



**REQUEST FOR PROPOSAL (“RFP”) FOR THE  
APPOINTMENT OF A FINANCIAL MODELLING EXPERT**

**RFP MM/10/2018**

**Submission date for the Proposal: Monday 3 December at 11h00 am**

**Version**

**Date: 24 October 2018**

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## **1. INTRODUCTION**

The National Housing Finance Corporation SOC Ltd (NHFC) was established by the National Department of Human Settlements as a development finance institution (DFI) in 1996, with the principle mandate of broadening access to affordable housing finance for the low- and middle-income households.

The NHFC is a registered public company and has been granted the necessary exemption in terms of the Banks Act. As a national public entity, the NHFC adheres to the regulatory framework of the Public Finance Management Act (PFMA) of 1999.

The Department of Human Settlements has proposed the establishment of a single Human Settlements Development Finance Institution which consolidates the mandate of its existing development finance institutions namely Rural Housing Loan Fund NPC (RHLF), the National Urban Reconstruction and Housing Agency NPC (NURCHA), and NHFC into a single development finance institution. The consolidated three currently operating and referred to as the NHFC, are in the process of establishing a Human Settlements Development Bank (“HSDB”), with the purpose to operate as a financier, underwriter, guarantor and service provider of implementing agencies to facilitate delivery of sustainable human settlements.

## **2. PURPOSE**

The NHFC has developed a financial model which will be critical in strategic decision making and performance management of the combined entity. The NHFC wishes to engage the services of an independent third party to assist in either building of a new integrated financial model or enhancement of the existing financial model (in Excel) depending on efficiency considerations, robustness and relevance of the existing financial model.

In order to do so it requires certain benchmarking information to guide it in setting its sustainable performance metrics. Additionally, the tool should assist with its budgeting and reporting processes. This may be a standard spreadsheet based tool, or a more advanced software tool.

This document sets out the details of these requirements.

### **3. SCOPE OF WORK**

Core to the NHFC's existence is remaining financially sustainable while taking on higher investment risks to deliver on the developmental mandate.

#### **3.1 Key tasks**

- Assist with constructing a financial model which is integrated and considers the historical data/performance of the NHFC, RHLF and NURCHA with respect to its key product lines reflecting their historical growth, interest margins, and operational costs (if costs are allocated at product level), profitability to allow for an understanding and analysis of performance at product, divisional and company level. Historical data must be analysed for at least 5 years.
- Analysing and interpreting this historical performance and using it as a basis to develop well-constructed and thought-through financial projections for the entity. Ideally, projections should be developed at product level, divisional and company level.
- The model should allow for "what-if" scenarios to show for example, the inputs required to achieve a certain performance target. Flexibility around scenarios will be critical to assist with decision making.
- A key input will be the loan book which will be provided at granular level being the clients of the 3 entities with expected draw-downs, loan repayment profiles, interest rate charged on the various loans etc.

#### **3.2 Output**

A fully integrated financial model that as an instrument will be able to develop projections and roll-out strategies that will enable decision making. These projections should also permit scenario planning and sensitivity analysis. Ability to produce an income statement, balance sheet and cash flow statement with at least 5 years of historical data and 10 years of forecast data.

### **3.2.1 Benchmarking**

#### **Outline:**

In order to prepare proper financial targets, it is necessary for the combined entity to understand both what is achievable and what is necessary. For this understanding, benchmark surveys are required and should not necessarily be locally focused. This involves a high level benchmarking exercise of local and foreign based development finance institutions to determine and understand their key value drivers and performance targets.

### **3.2.2 Product margins**

#### **Requirements:**

The NHFC operates as a development finance institution, meaning that it lends into areas where commercial entities are not prepared to lend. In general, this means that the risk profile of its lending tends to be higher. Notwithstanding this, its target market are people who can ill afford to pay for the risks commonly associated with lending to them. The NHFC therefore seeks to find a balance between pricing for risk and pricing for development impact.

Delivery Method	Product	Security	Description
<b>Wholesale</b>	Social Housing Loan	1 <sup>st</sup> mortgage over buildings	This is subsidised rental housing made available by social housing institutions which are registered with the Social Housing Authority (SHRA). Rentals are at below market rates due to the grants and subsidies provided as initial project funding by various spheres of government via SHRA. The NHFC provides 30% to 35% of the project funding as secure debt funding with the balance provided by SHRA and the provinces
<b>Wholesale</b>	Equity Investments	None	Working with investors, developers and housing development agencies and funds, we seek to leverage private-sector and development funding to create affordable housing. We achieve this through the provision of risk capital or various debt instruments.
<b>Wholesale</b>	Private Rental	1 <sup>st</sup> covering mortgage bond over the property	Long-term funding to develop or refurbish affordable privately-owned rental accommodation. Such housing – including inner-city rental developments.
<b>Direct Lending</b>	Affordable housing – Established Developers	1 <sup>st</sup> covering mortgage bond over property	Development finance to developers providing affordable housing (majority of sales price to end-users for housing units below R650k per unit) to fund development of internal bulk services, the purchase of serviced stands (limited to maximum 18 month loan period), and the development of top structures for both freehold and sectional title housing opportunities for end-user ownership
<b>Direct Lending</b>	Loan Type 2 - Certificate Discounting Only	Below R10 million (combined peak exposure): No tangible security Above R10 million (combined peak exposure): Tangible collateral: <ul style="list-style-type: none"> <li>➤ 1st Covering mortgage bond over buildings</li> <li>➤ Cession of investment account held with NURCHA attorneys</li> <li>• 1st cession of book debts and project proceeds.</li> <li>• Cession of project bank accounts</li> </ul>	Bridge finance to contractors with a minimum of 50 housing units and CIDB grading of at least 3.
<b>Direct Lending</b>	Affordable housing – Emerging Developers	1 <sup>st</sup> Covering mortgage bond over the property	Development finance to emerging developers providing affordable housing (majority of sales price to end-users for housing units below R650k per unit) to fund development of internal bulk services, the purchase of serviced stands (limited to maximum 18 month loan period), and the development of top structures for both freehold and sectional title housing opportunities for end-user ownership

Delivery Method	Product	Security	Description
<b>Direct Lending</b>	Loan Type 1 - Contractor Financed Development Programme (CFDP)	<ul style="list-style-type: none"> <li>• 1st cession of book debts and project proceeds.</li> <li>• Cession of project bank accounts</li> </ul>	Bridge finance to contractors participating in a contractor support and development programme termed as CFDP. Contractors of grading CIDB 2 - 4. Other than finance, providing on-site support and easing access to credit for building materials.
<b>Direct Lending</b>	Loan Type 3 - Uncertified Advances Equal To The Lesser Of R250k Per Project or 10% of the Contract Value Per Project	<ul style="list-style-type: none"> <li>• Below R10 million (combined peak exposure): No tangible security</li> <li>• Above R10 million (combined peak exposure): Tangible collateral: <ul style="list-style-type: none"> <li>➢ 1st mortgage over buildings</li> <li>➢ Cession of investment account held with NURCHA attorneys</li> </ul> </li> <li>• 1st cession of book debts and project proceeds.</li> <li>• Cession of project bank accounts</li> </ul>	Bridge finance to contractors with a CIDB grading of at least 3.
<b>Direct Lending</b>	Loan Type 4 - Combined Uncertified Advances Equal To The Lesser Of R2.5m or 10% of the Net Asset Value (NAV) Of The Borrowing Entity	<ul style="list-style-type: none"> <li>• Below R10 million (combined peak exposure): No tangible security</li> <li>• Above R10 million (combined peak exposure): Tangible collateral: <ul style="list-style-type: none"> <li>➢ 1st covering mortgage bond over buildings</li> <li>➢ Cession of investment account held with NURCHA attorneys</li> </ul> </li> <li>• 1st cession of book debts and project proceeds.</li> <li>• Cession of project bank accounts</li> </ul>	Bridge finance to contractors with a CIDB grading of at least 5.
<b>Direct Lending</b>	Loan Type 5 - 50% Uncertified Drawdowns Against Tangible Collateral Of Equal Collateral Value	<ul style="list-style-type: none"> <li>• Below R10 million (combined peak exposure): No tangible security</li> <li>• Above R10 million (combined peak exposure): Tangible collateral: <ul style="list-style-type: none"> <li>➢ 1st covering mortgage bond over buildings</li> <li>➢ Cession of investment account held with NURCHA attorneys</li> </ul> </li> <li>• 1st cession of book debts and project proceeds.</li> <li>• Cession of project bank accounts</li> </ul>	Bridge Financing to contractors with a CIDB grading of at least 5.
<b>Advisory Services</b>	Programme and Fund Management Programmes	N/A	Provision of programme and fund management programmes to human settlements clients for enhancement of service delivery capacity.
<b>Wholesale</b>	Incremental	Cession of debtors' book and bank accounts. Occasionally guarantee from holding company	Building a new house, extending existing house, connecting to services including

Delivery Method	Product	Security	Description
			retrofits, and effecting various fixed improvements to property.
<b>Wholesale</b>	Social Housing Loan	1 <sup>st</sup> mortgage over buildings	This is subsidised rental housing made available by social housing institutions which are registered with the Social Housing Regulatory Authority (SHRA). Rentals are at below market rates due to the grants and subsidies provided as initial project funding by various spheres of government via SHRA. The NHFC provides 30% to 35% of the project funding as secure debt funding with the balance provided by SHRA and the provinces
<b>Wholesale</b>	Equity Investments	None	Working with investors, developers and housing development agencies and funds, we seek to leverage private-sector and development funding to create affordable housing. We achieve this through the provision of risk capital or various (quasi equity) debt instruments.

### 3.2.3 Financial performance indicators

#### General requirement

The National Housing Finance Corporation has a number of metrics it uses to measure its financial performance as well as financial well-being. As it is a development finance institution, its primary financial goal is not profit maximisation, but financial sustainability. It therefore needs to assess if its current metrics are adequate for the purpose, what benchmarks should be used to assess them, what new metrics are appropriate, with benchmarks and what metrics should be abandoned.

- **Interest yield / net interest margin:** This is an important measure of the gross interest yield or net interest margin being achieved by the company. The gross yield is based on the lending income achieved / gross / (net) loans and advances. Net interest margin is a measure of the difference between the interest income generated by company and the amount of interest paid out to their lenders, relative to the amount of their interest bearing assets.
- **Cost to income ratio:** This metric measures the total operating expenses to total operating income. Clearly this is also dependent on the margins that should be achieved in section 2 above as well as the operational cost



structure of the NHFC. Benchmarking is needed to enable an accurate assessment of what this ratio should be and the expected breakdown of expenses to achieve this.

- **Return on equity:** This is a key ratio that is needed to ensure that NHFC is sustainable. It measures the net profit attributable to ordinary shareholders divided by the total ordinary share capital, retained earnings and other reserves. Currently the view is that this should, at least, exceed the inflation rate over the long term to ensure sustainability.
- **Weighted average cost of capital:** The National Housing Finance Corporation is funded by a combination of grant funding from the Department of Human Settlements, retained earnings and loan funding. In order to calculate margins on its products, it is necessary to have a clear understanding of the drivers of its weighted average cost of capital (WACC). This will enable it to accurately set prices, as well as determine the affordability of any borrowings it may make.
- **Other indicators:** While the indicators above are currently considered to be important, the NHFC is willing to look at other indicators which may be considered appropriate.

### 3.2.4 Budgeting tool

**Outline:** Currently all three entities that are merging use their own Excel spreadsheet-based budgeting tools. As the complexity of the business will increase with the merger, it is essential that the company has adequate tools for both budgeting and reporting.

**Period:** As a state-owned entity, it is necessary to forecast for 5 years (minimum) at a time. Therefore, the tool will need to be able to handle monthly, quarterly and annual forecasts for this length of time.

**Flexibility:** As this is intended as a budgeting tool, it needs to be able to provide for “what if” options in real time. So a change in product pricing, or a borrowing cost should update the main reports (income statement, balance sheet, cash flow statements, and other key performance indicators) instantly.

**Reporting:** Once a budget is approved for a year, it must be possible to report against it, either using the data on the tool or by importing or exporting data as needed. The reporting tool forms part of the requirement.

#### **4. TIME SCHEDULE AND WORK PLAN**

The Consultant should present a rough implementation schedule and work plan (in the form of a bar chart or Gantt chart), specifying activities to be undertaken, and estimates for start-up, duration and completion of each activity in their proposal for this assignment

#### **5. CONTENT OF THE RFP PROPOSAL**

##### **5.1 The Technical Component must include the following:**

- Company profile

The company profile must address the following areas/headings in the following order:

##### **a) History**

The date of establishment of the firm and for how long the core team of staff have worked together

##### **b) Client Base**

Provide a list of clients. The most recently served clients must be mentioned first and specify the nature of all work done.

##### **c) Field of Expertise**

Elaborate on the core skills set and expertise of the team and the nature, and duration of financial modelling assignments undertaken.

##### **d) Your Team**

Curriculum Vitae's of the core service team that will be attending to the NHFC work with specific reference to their educational and professional background and their relevant experience.

- Company registered address

- Name of Principal Applicant (Must be authorised to act on behalf of the Company) and contact details including telephone, fax numbers and email address.
- Incorporation documents
- Certified copies of the ID document(s) for the company representative(s)
- Valid Tax Clearance Certificate
- B-BBEE verification certificate indicating the contribution level of the firm
- Submission of proof of registration on the Central Supplier Database of the National Treasury
- Proposed methodology and approach to be used in keeping with the scope of works.
- Full and comprehensive description of similar work undertaken in the past 3 years.
- List of current clients and references
- Please indicate the firm's value proposition and indicate what sets you apart in the financial modelling fraternity with emphasis on the development finance institutions.

## **6. EVALUATION CRITERIA**

The proposal will be evaluated in terms of the Preferential Procurement Policy Framework Regulations of 2017.

Evaluation of the bid will be conducted in 3 (three) phases as follows:

### **Phase 1: Eligibility / Pre-Qualification criteria**

Bidders will be evaluated according to pre-qualification requirements which include the submission of mandatory information or documentation.

#### **Pre-qualification criteria:**

For a bid to move to Phase 2 of the evaluation it must include the following:

1. Tax clearance certificate (with at least 6 months to expiry) or a tax clearance PIN;

2. The following bidding forms:
  - a. SBD8 Declaration of bidder's past supply chain management practices;
  - b. SBD9 Certificate of Independent Bid Determination;
3. Proof of registration on the National Treasury Supplier database;
4. B-BBEE certificate or affidavit reflecting a minimum B-BBEE Level of 4.

Bidders that fail to meet the pre-qualification requirements of the bid will not be considered further for evaluation on technical requirements i.e. Phase 2. Please refer to section 12.1.1 for the eligibility and pre-qualification criteria.

### Phase 2: Technical/functional evaluation

Category	Criteria	Points	Total Points
<b>1.</b>	<b>Experience and Expertise of Key Personnel</b>		<b>20</b>
a.	CV of engagement lead reflects experience in benchmarking preferably in the financial sector	5	
b.	CV of engagement lead reflects experience of benchmarking preferably in the state sector,	5	
c.	CV of a team member reflects expertise in building complex financial models	10	
<b>2.</b>	<b>Track Record</b>		<b>20</b>
a.	References, when contacted, provide assurance that the bidder can provide usable benchmarking	8	
b.	References, when contacted, provide assurance that the bidder can deliver robust modelling	12	
<b>3.</b>	<b>Approach and Methodology</b>		<b>45</b>
a.	The project plan reflects well considered methodology to gather information for the benchmarking exercise.	15	
b.	There are clear deliverables set out in the project plan that show how the requirements of this RFP are to be met	10	
c.	The project plan reflects how the model's integrity will be protected through check digits (for error detection) or similar processes	20	
<b>4.</b>	<b>Skills development</b>		<b>15</b>
a.	At least one team member of the bidder is in training or a development programme	5	
b.	The plan presented shows how the bidder will transfer the ability to use the model, as well as to update the benchmarking to the NHFC team	10	
	<b>TOTAL</b>		<b>100</b>

The minimum qualifying score for functionality is 75% (75 points). All bids that fail to achieve the minimum qualifying score on functionality shall not be considered for further evaluation in terms of B-BBEE and pricing in Phase 3.

### **Phase 3: B-BBEE and Price evaluation**

All bids that achieve the minimum qualifying score of 75% (75 points) for Functionality, (acceptable bids) will be evaluated further in terms of the 80/20 preference point system. This evaluation will be based on the pricing and BEE score of the bidders at the point/time of evaluation of a specific Request for Quotation.

B-BBEE score and preference points (Points must be awarded to a tenderer for attaining the B-BBEE status level of contributor in accordance with the table below):

<b>BBEE Status Level of Contributor</b>	<b>Number of Points</b>
1	20
2	18
3	16
4	12
5	8
6	6
7	4
8	2
Non-compliant contributor	0

20 points are allocated for B-BBEE compliance while 80 points are allocated for pricing.

- The points scored by a tenderer in respect of the level of B-BBEE contribution must be added to the points scored for price as calculated in accordance with the formula;
- If the contract is awarded, it will be awarded to the tenderer who scores the highest combined points for price and B-BBEE.

## **7. COMMERCIAL OBLIGATIONS**

This section of the document outlines the general commercial process and obligations of the service provider.

### **7.1 Contracting**

A contract will be concluded between NHFC and the successful service provider which will incorporate the following:

- The letter of acceptance to the successful bidder;
- The original tender documents;
- The proposal of the successful service provider, and
- Milestones to be achieved before invoices will be considered
- Terms and conditions as stipulated above and general contract terms and conditions.

### **7.2 Material Rights**

The product of this project will be confidential information, and will be the property of the NHFC and no disclosure of information to other parties will be made without prior written approval of the NHFC.

### **7.3 Rules of Bidding**

- The NHFC reserves the right to amend or cancel this RFP at any time, at its sole discretion;
- The NHFC is not bound to accept any of the proposals submitted, and reserves the right to call for best and final offers from the short-listed bidders before final selection;
- The NHFC reserves the right to call for interviews with short-listed bidders before final selection;
- The NHFC reserves the right to negotiate price with the preferred bidder;

- An eligible bidder, if requested, could be invited for the presentation session to present evidence of experience, ability, service facilities, and financial standing necessary to satisfactorily meet the requirements set forth or implied in this proposal;
- The NHFC reserves the right to request all relevant information, agreements and other documents to verify information supplied in the bid process. The bidder hereby gives consent to the NHFC to conduct background checks on the bidding entity and any of its directors / partners / trustees / shareholders /members/employees. The NHFC reserves the right to consider the information arising from such background check as part of the tender evaluation process.
- NHFC reserves the right to award a contract in part, to reject any and all quotations in whole or in part, to waive technical defects, irregularities and omissions, at its sole discretion;
- The successful bidder(s) shall be required to sign a Service Level Agreement (SLA), in terms of which the service provider's performance will be measured and managed.
- Late submissions will not be considered.

## **8. PROPOSAL COMPLIANCE REQUIREMENTS**

This section contains the requirements for Proposal Compliance; all submissions must consist of a Technical Proposal as explained below:

### **8.1 Procedural Matters**

#### **8.1.1 Documents to be submitted:**

- Company profile and Technical Proposal
- BBBEE Credentials (Separate document)
- Original Tax Clearance Certificate
- ID copies of Shareholder/Directors
- A copy of the Memorandum of Incorporation of the bidding company
- VAT registration evidence

- Declaration of interest
- Declaration statement

### **8.1.2 Copies of RFP submission**

Three hard copies and a soft copy (CD/USB) must be submitted in a sealed envelope, appropriately addressed.

### **8.1.3 Submission Address**

Proposal, endorsed with RFP MM/10/18, must be hand delivered to:

NHFC Tender Box

The Isle of Houghton

Old Trafford 3, 1st Floor

11 Boundary Road

Houghton

Johannesburg

**Attention Ms. Pumza Nsukwini**

### **8.1.4 Submission Date**

The Proposal (technical) must reach the NHFC **by Monday 3 December 2018 at 11h00am.**

### **8.1.5 Proposal Cost**

The cost of compiling the proposal (technical and financial) is and remains the prospective service provider's own cost and will not be paid for by NHFC.

### **8.1.6 Contacts**

The contact person for information pertaining to the proposal is Mrs. Pumza Nsukwini, telephone numbers 011-644 9800 fax number 011 484 0204 and E-mail [pumzan@nhfc.co.za](mailto:pumzan@nhfc.co.za).

### **BSC Members:**

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