly to the end user for a controlled self-build model using a supplier's list of contractors to ensure quality (Nepal), to focussing on turning over and completing smaller sites in greater quantity (Zimbabwe and Kenya).

Development of medium to long term project pipelines for housing builds has been a key achievement for many CLIFF partners this year. This has resulted in improvements in project planning discipline, and has resulted in a steadier stream of projects to Reall's Investment Committee. It has also helped partners to better plan and mediate changes in funding availability – meaning that projects modelled in 2016/17 will be ready to begin in 2017/18 pending sufficient funding.

Some notable achievements across the portfolio include:

- Unprecedented success of a 'Rent To Own' model in Angola, which although targeted to initially ease the costs of under occupancy on newly built projects, has developed into a primary marketing and client identification model and contributing to a step change in occupations on completed units.
- Continued steady growth of Pakistan partner, with emphasis on planned and managed neighbourhood development and high quality end products for low income clients.

- Deepening of housing typology library in Nepal, resulting in new ‘neighbourhood’ scale projects with multiple single and double story typologies available for low income and mixed income cross subsidy.
- Connections with registered trade unions helped provide a steady pipeline of low income households for new projects in Zimbabwe, as an alternative to the housing cooperative model and diversifying the HDE’s base of clients.

Data from a cross-portfolio analysis shows that the average value of a CLIFF housing unit has risen by 38% in local currency since 2016/17. The strongest growth in value has been seen in Angola, Zimbabwe and Nepal. Reall hypothesizes the following reasons:

- The Nepalese housing sector is suffering from a massive shortage of stock after the 2015 earthquake which is driving housing prices, especially in urban centres where the price of land has increased exponentially over the last two year
- Angola’s economy remains vulnerable to ‘cost of living’ shocks as the global price of oil continues to fluctuate. The Angolan partner is unique within its operating context in offering low income housing, and therefore demand is high. Additionally, the partner has focussed on ‘added value’ investments on projects sites, adding amenities like schools and play facilities for children which could increase perceived value.
- Zimbabwe remains a challenging political context, and lack of state investment in housing and basic infrastructure means that CLIFF housing products (a complete ‘package with land rights, water, housing, sanitation) are in demand.

Summary of responses to issues raised in previous annual reviews (where relevant)

Reall has worked closely with DFID to keep track of projects progressed and has updated regularly to ensure targets have been met.

Recommendations

None

C: DETAILED OUTPUT SCORING (1 page per output)

Output Title	Development of new models and practices developed to enable/provide the sustainable delivery of basic services, land and housing to the urban poor		
Output number per LF	5	**Output Score**	***A***
Risk:	Minor	Impact weighting (%):	16%
Risk revised since last AR?	N	Impact weighting % revised since last AR?	N

Indicator(s)	Milestones	Progress
Innovation: Number of innovative models and practices developed by IP's	20	Met - 21+ (reflecting that some cases are not 'documented')
Replication: Number of innovative models and practices shared and adopted by other IP's, public and private institutions	15	Met - 17+ (reflecting that some cases are not 'documented)

Key Points

CLIFF has continued to develop and support innovative solutions to challenges faced in delivering low income housing to the urban poor. These models, as in previous years, have spanned various areas of HDE activity – including project typologies, financing models, institutional models and governance models. At March 2016, CLIFF reported a 'minimum' figure, to represent that as well as the specific examples of innovation included in the target, that the programme also contains many other undocumented examples of local and network level innovation and that innovation and problem solving is at the core of how CLIFF operates. The target has been met at March 17, and includes the following notable examples of innovation:

<u>Habiterra, Angola – Rent to Own Model</u>

- To combat slower than expected unit occupations on the Quissala project, Habiterra developed a 'Rent to Own' scheme to help increase occupation and create a revenue stream on the completed units. Although initially designed to be a short term solution, the popularity of the scheme, and its ability to help Habiterra test the ability of end users to repay has led to its adoption as the key pillar of the marketing and sales strategy.

<u>Reall, Beira – Public / Private Multi Secret Partnerships in housing</u>

- Reall has brokered an innovative partnership with the municipality of Beira to embed Realls leadership on low income housing within the overall masterplan for the Port of Beira -bringing together capital and mortgage financing, technical support, international donors and local government. This has resulted in a significant portion of land identified for residential use has been earmarked for Reall development projects. This model was exhibited in a Networking Session at the UN urban conference – HABITAT III

<u>Employee Benefit Trust Model:</u>

- A number of CLIFF HDE's are in the processing finalising and operationalising Employee Benefit Trusts (EBTs). Although these are not in themselves 'innovative' conceptually, they are useful within the CLIFF programme and within the sector as a component of the transformation to social enterprise models. An EBT model has a number of benefits – it combat's the turnover and poaching of skilled HDE staff by creating staff buy in into the aims and objectives of the HDE, helps combat fraud by creating additional oversight from HDE staff of governance decisions, and safeguards the entity against potential buyout and liquidation of assets by a for-profit by holding a controlling stake or share.

<u>ShelterSol, Zimbabwe – Decentralised Wastewater Treatment Systems</u>

- ShelterSol, Zimbabwe is working with an affiliated cooperative to complete Zimbabwe's first Decentralised Wastewater Treatment System. The long lasting, affordable and module-based design of DEWATS technology is particularly well suited to a context where public funding for infrastructure is scarce and unreliable. As a pilot project, successful implementation could unlock one of the main barriers to adequate housing in Zimbabwe by providing a community managed, affordable infrastructure solution which can operate at a scale sufficient to serve entire neighbourhoods.

AMC, Pakistan – Natural Materials and Earthquake-Proofing

- AMC are working with a local University to develop and trial low cost foundation designs using natural materials and geo-technical engineering principles.

CLIFF has continued to actively support the sharing and adoption of innovation between partners within the network, and activity in 2016/17 has included:

- Launch of the 'TECH-NETWORK' internal group for HDE technical project leads to share resources and best practice on engineering and infrastructure projects between HDEs. To date, this has helped the Network collate an extensive library of resources across various technical areas.
- Adoption of the Musoni credit management system, initiated in the Philippines with Sheltersol, Zimbabwe
- Adoption of the Musoni credit management system, initiated in the Philippines with Oakleaf, South Africa (previously Kuyasa)
- Market Research methodology and survey templates created by Reall Beira circulated and adopted by other partners in the network. Use of these templates to help form a 'best practice' document at Network level.
- Angolan 'Rent to Own' model was showcased at the October partners meeting and is planned for trial in 3 partners in 2017/18
- Adoption of Reall's methodology on low income housing delivery by the Municipality of the Port of Beira.
- Sales and marketing best practice study conducted with all partners, and results have been fed into a draft policy and practice guide for CLIFF HDE's.

As a part of the Sida funding, Reall is increasingly working with partners to capture systems, processes and 'best practice' across a number of key business areas, and developing detailed standards and minimum criteria to feed into the Membership Framework Agreement expectations on partners.

Summary of responses to issues raised in previous annual reviews (where relevant)

N/A

Recommendations

None

C: DETAILED OUTPUT SCORING (1 page per output)

Output Title	Knowledge, learning and good practice emerging from CLIFF documented, disseminated and used to advocate		
Output number per LF	6	**Output Score**	***A***
Risk:	Minor	Impact weighting (%):	16
Risk revised since last AR?	Y/N	Impact weighting % revised since last AR?	Y/N

Indicator(s)	**Milestones**	**Progress**
6.1 Knowledge, learning and good practice emerging from CLIFF (pertaining to Outputs 1 - 5 above) documented, disseminated and used to advocate.	• Create and maintain monthly Reall Network newsletter • Bi-Monthly HDE Case Studies on organisational development and investment readiness • Bi-monthly placement of articles related to CLIFF, investment for affordable housing and investment readiness	Met - Achieved against targets, and exceeded with additional activity against overall Output.

Key Points

- <u>Create and maintain monthly Reall Network newsletter</u>

  A monthly newsletter was started in July 2016. Concept to formalise conversations and promote active dialogue throughout the year, providing a forum to discuss what individual CLIFF HDEs were doing well, and promote interest and learning between partners. This could cover all aspects of partners work, but generally focussed on business models, specific financing models or individual 'stories of success' and stimulating a 'network level' conversation. Although successful, the 'partner led' aspect of the newsletter meant that collating and drafting articles monthly was a burden for many partners, especially those with existing capacity constraints. Therefore, Reall have been circulating this newsletter quarterly, which allows for a better quality of content (more activity to draw upon) and is a more practical use of partner resources.

- <u>Bi-Monthly case studies (investment readiness and organisational development focussed)</u>

  As above, although relevant case studies have been collated and shared, Reall found that realistically, better content could be shared on a quarterly basis. The process of organisational development is in many cases slow and incremental, and this meant that often a bi-monthly target did not allow for sufficient change or development to take place to form the basis of a useful case study. Reall sees value in these approaches, and has therefore invested in a full time member of staff focussed on learning and knowledge management, including case study collation.

- <u>Bi-monthly placement of articles related to CLIFF, investment for affordable housing and investment readiness</u>

  Although not having met a strict 'bi-monthly' target, Reall has published or placed a number of articles on finance for investment in affordable housing, the investment readiness process, building a global network and more traditional partner case studies in various housing and urban development websites, blogs and newsletters. Reall has placed a number of articles with Smart Cities Advisor (urban development blog) and has worked with the Infrastructure and Cities for

Economic Development programme (ICED) consortium to prepare articles and case studies circulated as ‘best practice’ to DFID country offices and other ICED stakeholders. Reall’s work in Mozambique was featured in an interview in the Dutch press. A number of articles were self-published on Reall’s website. The timing of these was less dependent on the bi-monthly target and more focussed on acting on strategic opportunities as these arose.

In addition to these targets, Reall built on momentum from 2015/16 to deliver a strong performance on advocating for the CLIFF model in 2016/17. Although this additional activity does not fall under the specified indicator targets above, these achievements contribute to the overall attainment of the output. Some of the standout achievements include:

- HABITAT III: Hosting two Networking Sessions, both of which were attended at full capacity, and featured panels of experts including CLIFF HDE CEOs, academics, housing sector experts and ODA funders. Reall CEO Larry English was also invited to speak on the panel for the launch of the African Development Bank’s report into affordable housing in Africa, and by the Mayor of Beira to highlight the partnership between Reall and the Mozambican municipality. As well as an excellent opportunity to showcase CLIFF HDEs and their work, the success of these sessions directly helped Reall to make a number of significant advocacy achievements, including opening relationships with three ODA funders, meeting with a number of ‘Impact First’ investors, and strengthening relationships with existing stakeholders.
- Reall submitted its first application for investment funds to the Commonwealth Development Corporation and opened initial phases of relationships with 4 new potential financiers.

Summary of responses to issues raised in previous annual reviews (where relevant)

Reall welcomed the recommendations from the 2016 Annual Review to increase learning and sharing of best practice. Reall took concrete steps to improve both the quantity and quality of learning and case studies being documented. SIDA funding has also helped support a programme of documentation and ‘best practice’ collation across the network, and additional capacity in the Business Development Directorate has been instrumental in helping form learnings into case studies. Going forward into 2017/18, Reall will have a full time member of staff focussed on learning and knowledge management to reflect the importance of this area of work.

Recommendations

Reall to continue to promote key innovations that are taking place across HDE partners, where they could contribute to wider development debates on affordable housing models.

D: VALUE FOR MONEY & FINANCIAL PERFORMANCE (1 page)

Key cost drivers and performance

Major cost elements are supplies (which include infrastructure, contractors, transport and local office costs), consultancy and personnel. All procurement of goods and services is governed by CLIFF's procurement policy, which ensures value for money through identifying the best and most appropriate quality at the most competitive price. Setting up sustainable HDEs increases the value of DFID's investment over the longer term as it mobilises finances from beneficiaries as they take out end user finance – micro-mortgages to buy housing.

DFID monitors financial and audited reports provided by CLIFF.

VfM performance compared to the original VfM proposition in the business case

Economy: Reall outsource a number of functions which can be provided more cheaply such as IT support e.g. cloud computing and legal advice. Reall and its HDE partners provide salaries in line with industry standards.

Efficiency: The CLIFF methodology of focussing on building well networked, sustainable and highly skilled implementing partners allows for the creation of more formalised supply chains and procurement, reducing the cost of materials, labour, land and fees through economies of scale and an ability to leverage financial and non-financial resources at local, regional and national levels from third parties.

Effectiveness: Reall is achieving effectiveness in a number of ways. These include influencing wider government policy on housing and urban development. For example the CEO of NACHU, Kenya, sits on regional and national councils to contribute to housing policy. In Angola, Habiterra work with the city governments in Luanda and Huambo to run the land registries. Beira. The HDE partners are also creating innovation in the affordable housing market with varied models – such as rent to buy in Angola and high density rental developments in Kathmandu.

Cost Effectiveness: Based on CLIFF Phase 2b funding and construction cycle the cost per house £1851 and cost per beneficiary was £370. This is a fall in cost per house and beneficiary from the previous phase due to moving from grants to loans. This illustrates a fall in cost to the CLIFF programme per house constructed and direct beneficiary of 42%. This demonstrates strong cost effectiveness.

The programme has seen wider social benefits which contribute to the value for money. These include improved environments for children at home, health benefits, improved creditworthiness of the new householders (including women in female-headed households), improved services such as water, sanitation and solid waste collection and safer environments for women and girls.

There are additional economic benefits of the programme include the development of materials supply chains, the creation of skilled and unskilled jobs and the widening of the tax base of local governments.

Assessment of whether the programme continues to represent value for money

CLIFF continues to offer value for money in establishing financially sustainable organisations that will continue to operate on behalf of the urban poor. The shift from grant agreements to a returnable funds model will increase the value for money potential within the programme.

Quality of financial management

Reall prepares narrative and financial reporting of CLIFF on an annual basis. To prepare for investment-readiness, Reall developed new financing mechanisms (The Sida-backed Guarantee fund, Reall USA) and created a dedicated Funds Management team within Reall which is working well.

E: RISK (½ page)

Overall risk rating: Moderate

The risk for CLIFF Phase 2b continues to be Moderate. The risk may increase as Reall's model evolves from mainly aid based funding to concessional financing based funding. Reall and its HDEs are undertaking a number of changes to move to an investor ready model and such key changes are also open to risk. Reall and the HDEs are well on track with this process and Reall have invested in people and processes to support this.

There is a critical risk of a lack of future funding commitments, both grant based and investor based which need to be carefully monitored. Reall and DFID are putting in place an action plan to focus on future funding partners and to monitor this throughout the cost extension period.

Reall have a detailed risk map which is reviewed by the Reall Senior Management Team on a regular basis. This feeds into a high level risk map which flags significant and emerging risks that is presented to the Reall Board for review on a quarterly basis.

Overview of programme risk
Key programme risks are set out below and an update is given for progress in managing these.

Risk	Probability	Impact	How will the risk be managed?	Annual review update
A. The models developed and demonstrated through CLIFF may not be replicated at scale by others	Moderate	Moderate	CLIFF will explicitly strengthen capacity of HDEs to communicate in-country and will support international sharing of good practice including collaborating on research institutions and Universities	The Organisational Development Framework (ODF) ensures greater effectiveness and efficiency through standardisation and having in place a clear plan for HDE development from start-up to profitability. Linked to the ODF Reall is developing a revised operational manual / Toolkit (an "HDE in a box") to foster replication and scalability across the network.
B. There may not be sufficient mobilisation, leverage and blending of resources from the public or private sectors	Moderate	Major	The Context Criteria will be assessed to minimise these risks in countries considered for new CLIFF initiatives	Reall will shortly finalise the Info Memo and distribute amongst existing investor contacts. Reall will also utilise contacts in USA, Netherlands and elsewhere to tap resources in those countries. A programme of investment readiness work at both Reall and HDE level alongside the SIDA guarantee will help make Reall an attractive impact investment proposition. A challenge remains of unconfirmed grant finance beyond 2017/18, which the model depends on for the next few years to bring forward nascent and non-mature HDEs towards point of being investible. The DFID team will work with Reall to identify and approach new donors. As HDE competency grows (and they have a clear development

Risk	Probability	Impact	How will the risk be managed?	Annual review update
				plan) and they develop their track record, they will be better able to leverage local resources. Once the Reall network secures international investment and brand awareness grows, local HDEs should be able to draw on that strength to leverage their own local resources.
C. HDEs may not have capacity to significantly increase activity in response to increased demand arising from their enhanced reputation and credit rating	Moderate	Major	New IPs will be screened for their basic capacity and CLIFF will assist the further development of this capacity.	The focus of Reall's work is increasingly on building the capacity of HDEs through the Tiers of the ODF to Tier 4/5 where they are delivering at scale through non-grant investment. Capital funding for projects is dependent on level of development and complements this development ('learning by doing').
D. Necessary pro-poor changes in policy and practice may not be stimulated by CLIFF demonstrations	Moderate	Major	Government priority to address slum upgrading is a prerequisite for CLIFF engagement in any country – HDEss will be assisted with communicating with local government partners.	No update
E. HDEs may not submit sufficient requests which meet the agreed investment criteria	Moderate	Major	In addition to the Context Criteria IPs will be identified on the basis of their track record in initiating suitable projects.	The ODF and resultant HDE development plans ensure that HDEs are developing the skills and competencies required to plan and deliver investible projects – including skills in land valuation (current and projected) and cross-subsidy financial modelling. The challenge remains of unconfirmed future funding which works against developing a scalable pipeline and larger sized projects.
F. HDEs may not strengthen their capacity for effective implementation and accountability to the extent required by public and private sector organisations, especially financial institutions	Moderate	Moderate	CLIFF will assist IPs to build capacity for engaging with other stakeholders, particularly the banks.	Reall's programme of 'investment readiness' and the ODF and development plans are all tailored to address this risk. The purpose of Reall is to build a network of investible HDEs.
G. Enhanced capacity may not lead to an increase in reputation and credit rating when	Moderate	Moderate	CLIFF will support HDEs in communicating with in-country stakeholders	Securing private lending to low income, un-banked individuals is remains a challenge across the portfolio. Reall continue to work

Risk	Probability	Impact	How will the risk be managed?	Annual review update
viewed by public and private sector organisations, especially financial institutions			and strengthening their credibility with them.	with HDE's to raise their reputation and credibility with both public and private institutions.
H. Global, regional and local financial crises may limit CLIFF projects by constraining the availability of community, public and private resources	Moderate	Major	Whilst these conditions are likely to prevail it is expected that IPs will be able to identify the modest interventions required for CLIFF.	Reall's 5 year model makes provision for currency risk. The geographic spread of the portfolio and more stringent investment criteria mitigate against currency risk. The SIDA guarantee will help provide the comfort required to ensure Reall is able to leverage investment. The impact investment sector is growing and many DFIs and the like are looking for scalable models which deliver modest financial returns with significant social impact. The CLIFF programme does this and the programme is confident that they will be able to leverage investment.
I. Reall fails to secure new funding or investment from DFIs and others	Moderate	Major	Reall and DFID targeting funding partners	For the duration of the cost extension this will be a key area of focus. Reall are preparing an investor memo to promote CLIFF to potential investors.

Managing Fraud: Reall has a Fraud and Anti-corruption Policy, which all HDEs are signed up to. Contracts between Reall and HDEs dictate minimum standards and Reall has a 'zero tolerance' full recovery approach to fraud. Reall has the ability to liquidate and terminate contracts and call in loans in case of fraud. Reall further mitigate risks of fraud through taking an equity position and seat of the Board of HDEs, enabling an active anti-fraud management strategy. All HDEs are independently audited and Reall receives that audit report. The Investment Integrity Initiative (I3) funded by SIDA, has involved the mapping of all key processes at HDE level., as such, there is a much tighter understanding of all the places / decision gates at which fraud could occur. Reall work with HDEs to ensure the required policy and procedure documents are in place and implemented to prevent the risk of fraud.

There is an ongoing suspected fraud within the CLIFF programme in relation to an individual partner. This is being actively managed by both Reall and DFID's fraud team to reach a resolution and is being robustly dealt with in line with DFID's strict zero tolerance policy for fraud and monitored through our risk management processes.

Supply chain: Reall have an up to date supply chain map. Reall ensure that all HDEs have procurement policies throughout the supply chain. For start-up and nascent HDEs, Reall will assist in the development and implementation of procurement policies which are checked for fitness of purpose, including: provisions for declaration of interest, requiring more than one quotation and adherence to local laws and regulations. Reall have data on standard rates for square metre construction costs as well as average land costs and land development costs for each HDEs. This enables Reall to check for consistency with HDEs.

Outstanding actions from risk assessment

No outstanding actions. Reall and DFID will continue to monitor potential risks around attracting financing and managing the supply chain, and will continue to review these on a quarterly basis.

F: COMMERCIAL CONSIDERATIONS (½ page)

Delivery against planned timeframe

Delivery has been on track against the previous cost extension. As set out earlier an additional cost extension has been given due to delay in design of a third phase, which has been outside the control of Reall. The new cost extension will run from June to December 2017.

Performance of partnership (s)

The performance of Reall using accountable grant mechanisms has been satisfactory. Reall transitions to take on concessional finance DFID will review the management arrangements. This will be particularly important if the programme moves into a third phase.

Asset monitoring and control

As an NGO overseen by its own board, Reall has appropriate mechanisms in place for its own assets. CLIFF carries out checks on IPs capacity for asset monitoring and control.

G: CONDITIONALITY (½ page)

Update on partnership principles (if relevant)

N/A

H: MONITORING & EVALUATION (½ page)

Evidence and evaluation

CLIFF was subject to a major 'end of phase' Milestone Evaluation in October 2016. This covered the period 2010-2016 including Phase 2 and Phase 2b, and a portion of the No-Cost Extension (up to the financial year end March 16). The evaluation visited three CLIFF partners in Kenya, Angola and Philippines and 2 weeks of desk-based review with Reall in the UK as well as significant document review and analysis.

Headline findings were:

- A "key benefit of CLIFF is that it tries to address this market failure by demonstrating the feasibility of doing sustainable – and profitable - low cost housing" and the focus on institutions "enhances the chances of sustainable change in low-income housing markets."
- The overall effectiveness of CLIFF2b has improved by 42% over its predecessor, CLIFF2 and offers "outstanding long-term VfM."
- Through the direct provision of houses to low income groups, the programme has so far undoubtedly made a "significant contribution to poverty reduction."
- Reall have taken several concrete steps to mitigate financial risks, including: new project investment; and a more systematic operational risk mapping. The new system is undoubtedly a sound one for structured thinking about risks and for mapping the consequences of different events.
- Recommended that Reall's capabilities and competencies assessment model be improved to enable tracking of all key organisational assets. This would improve tracking of organisational development and enable tailored support packages to be developed, which could be integrated within the HDE's organisational development plan.
- While the shift towards "investment readiness" is key for the ability of Reall and its partners to attract more commercial capital, Reall ought to reflect how that can be done while taking into account the great diversity of partners, markets and contexts. One model may not fit all. Ability to assess contexts correctly, and adjust the model appropriately, is likely to boost Reall opportunities to engage in a diverse set of markets.

The evaluation was a well evidenced and delivered. Some key recommendations were made including considering how to improve measurement of success where indicators were not necessarily fit for purpose. The other key recommendation was on how to shift to investor readiness in a way that fits with different contexts across countries (as highlighted above). This is a key issue which Reall will need to monitor as their model evolves. The recommendations from the evaluation will feed into the design of a potential third phase of the CLIFF programme.

Reall and DFID will publish the evaluation and a management response in accordance with DFID evaluation guidelines.

Monitoring progress throughout the review period

DFID and Reall agreed to more regular check ins throughout this last year which have worked well. DFID has also attended two in country partner visits and two HDE network meetings. These provide a valuable way for DFID to monitor progress and to see how Reall supports the HDE partners. DFID will continue to have regular meetings with Reall for the duration of this cost extension period. This will include observing at least one Reall Investment Committee meeting this year as well as undertaking an additional in country visit to a HDE.

Smart Guide

The Annual Review is part of a continuous process of review and improvement throughout the programme cycle. At each formal review, the performance and ongoing relevance of the programme are assessed with decisions taken by the spending team as to whether the programme should continue, be reset or stopped.

The Annual Review includes specific, time-bound recommendations for action, consistent with the key findings. These actions – which in the case of poor performance will include improvement measures – are elaborated in further detail in delivery plans. Teams should refer to the Smart Rules quality standards for annual reviews.

The Annual Review assesses and rates outputs using the following rating scale. The Aid Management Platform (AMP) and the separate programme scoring calculation sheet will calculate the overall output score taking account of the weightings and individual outputs scores

Description	Scale
Outputs substantially exceeded expectation	A++
Outputs moderately exceeded expectation	A+
Outputs met expectation	A
Outputs moderately did not meet expectation	B
Outputs substantially did not meet expectation	C

Teams should refer to the considerations below as a guide to completing the annual review template.

Summary Sheet

Complete the summary sheet with highlights of progress, lessons learnt and action on previous recommendations

A: Introduction and Context

Briefly outline the programme, expected results and contribution to the overall Operational Plan and DFID's international development objectives (including corporate results targets). Where the context supporting the intervention has changed from that outlined in the original programme documents explain what this will mean for UK support

B: Performance and conclusions

Annual Outcome Assessment

Brief assessment of whether we expect to achieve the outcome by the end of the programme

Overall Output Score and Description

Progress against the milestones and results achieved that were expected as at the time of this review.

Key lessons

Any key lessons you and your partners have learned from this programme

Have assumptions changed since design? Would you do differently if re-designing this programme?

How will you and your partners share the lessons learned more widely in your team, across DFID and externally

Key actions

Any further information on actions (not covered in Summary Sheet) including timelines for completion and team member responsible

Has the logframe been updated since the last review? What/if any are the key changes and what does this mean for the programme?

C: Detailed Output Scoring

Output

Set out the Output, Output Score

Output Score

Enter a rating using the rating scale A++ to C.

Impact Weighting (%)

Enter the %age number which cannot be less than 10%.

The figure here should match the Impact Weight currently shown on the logframe (and which will need to be entered on AMP as part of loading the Annual Review for approval).

Revised since last Annual Review (Y/N).

Risk Rating

Risk Rating: Minor/Moderate/Major/Severe

Enter: Minor, Moderate, Major or Severe

The Risk Rating here should match the Risk currently shown on the logframe (and which will need to be entered on AMP as part of loading the Annual Review for approval).

Where the Risk for this Output has been revised since the last review (or since inception, if this is the first review) or if the review identifies that it needs revision explain why, referring to section E Risk

Key points

Summary of response to programme issues raised in previous annual reviews (where relevant)

Recommendations

Repeat above for each Output.

D: Value for Money and Financial Performance

Key cost drivers and performance
Consider the specific costs and cost drivers identified in the Business Case
Have there been changes from those identified in previous reviews or at programme approval. If so, why?

VfM performance compared to the original VfM proposition in the business case? Performance against vfm measures and any trigger points that were identified to track through the programme

Assessment of whether the programme continues to represent value for money?
Overall view on whether the programme is good value for money. If not, why, and what actions need to be taken?

Quality of financial management
Consider our best estimate of future costs against the current approved budget and forecasting profile
Have narrative and financial reporting requirements been adhered to. Include details of last report
Have auditing requirements been met. Include details of last report

E: Risk

Overall Risk Rating: Minor/Moderate/Major/Severe

Enter Minor, Moderate, Major or Severe, taken from the overall Output risk score entered in AMP

Overview of Programme Risk

What are the changes to the overall risk environment/ context and why?

Detail the key risks that affect the successful delivery of the expected results and mitigating actions.

Are there any different or new mitigating actions that will be required to address these risks and whether the existing mitigating actions are directly addressing the identifiable risks?

Any additional checks and controls are required to ensure that UK funds are not lost, for example to fraud or corruption.

Outstanding actions from risk assessment
Describe outstanding actions from Due Diligence/ Fiduciary Risk Assessment/ Programme risk matrix etc.
Describe follow up actions from departmental anti-corruption strategies to which Business Case assumptions and risk tolerances stand

F: Commercial Considerations

Delivery against planned timeframe. Y/N

Compare actual progress against the approved timescales in the Business Case. If timescales are off track provide an explanation including what this means for the cost of the programme and any remedial action.

Performance of partnership
How well are formal partnerships/ contracts working
Are we learning and applying lessons from partner experience
How could DFID be a more effective partner

Asset monitoring and control

Level of confidence in the management of programme assets, including information any monitoring or spot checks

G: Conditionality

Update on Partnership Principles and specific conditions.

For programmes for where it has been decided (when the programme was approved or at the last Annual Review) to use the PPs for management and monitoring, provide details on:

a. Were there any concerns about the four Partnership Principles over the past year, including on human rights?
b. If yes, what were they?
c. Did you notify the government of our concerns?
d. If Yes, what was the government response? Did it take remedial actions? If yes, explain how.
e. If No, was disbursement suspended during the review period? Date suspended (dd/mm/yyyy)
f. What were the consequences?

For all programmes, you should make a judgement on what role, if any, the Partnership Principles should play in the management and monitoring of the programme going forward. This applies even if when the BC was approved for this programme the PPs were not intended to play a role. Your decision may depend on the extent to which the delivery mechanism used by the programme works with the partner government and uses their systems.

H: Monitoring and Evaluation

Evidence and evaluation

Changes in evidence and implications for the programme
Where an evaluation is planned what progress has been made
How is the Theory of Change and the assumptions used in the programme design working out in practice in this programme? Are modifications to the programme design required?
Is there any new evidence available which challenges the programme design or rationale? How does the evidence from the implementation of this programme contribute to the wider evidence base? How is evidence disaggregated by sex and age, and by other variables?

Where an evaluation is planned set out what progress has been made.

Monitoring process throughout the review period.

Direct feedback you have had from stakeholders, including beneficiaries
Monitoring activities throughout review period (field visits, reviews, engagement etc)
The Annual Review process