



ACCESS TO HOUSING FINANCE IN AFRICA: EXPLORING THE ISSUES

No. 7

MOZAMBIQUE



**Overview of the housing finance sector in Mozambique,
commissioned by the FinMark Trust; funded by The World Bank.**



**Charlotte Allen and Vibe Johnsen
Massala Consult**

November 2008

BACKGROUND TO THE SERIES

Since 2002, the FinMark Trust has been pursuing its mission, “[Making Financial Markets Work for the Poor](#)”, first in the Southern African Customs Union (SACU) countries and now throughout Africa. An independent trust with core funding from the UK Department for International Development (DFID), FinMark Trust aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked in Africa.

A key product developed by the FinMark Trust is FinScope™, a national-level survey of individual usage of financial services, now being undertaken in eleven African countries.¹ FinScope™ will provide baseline data to stimulate policy change and support innovation by commercial providers seeking to deliver products and services sustainably to consumers who are currently outside the formal financial system. FinMark Trust will build on the impact of FinScope™ by promoting and supporting change processes across the continent.²

FinMark Trust’s Housing Finance theme area³ conducts research and engages with sector stakeholders in the promotion of innovative housing finance mechanisms to enhance access to housing finance for the poor. Broadly, the housing finance theme’s activities can be separated into the following categories:

- Understanding the housing asset
- Exploring housing finance innovation
- Understanding issues relating to housing finance in Africa

This report is the seventh of a series of studies which will explore access to housing finance in various African countries (earlier reports consider housing finance sectors in Zambia, Botswana, Kenya, Uganda, Namibia and Rwanda). It is meant as an input into a larger debate about how to enhance access to housing poor by low and moderate income earners throughout Africa. Comments and contributions can be sent to the FinMark Trust’s Housing Finance Theme Champion, Kecia Rust on Kecia@iafrica.com.

The FinMark Trust hopes that its research into access to housing finance in Africa will begin to shed some light on the key issues facing the poor as they seek to mobilise the finance necessary to access adequate and affordable housing.

Country Profile: Mozambique⁴

- **Population:** 21,284,701 *note:* estimates for this country explicitly take into account the effects of excess mortality due to AIDS; this can result in lower life expectancy, higher infant mortality, higher death rates, lower population growth rates, and changes in the distribution of population by age and sex than would otherwise be expected; the 1997 Mozambican census reported a population of 16,099,246 (July 2008 est.)
- **Capital:** Maputo ; **Area:** 801,590 sq km (total)
- **Major languages:** Emakhuwa 26.1%, Xichangana 11.3%, Portuguese 8.8% (official; spoken by 27% as a second language), Elomwe 7.6%, Cisena 6.8%, Echuwabo 5.8%, other Mozambican languages 32%, other foreign languages 0.3%, unspecified 1.3% (1997 census) ; **Major religion:** Catholic 23.8%, Muslim 17.8%, Zionist Christian 17.5%, other 17.8%, none 23.1% (1997 census)
- **Life expectancy:** 41.04 years (total population)
- **Monetary unit:** metical (MZM); **Main exports:** aluminum, prawns, cashews, cotton, sugar, citrus, timber; bulk electricity
- **GDP per capita:** USD900 (2007 est.)



¹ FinScope™ is a nationally representative study of consumers’ perceptions on financial services and issues, which creates insight to how consumers source their income and manage their financial lives. The sample covers the entire adult population, rich and poor, urban and rural, in order to create a segmentation, or continuum, of the entire market and to lend perspective to the various market segments. FinScope™ explores consumers’ usage of informal as well as formal products and builds a picture of the role that the informal sector can play in the financial markets of developing countries. Since FinScope™ is a perceptual study, it also encompasses attitudes, behaviours, quality of life factors and consumption patterns. See www.finscope.co.za

² By 2012 it is intended that some 20 countries in Africa will have the survey. Repeat studies will take place on 2-3 year cycles, enabling trends within countries to be monitored and providing the basis for cross-country comparison especially around access to finance. FinScope™ data will provide financial service providers and regional integration initiatives with comparable, standard and reliable data about demand for financial services across borders. (FinScope™ Africa Brochure)

³ To go to the housing finance theme page, go to www.finmark.org.za, click on “themes” and then click on “housing finance”.

⁴ From FinScope™ website, drawing on the World Bank Fact Book and CIA.

Introduction⁵

In Mozambique, the overwhelming majority of households organise the building of their own houses, sometimes hiring craftsmen to assist them. Typically, households build incrementally, as and when they have resources available and taking several years to build a small basic house. In rural areas, families build on land held under customary rights, generally using materials obtained nearby at practically no cost. In urban areas, however, households must pay to acquire land and building materials. Thus housing finance is a largely urban issue at present, but in future the rural population will also expect and demand better housing conditions.⁶

The size of the housing finance market in Mozambique is negligible. As at March 2008, housing loans accounted for only 3.8 percent of overall bank credit and represented less than 1 percent of gross domestic product (GDP) (Banco de Moçambique, 2008).⁷ Overall, the number of mortgage and construction loans granted is small, at about 50 per month, mostly mortgages for existing houses. This essentially reflects the lack of demand, because few people can meet the stringent conditions and few properties are on market.

In general, credit markets have been slow to develop. Banks will normally lend only to salaried individuals or couples whose salary is paid through an account in that bank. Less commonly, banks will lend to those who can transfer all or part of their income to that bank. Repayments are usually deducted monthly, often directly from the employer's account, so that repayment is automatic and the bank takes on minimal risk. People without salaries or other regular income normally cannot get any type of loan through commercial banks. When assessing an application for a loan, most banks apply a ceiling of a 30 percent household debt-service ratio. Banks cross-check credit commitments through the Central Credit Bureau within the Banco de Moçambique.

In this overall environment, it is not surprising that housing finance is limited in Mozambique. For the housing sector in particular, however, additional factors are particularly limiting to the development of an active housing finance market. These include legal, regulatory, and administrative constraints.

The result of these constraints is a conservative financial sector that demands low loan-to-value ratios of around 80% and high collateral requirements, which exclude many potential customers. Construction loans in particular are limited, because they are viewed as involving greater risks for the banks, as the building process often experiences long delays and consequent increases in costs. Banks therefore usually insist on the provision of collateral in the form of another property. Thus, bank mortgages and construction loans are available only to a limited high-income population group.

In making recommendations for developing the sector the paper aims to encourage further dialogue with the authorities and key stakeholders in Mozambique on the promotion of a more effective housing-finance market, one that not only reflects the social importance of adequate housing but also contributes to economic growth by positively influencing savings, investment, and social welfare.

⁵ This report was prepared by Charlotte Allen and Vibe Johnsen (Massala Consult) under the supervision of Kecia Rust (FinMark Trust) and leadership of Samuel Munzele Maimbo (World Bank) of the Africa Finance and Private Sector Department managed by Gerardo M. Corrochano (Sector Manager) and Marilou Uy (Director). Tania Saranga and Adelina Mucavele (World Bank) provided editorial and administrative support for the report. Peer reviewers for the paper included Simon Walley, Olivier Hassler, and Ravi Ruparel. The report also benefited from comments from various people, including Diepak Elmer, World Bank; Jaime Comiche, UN-HABITAT program manager; Zefanias Chitsungo, national director of Housing and Urbanism, Ministry of Public Works and Housing; Miguel Chaves, general director, Millennium Banco Internacional de Moçambique; Akila Ghumra, head of products, Barclays Bank Mozambique; Pedro Simango, head of retail credit, Barclays Bank Mozambique; Célio Pimentel, legal advisor, Barclays Bank Mozambique; Lina Fotine, head of department of credit, Standard Bank, Mozambique; Fernando Buzi, head of studies and projects, Fundo de Fomento de Habitação; Mark Estes and Andrew Lind, Habitat for Humanity International; Kathryn Larcombe, deputy director, Tchuma Cooperativa de Crédito e Poupança; Trudi Schwartz, director of operations, Banco Oportunidade; Eugénio Cinco Reis, Credit Department, Banco Pro-Credit; Matthias Knoch, Gabinete de Apoio à Pequena Indústria (GAPI); Luis Breda, Sanitago Mobiliária Lda; J. J. Nicols, deputy director, Municipal Directorate of Infrastructures, Urbanization and Construction, Municipal Council of the City of Maputo; João Cuna, head of Territorial Planning and Urbanization Department, Matola Municipal Council; Rita Furtado, legal consultant; Jennifer Garvey, legal consultant, and a focus group of public and private sector employees, Maputo and Matola.

⁶ In this scoping study, the term housing is understood to be composed of two main elements: (i) the house or place of residence and the (ii) urban infrastructure and services. Moreover housing is seen in a broad multidimensional perspective, embedding political, institutional, social, economic, and cultural dynamics, therefore embracing various sectors. The focus of this study is on urban areas, where housing issues have a structural and critical character, and housing finance is seen as most relevant in the short to medium term. It is recognized, however, that housing issues also pertain to rural areas, where they can have an urgent and pressing impact, especially in connection with cyclical natural disasters.

⁷ Total bank credit (loans from banks and MFIs) amounted to Mt 30.4 billion (\$1.27 billion), of which credit for housing totaled Mt 1.15 billion (about \$48 million).

INTRODUCTION	3
HOUSING FINANCE IN MOZAMBIQUE	5
HOUSING FINANCE MARKET DEVELOPMENT CONSTRAINTS	9
IMPLICATIONS OF CONSTRAINTS ON THE HOUSING FINANCE MARKET	14
CONCLUSION AND RECOMMENDATIONS	21
BIBLIOGRAPHY	23

Acronyms and Abbreviations

APIE	Administração do Parque Imobiliário do Estado (state housing management agency)	GAPI	Gabinete de Apoio à Pequena Indústria (Small Investment Support Bureau)
BIM	Banco Internacional de Moçambique, a Mozambican Commercial Bank	GDP	gross domestic product
CSO	Civil Society Organization	HFHI	Habitat for Humanity International
DINAPOT	Direcção Nacional de Planeamento e Ordenamento Territorial (National Directorate of Territorial Planning)	IAF	Inquérito às Famílias (National Household Survey)
DNHU	Direcção Nacional de Habitação e Urbanismo (National Directorate of Housing and Urbanism)	MFI	microfinance institution
DUAT	Direito de Uso e Aproveitamento da Terra (usufruct land right)	MICOA	Ministério para a Coordenação da Acção Ambiental (Ministry of Environmental Coordination)
EDM	Electricidade de Moçambique (national electricity supply company)	MOPH	Ministério das Obras Públicas e Habitação (Ministry of Public Works and Housing)
FDC	Fundação para o Desenvolvimento da Comunidade (a Mozambican NGO)	Mt	metical (the Mozambican currency)
FFH	Fundo de Fomento de Habitação (Housing Promotion Fund)	NGO	nongovernmental organization
		QUIBB	Questionário dos Indicadores Básicos de Bem Estar (Survey of Well Being Indicators)
		SOCREMO	Sociedade de Crédito de Moçambique (a microfinance institution)
		UN	United Nations
		USAID	U.S. Agency for International Development

Background

Other countries' experiences have shown that housing construction is a major contributor to economic growth (Green 1997). Thanks to this impact, the promotion of housing and the provision of financial resources have a direct impact on poverty alleviation and on the creation of low-skilled employment. Housing finance contributes to economic growth in the following four ways:

- By making housing finance more accessible to more middle-income families, reforms can mobilize dormant savings and generate new savings. This effect is particularly important for Mozambique, where the domestic savings rate tends to be low.
- Housing-finance reforms can create new investment and wealth. Because housing finance requires a robust legal and administrative infrastructure for the management of property rights, it can provide a powerful motive for formalizing ownership rights, which underpin the creation of wealth. By granting secure legal title to property, owners are able to add value to their assets, pledge them as security, and sell them for higher values.
- By making market-based resources available to middle-income families, the government will have more resources for social housing programs for the poorest urban dwellers. At the same time, the development of affordable housing finance would meet the needs of the growing middle class in Mozambique and extend the access to banking services to a much larger share of society.
- Because housing finance is a long-term and, in principle, low-risk activity, its evolution can bring stability to the banking system and enlarge the spectrum of investment vehicles available for the capital market, thus deepening that market.

Fostering a market-based housing-finance system may free up government resources that presently are spent in the housing or savings sector with little social efficiency. It will, in particular, enable the government to complement market resources once the foundations of a large-scale home-finance system have been laid, with a view to inducing a down-market movement toward lower-income households.

Finally, developing an affordable home finance system is crucial for liberalization of the overall property market, presently fragmented and distorted by many factors that are reviewed in this paper. This fragmentation is particularly true for the rental sector, a growing segment of the housing market in the Mozambican urban

centers. A comprehensive overhaul of the rental sector is a prerequisite to create an integrated market that is susceptible to lead to more rent units in the market. Such a reform is unlikely to be effective as long as ownership finance is not available, however, and cannot contribute to a more fluid rental market by offering tenants an exit option commensurate with their income.

This paper highlights the importance of the housing sector and its potential to contribute to long-term economic development. It seeks to review the key constraints to the development of a vibrant housing sector. It has been prepared on the premise that establishing a market-based housing-finance system now looks timely for Mozambique, not only in consideration of the growing pressure of the needs, but also given the steady improvement of the macroeconomic environment, in particular the decrease of the interest rates.

As an outcome of its macroeconomic performance, Mozambique is witnessing the growth of an urban middle class, especially in the city of Maputo and its satellite, Matola. The nation faces the challenge of providing appropriate housing for this growing portion of the population, whose needs are not well met by the existing informal channels. Formal finance is still directed toward the highest income groups.

Housing finance in Mozambique

The formal housing finance market in Mozambique includes banks, microfinance institutions, one civil society institution, and one government institution.

Commercial Bank Mortgages

Mortgages in Mozambique have a maturity of 12 to 25 years. Lending criteria reflect the banking industry's great cautiousness, in particular the restrictive loan-to-cost maximums (capped at 70 percent generally, but likely higher in practice). Interest rates are still high at 16 to 22.5 percent with fixed monthly repayments throughout the term. The property being mortgaged must be registered in the Real Property Register. The great majority of mortgages are provided for properties in Maputo, neighboring Matola, and surrounding suburbs, with hardly any being provided in other towns. Banks normally require a deposit of 5 to 30 percent depending on the bank (the loan-to-value ratios are between 70 and 95 percent).

The size of a loan depends on the client's financial capacity. Some banks consider nonsalary when assessing a client's capacity to repay a loan. Because of a history of bad debts for unsecured housing loans in the 1990s, all the banks have strict requirements for loan security and require the following forms of security when providing a loan:

- Life insurance of the borrower
- Insurance of the property against risk of fire and flood damage
- A power of attorney given by the borrower in favor of the bank, giving the bank the power to sell the property if the borrower defaults on payments
- A Bill of Exchange (*Livrança*) provided by the borrower in favor of the bank, which can be used by the bank to order payment of the debt

When dealing with applications for mortgages, banks undertake the following procedures:

- Complete a valuation of the property
- Search for the property in the Real Property Register: first asking for a certificate (*certidão*) of the situation of the property, then verifying the *certidão* by consulting the original entries in the relevant log books
- Depending on the results of the valuation and search, negotiate, prepare, and sign the mortgage contract
- Register of the mortgage in the Real Property Register

Lawyers and estate agents report that many of the certificates issued by the Register Office contain errors or are corrupted (for example, they exclude information on mortgages or restrictions on sale to foreigners) giving rise to serious legal uncertainties in many private housing sales. Both banks and estate agents reported that people who are not the legal owners often try to sell properties. Such problems are easily overcome by verifying the original property register in log book and then requesting a full transcription of the register (*Certidão do Teor Integral*), which is free and includes a photocopy of the original register(s).

Commercial Bank Construction Loans

Some banks, including BIM and Barclays, give loans for construction with conditions similar to those of mortgages. Barclays provides two types of construction loans: (i) for self-builders, in which the bank inspects the work to trigger payments; and (ii) for building firms approved by the bank (payments are made directly to the contractor). For these firms, inspections are carried out by another firm approved by the bank and paid for by the client. Because the Land Law (Law 19/97, Article 3) does not allow undeveloped land to be mortgaged, a construction loan is usually a contract with a promise to provide a mortgage.⁸ The mortgage can be constituted once the building has been given a certificate of completion by the municipality (or, in rural areas, by the provincial cadastral service). Completion normally is determined when the building is 80 percent complete. A provisional mortgage may be constituted and registered when the house can be mortgaged, even if the municipality has not yet issued the certificate of completion that enables registration. The provisional mortgage has a duration of six months and can be renewed. During the construction period, a slightly higher interest rate may be charged, but this will be reduced to the normal rate for a mortgage once the house is 80 percent complete and can be registered.

Thus, to cover possible costs of repossession, a construction loan usually must be guaranteed initially by another property, bank deposits, or other assets that have a value slightly in excess of the value of the loan. The requirement for an alternative property to provide a guarantee means that construction loans are most easily available to people who already have a house. This requirement fuels some speculative developments by aspiring landlords but also enables wealthy families to provide houses for their children or other family members. Thus, former tenants who purchased nationalized housing at a reduced price have a double benefit because they can also obtain a construction loan. Potential borrowers must demonstrate that they have the land rights document—the *Direito de Uso e Aproveitamento da Terra* (DUAT)—for the site, as well as the other forms of security required for a normal mortgage, described above. Construction loans usually cover up to 80 percent of the costs of the building project, including costs of obtaining DUAT and licences.

Some banks are cautiously beginning to provide finance to building firms for construction of housing for sale, an activity that is poorly developed. Demand for finance from local construction companies will probably grow in future, as these companies lack the working capital to undertake speculative developments. Barclays Bank has undertaken feasibility studies and considers that financing construction firms to build condominiums for middle-income groups (\$30,000 for a two-bedroom house) would be a viable proposition.⁹

Microfinance Institutions

Only two MFIs are known to specifically provide housing finance: ProCredit and SOCREMO.¹⁰ Some evidence, however, suggests that a substantial part of the MFI microenterprise loans may be applied indirectly to house construction and improvement. Thus, in connection with an overall study of the microfinance market in Maputo, interviews revealed that many clients applied at least part (and often a significant part) of their “business” loans to what was referred to as “future-related” expenditures, that is, the money was used for the construction or rehabilitation of their residences or to acquire household goods (Athmer et al. 2006, 15). During the present scoping study, a random consultation by the consultants of five Tchuma credit applications revealed that four out of the five applicants listed housing as their primary purpose.

Procredit is providing housing loans to about 10.000 clients and commercial loans to about 14.000 clients, while Banco Oportunidade has about 7.500 active loans and about 13.500 savings accounts (average \$40). Banco Oportunidade’s average loan sizes range from \$400 to US800. Procredit’s commercial loans average \$1,000; housing loans, which are typically for building incrementally, are lower at an average of \$580.

Unfortunately, it is not possible to quantify the “hidden” housing finance market, because the MFIs that do not provide specific housing loans also do not monitor the real application of their loans. However, both Tchuma and Banco Oportunidade envisage opening incremental housing and housing improvement credit lines. In this connection, Banco Oportunidade is planning to undertake a study of the real application of loans. This study will be conducted in connection with an upcoming joint housing development and improvement financing program between Banco Oportunidade and Habitat for Humanity. According to Banco Oportunidade it is, in general, still

⁸ Other devices used to overcome the legal prohibition on land being mortgaged are outlined later in this report.

⁹ All dollar amounts are U.S. dollars unless otherwise indicated.

¹⁰ GAPI provides finance for office space for companies at 25 percent interest over five years.

too early to finance new housing, although opportunities may exist for employees in Maputo. The other MFIs do not provide technical assistance for beneficiaries of housing finance and so the quality of the construction is not controlled. Applicants proceed to build or expand houses with little or no qualified professional oversight.

Civil Society Organizations

A number of NGOs support housing, mostly rural, and almost exclusively in the context of emergency aid—for example, related to cyclical flooding, cyclones, and so on.¹¹ The only civil society organization (CSO) with an identified housing development focus is the international NGO, Habitat for Humanity International (HFHI). HFHI has been operating in Mozambique since 2000, providing housing finance and development in the greater Maputo area and rural Manica province, focusing on low-income households, particularly female-headed households.

In the initial phase, HFHI provided housing on a long-term full-credit basis within a revolving fund concept. However, HFHI encountered difficulties implementing the revolving fund with the rigor required to create a culture of repayment. Based on negative experience from phase 1, HFHI moved to a phase of (financially unsustainable) fully subsidized housing.

HFHI is presently preparing a model that is a mix of the two earlier models, involving a partnership between an experienced MFI (Banco Oportunidade) and HFHI. In this partnership, the MFI will be responsible for the envisaged credit component, with shorter loans, and HFHI will provide technical assistance, with a view toward providing financially sustainable housing. The loans or grants will be based partially on local participation and contributions, including from savings groups, and will be partially subsidized. Among the target groups identified are teachers and nurses. To reach down into the level of poverty they desire, HFHI is exploring housing models that use more traditional building materials, which should reduce the costs of construction, and allow the organization to build more homes for poorer people.

Government Housing Finance

The *Fundo de o Fomento da Habitação* (FFH, the Housing Promotion Fund) is a government institution, which was created in 1995 to promote social housing for low-income families, qualified technicians, and young couples. It is funded from 50 percent of the receipts of sale of nationalized housing (a source that has practically dried up) and from its own income derived from the repayment of loans and sale of houses that it has built. Funds from sales are deposited in commercial banks and earn interest. In practice, the funds raised from the sale of nationalized housing are channeled first to the Ministry of Finance. The FFH has to request funds from the Ministry of Finance to fund a specific program, known as a Programme-Contract. Construction financed under the fourth Programme Contract of the FFH is now being finalized.¹²

During its first nine years, the FFH managed to provide only about 6,000 plots with access to basic services and to support the construction of about 1,000 houses and the completion or renovation of another 1,000 houses (Tique 2007, 113). The houses built under the first Programme-Contracts were of a basic standard, including one-bedroom houses constructed with cement blocks and a corrugated metal roof without a suspended ceiling, and with a latrine in the yard, and two-bedroom houses with an internal kitchen and bathroom, corrugated metal roof, and suspended ceiling. These houses were sold through loans at the highly subsidized prices of Mt 60,000 (approximately US\$2,500) and Mt 75,000 (US\$3,000), respectively.

Under the current Fourth Programme-Contract, the FFH is developing 6,090 plots in cities and towns throughout the country, with basic services, including gravel roads, water, and electricity. It is also developing 192 houses throughout the country, for sale to middle-income households and qualified technicians through subsidized loans. These houses are larger and are built to a higher standard with interlocking blocks and three bedrooms. Prices have not been established, but costs are expected to be in excess of \$20,000 per unit. Finally, FFH is providing few (about 70) loans for low-income households for rehabilitation, remodeling, or extension of existing houses.

¹¹ Such as *Fundação para o Desenvolvimento da Comunidade* (FDC), CARE, World Vision, Red Cross, Save the Children, and various faith-based NGOs.

¹² The four-year period of the fourth program contract has expired, and housing construction financed is being finalized under a contract extension arrangement (*transição*). A new contract is not envisaged, because the FFH may undergo restructuring and become a public bank as outlined in this section.

In the current program, FFH provides three types of loans: loans for low-income households for renovation or extension of their own house, loans for acquisition of a new house developed by the FFH, and loans for acquisition of a serviced plot for self-built housing. All types of loan are restricted to individuals with formal, permanent employment and carry a discounted interest rate, fixed over the term (currently 12 percent per year).

- **Loans for house improvements** are available to households earning the equivalent of one to five minimum salaries (about (\$65–\$330 per month). Loans range from Mt 10,000–50,000 (\$400–\$2,000), payable over five years. Applicants must be owners of the house and hold rights to the land on which it is built. In view of the frequent difficulties with documentation, however, the FFH is often flexible in this regard. The house is not used as collateral for the loan and no rules prevent the borrower from selling the house before the loan is paid. This form of credit was not available in 2007, and previously only about 100 loans were granted per year.
- **Loans for acquisition of houses** are available to households earning the equivalent of 6–15 minimum salaries (about \$400–\$1,000 per month) and are repayable over 20 years. It should be noted that these loans are not mortgages but rather are “credit in the form of a house”: only after the repayment period of 20 years will the beneficiary receive the property title. Until then, the house belongs to the FFH, the beneficiary cannot rent it out or sell it or use it to guarantee a loan. For five years after repayment of the loan, the owner is still not permitted to sell the house, and after that she or he can sell it only to a Mozambican national.
- **Loans for acquisition of serviced plots** are available to the same income group (6–15 minimum salaries). These loans are worth Mt 14,000–20,000 (\$560–\$800) depending on the level of services provided and are payable over 12 months. Once the loan for the plot has been repaid, the beneficiary can apply for a loan from bank or an MFI (or from the FFH) for construction of the house. Building standards and local planning regulations are defined by the local authority (municipality or district/province).

For its developments, the FFH requests land from provincial governments or municipalities, which issue the DUAT to FFH without a time limit for development. The FFH or the local authority prepare terms of reference for consultancy services for the design of the project. The construction works are carried out by companies selected through a public tender.

Once loans have been paid for, the plot is detached from the DUAT of the FFH and granted to the plot concessionary. This process is normally facilitated by the municipalities in the case of FFH landholdings.

Clearly, with so few houses, plots, and loans available, and with discounted interest rates, the selection of beneficiaries is sensitive and, sometimes, exclusive. The process of granting loans has recently been decentralized to the provincial delegations of the FFH. The Municipalities or the Provincial Directorate of Public Works act as sales promoters and organize the selection of beneficiaries. Lists of applicants who comply with criteria defined by the FFH are drawn up, using locally defined methods. For example, the town of Dondo has a public tender; in other towns, the promoter writes letters to selected institutions and firms asking them to select potential beneficiaries. Once the applicants are selected, the beneficiaries are selected through a lottery, to which applicants are invited. The FFH monitors the selection process and gives its “no objection” to the list of applicants who are prequalified for the lottery.

During its 12 years of operation, the FFH has faced many constraints and problems in achieving its purpose. With regard to funding, delays in transfers from the Ministry of Finance have meant that in some Programme-Contracts not all the funds were spent, while others had to be curtailed for lack of funds. Moreover, the funds from the sale of nationalized housing are now drying up. With regard to the acquisition of land, some municipalities have appeared reluctant or unable to make land available to the FFH, and the FFH has faced conflicts with existing occupants. It has failed to make a significant impact in quantitative terms and has had difficulty reaching its target group. In practice, it has served mainly urban public servants, because acquisition costs of a plot or a house from the FFH were beyond the means of the most citizens, even with reduced interest rates (Tique 2007, 112). It has failed to recover much of the cost of its developments, because prices and interest rates have been heavily subsidized, and until recently credit control was particularly lax, resulting in derisory repayment rates.¹³ This has now been improved substantially, through restructuring at the provincial level, which has enabled closer accompaniment of beneficiaries, and through deduction of repayments directly from salaries.

¹³ Reported as only 27 percent until 2005 (Fernando Buzi, head of project office, FFH, 17 April, 2008)

Faced with the lack of sustainability of its current form of operation, as a result of its funding sources drying up and insufficient returns on its investment, the FFH is reconsidering its role. From 2009 it intends to cease building and site development and concentrate on its role as a financial institution, funding construction by other developers and providing credit for those seeking a home loan. With the objective of creating a financially self-sufficient FFH, a feasibility study is being prepared. Nevertheless, the original principle of funding social housing will be maintained, implying the continued provision of 100 percent loans without any guarantee other than a “permanent” salary, at reduced interest rates, fixed for the term of the loan.¹⁴

Housing finance market development constraints

Financial institutions refer to numerous constraints to developing the housing finance market, including the following:

- Lack of a housing policy
- Weak regulatory framework for property registration and transfer
- Underdeveloped environment for contract enforcement
- Multiple overlapping administrative structures

Outdated Housing Policy

There is no national housing policy that currently guides housing development in the country. Various unsuccessful attempts have been made to update the law: National Directorate of Housing and Urbanism of the Ministry of Public Works and Housing (MOPH/DNHU) drafted a housing strategy in 2001 and a housing policy in 2005, which lead up to a national conference for contributions to housing policy organized by MOPH and UN-HABITAT in mid-2006. Since then no progress has been made.

In 1977, shortly after independence, the state nationalized rental housing and houses abandoned by the departed colonial population, which represented a substantial part of the housing in the cement cities. Around 80,000 houses and apartments were allocated to Mozambicans on an affordable rental basis, calculated on the basis of household size, income, and house type.

In the rural areas, the most important element of the socialist post-independence period was the communal village policy, inspired by Tanzania’s Ujamaa villages. A major concern of the state was to concentrate the dispersed rural households in communal villages to improve their livelihoods by stimulating production and productivity through cooperative organization and to establish a reasonable population basis for the provision of public social services, especially health and education. Resistance to creating villages and the escalation of the war put an end to the implementation of the policy in the 1980s. It was only in the northern provinces that the policy to create villages had some success and, today, living in villages has become a predominant settlement culture in Cabo Delgado and Niassa provinces. Throughout most of the country, rural settlement remains dispersed.

Since independence, with the lifting of controls on movement of the indigenous population, the trend of migration from rural to urban areas has continued. This was exacerbated during the war (1979–92), when refugees from the rural areas poured into the safer urban areas, moving in with family and friends or organizing shelters on their own, contributing to the densification and expansion of the existing spontaneous settlements in the *bairros*.

In the early 1990s, with the peace process, a new democratic constitution and national elections, a reconstruction and restructuring process was initiated, including scaling down the role of the state in the economy through privatization, and a political focus on agriculture and rural areas.

In 1990 (the same year as the new democratic constitution was approved) a long-awaited housing policy was discussed by the National Assembly, but it was never formally approved or published (see Jenkins 1998, 83).¹⁵ The policy proposed the rationalization of the management of the state rental stock, creation of a housing market and liberalization of real estate activity, and development of public-private partnerships in rental housing. It defined the state’s role in social subsidized housing, provision of basic urban infrastructure, restructuring of informal settlements by regulating land use and zoning for housing purposes, promoting the development of building materials and construction industries, and promoting and regulating housing finance.

¹⁴ Fernando Buzi, FFH.

¹⁵ Because the policy was never published in the “Boletim da República,” it did not become an official legal instrument.

The main results of the housing policy were the divestiture of the nationalized housing stock, from 1991, and the establishment of the FFH in 1995.

The process of divestiture (*alienação*) of the nationalized houses to tenants was initiated at prices well below their real value. As part of this process, a system of “selling and buying the key” arose, whereby a tenant could transfer the right to a rental contract to somebody who had the intention and financial capacity to purchase the house. In buying the key, the latter would finance the construction materials for the “selling” tenant, at an approved available plot, normally located in a peri-urban area. In practice, however, few plots were available and the houses were often built on informal sites. An estimated 90 percent of the nationalized houses have now been fully privatized to Mozambican nationals. This privatization process has contributed to the formation and consolidation of the emerging middle and upper class and a related housing market.

The policy of divestiture resulted from the lack of capacity of the state housing management agency (Administração do Parque Imobiliário do Estado, APIE) to undertake maintenance of the rental stock, which included numerous low- and high-rise apartment buildings in the main cities. Although the divestiture process relieved the state of this responsibility, it merely handed it over to the purchasers, who individually and collectively lack the financial capacity to rehabilitate the structure, fabric, and complex services (elevators, garbage chutes, plumbing, and sanitation) of apartment buildings, which have not been maintained for about 30 years.

Since then, the government has yet to promulgate an updated housing policy.

Cumbersome Property Registration and Transfer Framework

The Land Law and Regulations

The Constitution and the Land Law give land rights and guarantees of tenure to all Mozambican citizens, men and women, and establish that all land is owned by the state and cannot be sold or mortgaged.

Under the Land Law, rights to use land are acquired and held through long-term usufruct titles (DUAT), which are inheritable and considered to be secure and comparable to a leasehold. Rural communities have permanent rights by fact of occupation, and good-faith occupiers of unclaimed rural and urban land with at least 10 years of occupation also can acquire DUAT. Other individuals or groups can apply for DUAT to the local authority (municipality or district government), an administrative process that is subject to the opinion of municipal officials and leaders.

A successful application to occupy and use land will be given a provisional DUAT for a limited period, during which time the land must be developed for its intended purpose. Outside urban areas, this period is fixed in the Land Law as five years for Mozambican nationals and two years for foreigners. The Urban Land Regulations state that a DUAT is extinguished automatically if the title holder does not start the works necessary for using the land for its intended purpose within the period stipulated by the local authority, which may not be greater than two years. This period may be extended on request (which must be justified) for a period of six months (Urban Land Regulations, Decree 60/2006, Article 36). On request from the title holder, the local authority will fix the time limit for the start of use of the land for its intended purpose, taking into account the amount of time needed to complete building works and obtain any necessary licences. The maximum period is 10 years from the date of acquiring the DUAT (Urban Land Regulations, Decree 60/2006, Article 37).

The definitive DUAT is granted only after the land has been developed, following inspection and issuance of a certificate by the local authority. For owner-occupied houses, community land, and family agriculture, the DUAT is not subject to any time limit.¹⁶ If the proposed development is not completed within the stipulated time, the provisional DUAT may be revoked. Provided that construction has started, however, the provisional DUAT usually can be renewed for a small fee.

Titleholders are responsible for registering provisional DUATs and definitive title with the local Real Property Register Office, as well as changes to, or inheritance of, DUAT. In the event of revocation of the provisional DUAT, the local authority has the responsibility to inform the Real Property Register (Regulations to the Land Law, Decree 66/98, Article 20, as amended by Decree 01/2003). If a property is not registered, rights to land cannot be legally enforced against actions of third parties.

¹⁶ For economic activities, the DUAT has a maximum term of 50 years, renewable on request (Land Law, Law 19/97, Article 17).

Although land may not be mortgaged, improvements to land, such as houses, can be mortgaged (Land Law, Law 19/97, Article 16 (5)). On the sale and purchase of improvements to land, the DUAT is transferred automatically. Mortgages and transfers of ownership of buildings and other infrastructures also should be registered in the Real Property Register.

The Urban Land Regulations of 2006, under the Land Law, establish that urbanization¹⁷ is a prerequisite for the establishment of land rights (Urban Land Regulations, Decree 60/2006, Article 21(1)). Urbanization is carried out in accordance with detailed plans. Before such plans are drawn up, surveys must be carried out to establish the exact legal status of existing occupation. Holders of rights acquired through 10 years of occupation in good faith are eligible to apply for title of the land they occupy if their occupation can be satisfactorily integrated into the plan. If their occupation cannot be integrated into the plan, they are eligible to be given priority in the allocation of new plots (but they must apply) and to receive compensation for the buildings and other betterments on they land they will lose. These regulations have not been widely publicized or explained to the municipalities and thus there is little practical experience of their use.

The Urban Land Regulations appear to limit land rights acquired through occupation in good faith under the Land Law, because they make land rights in urban areas subject to urbanization and therefore to the existence of an approved plan. Until 2007, legislation on urban plans was not enacted and thus hardly any urban plans have been approved since independence, even though the urban population has increased at a rapid rate. As a result, vast areas of cities and towns have been occupied without approved plans, and even plots that were laid out by the local authorities have no legal status and cannot be registered. The survey of existing land rights introduced in the Urban Land Regulations as part of the planning process appears to be labor-intensive, is time-consuming, and demands professional town planning skills, which are beyond the capacity of most municipalities. Any wide scale programs to regularize informal occupation¹⁸ are therefore likely to be slow. Further, planning procedures may not be sufficiently flexible and participatory, so that large numbers of low-income households will remain condemned to extralegality and informality (World Bank 2008a, 5).

A recent report prepared for the World Bank considers that the Urban Land Regulations should be regarded as the first stage in providing the legal measures necessary to support urban development and redevelopment (World Bank 2008b). Other instruments are required to provide for, among other things, the subdivision of immovable property (such as houses) and urban land parcels, land assembly for large urban developments, and the conversion of rural land to urban land.

The Territorial Planning Law

The Territorial Planning Law defines the principles, objectives, and instruments for land use planning. Among the stated objectives of the law is to guarantee existing land rights to individuals and local communities, and to improve unplanned or decaying urban areas. In urban areas, planning instruments include structure plans, general and partial urbanization plans, and detailed plans. This law takes a markedly more participatory approach than the Urban Land Regulations. This law was approved in mid-2007 and at the time of writing is not yet being implemented as its regulations have not yet been published. These regulations will supplement the Urban Land Regulations and should go some way toward completing the legal framework for urban development.

The Real Property Registration Code

The Real Property Registration Code (Decree 47/611 of 28 March 1967, Código de Registo Predial), although dating from the colonial period, provides the administrative procedural framework to register DUAT and ownership of buildings.

Mozambique has a dual system of registration for land and buildings: the Real Property Register and the land cadastre. The Real Property Register for registration of rights (DUAT) and immovable property falls under the Ministry of Justice. The land cadastre is held in the provincial cadastral services or, in the main cities, in the municipality. These bodies should update the cadastral register when DUATs are granted.

Full registration requires registration in both offices, as appropriate. A report prepared for U.S. Agency for International Development (USAID) stated that the two systems are incompatible, therefore making both systems (i)

¹⁷ Urbanization refers to the demarcation of plots, laying out and building of roads, and provision of public utility services and social infrastructure. The regulations provide for three levels of urbanization: basic, intermediate, and full.

¹⁸ The Municipality of the City of Maputo has begun campaigns to regularize land rights in some suburban bairros (see *Domingo* 2008).

difficult to use, including problems in indexing and accessing the records, and (ii) less secure in legal terms and more prone to mistakes (Chemonics 2006, quoted in World Bank 2008b, 6). The report also noted that, under the present system, at least seven separate fee payments made to six different institutions are needed to achieve the transfer of a property (World Bank 2008b, 8).

In the Real Property Register Office, the deeds are handwritten into log books, as stipulated in the Code of 1967. The Ministry of Justice aims to issue or update records within 30 to 45 days, but in practice, it can take longer.¹⁹

The World Bank report also found that less than 30 percent of the properties are registered in the registry system (2008b, 13), making incomplete property registration a major problem. Furthermore, the procedures for first-time registration of a property are not clearly regulated. Improvement of this situation is one of the priorities in the strategy of the Ministry of Industry and Commerce.

According to another World Bank report, in urban areas, “the outdated title and deeds registration system may ... pose constraints on the evolution of existing land rights into tradable property rights, slowing down investment and the development of a mortgage market” (World Bank 2008a).

Underdeveloped Environment for Contract Enforcement

The provision in the Land Law that land may not be mortgaged means that financial institutions strictly cannot provide mortgage loans for building construction on a vacant plot. This is a significant restriction to housing finance given that most new households organize construction of their own homes. For existing houses, the mortgage covers buildings only, but the land is automatically included in any transactions for the buildings.

The general practice is that a mortgage may not be registered until there is some building or other improvement on the land. As an interim measure, however, promissory mortgage contracts,²⁰ declarations of intent to record a mortgage, or provisional registration of a mortgage (permitted under the Real Property Register but generally felt to violate the Land Law) may be used.²¹ For low-risk projects (for example, clients with an excellent record), banks have been known to give a mortgage based on the provisional DUAT for “all the infrastructures built or to be built” on the land.²²

Banks generally will provide a mortgage once the DUAT becomes definitive and the building can be registered in the Real Property Register. The local authority (municipality) is responsible for issuing a certificate of the improvements made on the land (Certidão de Benfeitorias), on which basis the titleholder may register the building. This is usually obtainable when a building is 80 percent complete, but in practice, requirements vary widely according to the nature of the client.

One of the banks interviewed considered that the fact that the DUAT is granted provisionally creates problems for giving construction loans, because if the borrower does not build and register the house within the stipulated period, the plot (and the unfinished works) can be allocated to someone else by the local authority. Even if the concession is not annulled, the property cannot be registered and therefore would be extremely difficult to sell. At present, it appears to be rare for a local authority to annul land concessions for lack of development, but it could become more common in the future if information about the status of land improves.

General legislation on mortgages is contained in the Civil Code of 1966, which is out of date but still the basis of mortgage contracts for houses. Further challenges include the fact that approximately 70 percent of residents of Maputo (and probably an even higher percentage of residents of other cities) live in houses that lack building permits (World Bank 2008b, 3). The huge scale of informality indicates a low level of enforcement of the building regulations, as well as the predominance of informal occupation of land. Furthermore, housing loans are not regulated specifically by the government. The central bank (Banco de Moçambique) gives general directives on credit for certain sectors (but not for housing) and establishes interest rates and loan periods. Under the Labour Law (Law 23/2007 of 1 August) a maximum of one-third of a person’s net salary can be withheld by the employer, with the agreement of the employee, for repayment of loans or other motives. This provision is generally used by banks and MFIs to assess applications for credit.

¹⁹ Information in this paragraph was obtained from World Bank (2008b). This document reports that a person trained to do the handwritten conversion of deeds can write on average about five deeds per day and that on average the Maputo registration office does about 15 transfers and five mortgages per day. It also extracts information for customers.

²⁰ Barclays Bank uses this mechanism in its construction loans (see Section 4.1).

²¹ Interview with Jennifer Garvey, consultant lawyer, April 2008

²² Interview with Rita Furtado, consultant lawyer. 18, April 2008

Given the lack of up-to-date specific legislation, when granting a housing mortgage, banks require other guarantees from the borrower, such as power of attorney over the property and a bill of exchange (*livrança*) signed by the client to avoid possible legal problems in obtaining foreclosure in case of default. The power of attorney is required primarily to enable the bank to recover the loan without having to go through lengthy court procedures. In practice, the *livrança* may not help the bank unless it is countersigned by a third party (an *aval*) who will guarantee the loan by pledging his or her assets. Thus, the banks have adopted a “belt-and-braces” approach of requiring a range of different guarantees to secure the loan.

Through the use of such devices, the lawyers interviewed consider that the process of foreclosing a mortgage is not overly complicated. However, obtaining foreclosure through the court system takes two or three years.²³

If a borrower defaults on a payment of a mortgage or an insurance premium, the bank will call him or her to a meeting to investigate their circumstances and reschedule the debt, if appropriate, or to negotiate an agreement that the property should be repossessed and sold by the bank, using the power of attorney. Defaulting clients often try to arrange a purchaser themselves. As a last resort, banks will use the *livrança* to obtain payment of the debt, although this must be executed through a court.

Some banks, such as BIM, have their own insurance company, whereas the other banks assist clients to arrange insurance policies through insurance brokers. For short- and medium-term loans, the insurance is paid at the outset as one lump sum; for longer-term loans, an annual payment is made. The insurance company or broker will inform the bank if a premium is not paid. Nonpayment of insurance premiums is a frequent problem and brings high risks to the banks.

Multiple Overlapping Administrative Structures

At the central government level, responsibilities for the various aspects of housing are dispersed among different ministries, which also have overlapping functions.

The main government institutions involved in housing in Mozambique are the MOPH/DNHU and FFH. MPOH/DNHU is responsible for preparing and implementing housing policies, promoting a legal environment to encourage public and private investment in housing, and ensuring that land is available for housing construction. The FFH, under the joint tutelage of the MOPH and the Ministry of Finance, promotes construction of social housing and provides low-cost credit to low-income households for construction, renovation, and extension of houses.

Also involved in the housing trade are (i) the Ministry of State Administration, which supervises the municipalities that are responsible for land use planning and urbanization; (ii) the National Directorate of Territorial Planning in the Ministry of Environmental Coordination (MICOA/DINAPOT), which is responsible for preparing policies and legislation for territorial planning and provides technical assistance to the municipalities in land use planning; and (iii) the Ministry of Planning and Development, which is involved in rural development planning. The overlapping of functions between MOPH/DNHU and MICOA/DINAPOT make institutional coordination difficult.

A particular problem is that none of these institutions is responsible for obtaining and updating information on housing and urban development. Moreover, even at central government level, there is practically no specialist technical capacity in the field of housing.

The Functional Analysis of MOPH (2007) concluded that the current institutional dispersion should be reduced, adding that “experience seems to show that an integrated approach to the problem of housing and urbanism, through economic planning, territorial planning and the streamlining of financial mechanisms is more effective than a sectoral planning approach based on processes, standards and construction methodologies, which is only the final phase in the process of making housing available” (República de Moçambique 2007a, 37).

In 1998 under the government’s decentralization process, 33 municipalities were established, with elected presidents and assemblies. At the next municipal elections, due in November 2008, 10 more municipalities will be established.

At the local level, the municipalities have the essential role of making urban land available and maintaining the land cadastre. Municipalities are responsible for promoting and approving urbanization plans and implementing urbanization projects; they also have the power to undertake investments in many areas, including social housing (Municipal Finance Law, Law 11/97 of 31 May, Article 25).

²³ Interview with Dr Célio Pimentel, legal advisor to Barclays Bank, June 2008.

All municipalities, including the largest, suffer from inadequate financial resources and a chronic shortage of skilled labor. Ten years after their creation, many municipalities are only starting to collect property taxes. In particular, they suffer from inadequate personnel capacity for urban planning and land administration, and this has contributed largely to the proliferation of informal settlements. The progressive disorganization of the land cadastre means that information on the status of land parcels is not available, thus complicating the process of urban planning and land allocation, and facilitating corruption.

The Real Property Register Offices (Conservatórios do Registo Predial), under the Ministry of Justice, play an important role in the registration of land and houses and the sale and purchase of the latter. These offices issue certificates (certidões) that certify the registration of a property, its description, ownership, mortgages, and other endorsements. The Register Offices suffer from inadequate resources, outdated systems, and low staff capacity, which constrain their effective functioning. One Register Office operates in Maputo and another five cover the rest of the country. In the City of Maputo, a computerized system of land and building registration has been introduced but is not effective, partly because of the lack of staff training. On average, the Maputo Office registers about 15 transfers and five mortgages per day (World Bank 2008b).

Implications of Constraints on the Housing Finance Market

The implications of an outdated housing policy; weak regulatory framework for property registration and transfer, underdeveloped environment for contract enforcement and multiple overlapping administrative structures are significant. These implications include the following:

For house purchase (mortgage)	For house construction
<ul style="list-style-type: none"> ▪ Few properties with complete legal documentation come onto the market ▪ Hardly any affordable ready-built housing for sale ▪ High costs of mortgages (interest rates), combined with legislation on debt-service ratio, mean that only a small proportion of salaried employees could afford even a modest loan 	<ul style="list-style-type: none"> ▪ Land cannot be mortgaged, therefore banks ask for an alternative guarantee; this means that people who already have a house can more easily obtain a loan to build ▪ Limited availability of formally produced building land (that is, plots in accordance with plan, which can be registered in the Real Property Register) ▪ High costs of mortgage, as above

Unaffordable Housing

Given the above factors, much housing construction is financed by short- and medium-term consumer loans (up to five years) of up to Mt 300,000 (\$12,000) for which the banks charge interest rates of 20 to 25 percent per year. This is relatively expensive credit, though much cheaper than MFIs. This form of credit is growing at about 10 to 15 percent per year. The banks do not control its use and so no information is available on the volume of credit used for housing construction. Moreover, without controls, this type of credit can be used to fund buildings anywhere. Given the shortage of building land compared with demand, consumer loans could exacerbate unplanned development, including in areas prone to erosion or flooding, which are widespread in Mozambican cities.

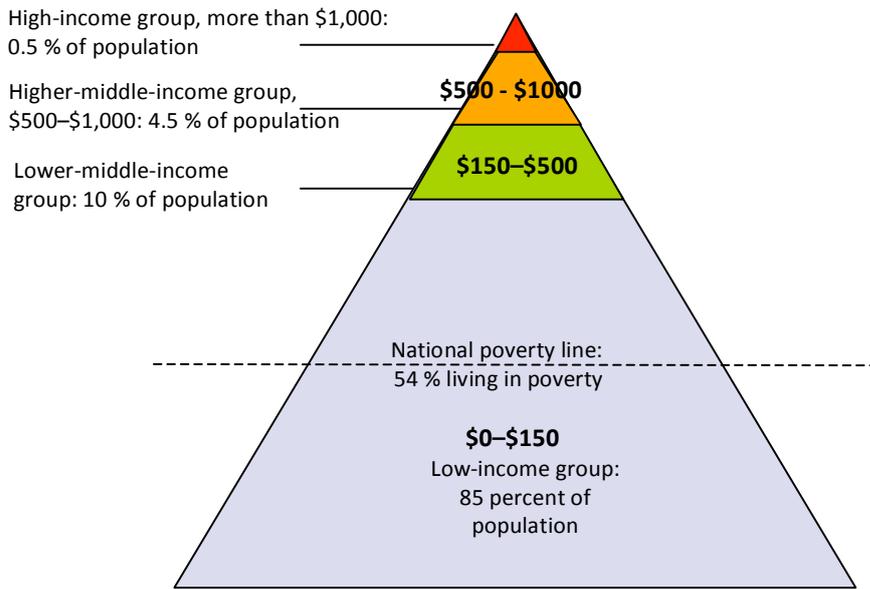
The impact of the limitations discussed above is to severely restrict access to affordable housing. The study estimated that currently, long-term bank loans are available only to the high-income group (estimated as 0.5 percent of households). Four income groups were defined and the income range for each group was estimated, using data from the IAF, QUIBB, and microfinance data:

- Group I (low-income): up to \$150 per household per month
- Group II (lower-middle income): \$150–\$500 per household per month
- Group III (upper-middle income): \$500–1,000 per household per month
- Group IV (high income): more than \$1,000 per household per month

In this perspective, the upper-income categories (Groups II–IV) are estimated to account for approximately 15 percent of households, all falling within the fifth (top) quintile of households with regard to consumption²⁴. The low-income group (Group I) accounts for 85 percent population, which corresponds to the first through fourth quintiles as well as part of the fifth quintile.

²⁴ INE, QUIBB, 2004/2005

Figure 1 Income groups by monthly estimated income per household—total population (urban and rural)

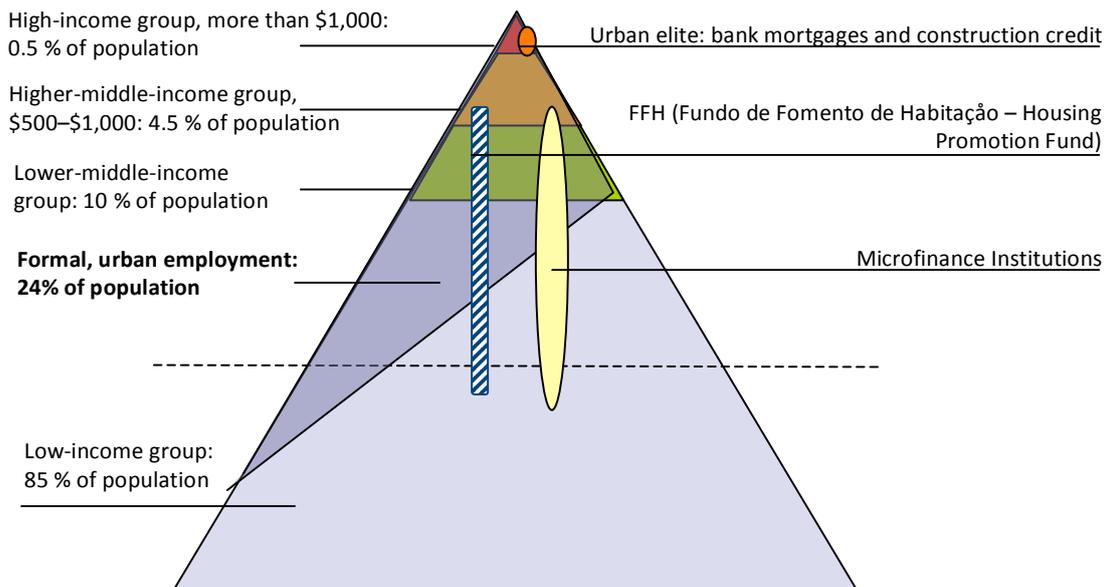


These income estimates enable us to better assess the size of the potential market for housing loans. As discussed above, long-term bank loans are available only to the high-income group (about 0.5 percent of households). About 14 percent of households, however, potentially could be eligible for short-term loans.

Figure 2 summarizes the availability of credit by different providers and social strata, for the urban population only. The figure shows that the credit available from the MFIs and the FFH is extremely limited in relation to the income bands served.

The expansion of access to affordable short-term housing loans of \$500–\$5,000 for incremental building could make a significant difference in the housing supply for the middle-income group and part of the low-income group.

Figure 2 Availability of housing and MFI credit—urban population



To highlight the lack of affordability of the housing stock, consider the following example. With an interest rate of

18 percent, using a debt-service ratio of 30 percent and a 20 percent deposit, a household would need a monthly net salary of Mt 48,000 (\$1,900) to borrow \$40,000 over a 20-year period. This loan would afford the household a small apartment in the less attractive areas of the cement city of Maputo. This salary of Mt 48,000 (\$1,900) is equivalent to the salary of middle management staff of the commercial banks, management staff in foreign NGOs or development agencies, or two high-ranking government officials (or, more likely, a couple with two jobs each). The buyers would have to contribute another \$10,000 from their own pockets.

To obtain a construction loan for a three-bedroom house costing \$30,000, a household would have to contribute at least \$3,000 and loan security, probably in the form of an existing property. To afford the fixed monthly repayments for a 20-year loan at an interest rate of 18.5 percent, a household would have to earn a net total of Mt 33,000 (just over \$1,300) per month. This is more than the net basic salaries of two senior doctors working for the national health system.

One bank, in particular, has an exclusive target group, following the policy of the parent bank in South Africa. It specifically targets employees of NGOs and development agencies and employees of a few dynamic large firms who pay high salaries. A minimum household salary of about \$2,300 per month is required to be eligible for one of these housing loans. Less than 0.5 percent of households have a salary of this level.

Limited Housing Supply

Cities are built by the way they are financed. The limited financing available for housing is significantly affecting the supply and quality of housing. Compounded by the limited production of formal building land, and the absence of an active property developer industry, the shortage of housing in Mozambique is severe, and unless the constraints are addressed, the severity will continue.

With regard to the supply of housing, it is important to consider housing in its broader sense: not just shelter, but also the surrounding environment and access to essential goods such as drinking water, adequate hygiene, and sanitation and access. The 2005 QUIBB found that 73 percent of urban households had access to drinking water from a secure source (INE 2005).²⁵ The same survey found that only 16 percent of urban households had a conventional toilet and an additional 18 percent had an improved latrine. The remaining 66 percent used either traditional or insecure latrines or had no sanitation facilities. No data are available on houses without access roads, which is a major concern in the informal urban settlements.

According to the 2005 QUIBB, the vast majority of urban households (78.6 percent) own their house, whereas 12.7 percent live in a rented house and 8.7 percent live in lent or tied houses. In the context of the main national census and surveys, owning a house is not restricted to ownership in the legal sense (that is, having a title deed); rather, it is understood as a house that is not rented, lent, or tied. In the Maputo City, the percentage of households renting is far higher than in other urban areas, reaching 23 percent, while 68 percent own their house. The percentage of households renting is increasing.

No systematic data are available on housing production. However, research finds that in both urban and rural areas of Mozambique, the great majority of those seeking a house have to build one themselves, with the assistance of local craftsmen or construction firms if they can afford them. Most houses in urban areas, especially outside the Maputo metropolitan area, are still built of local materials. The use of conventional construction materials is increasing,²⁶ however, partly as a result of the increased cost of local materials in the urban areas, combined with high maintenance requirements, and partly as a result of the increased availability of conventional construction materials. The aspiration of the urban citizen is typically a cement house. Costs of construction are, however, exceptionally high and rising as the cement price increases.

Box 1. Construction costs

Construction costs are extremely high. With the exception of some nationally produced cement, all conventional construction materials have to be imported. Cement prices have soared and a bag of cement currently costs Mt 230 (\$9.20), compared with the current minimum salary of Mt 1,645 (\$66)—that is, a full month's salary buys seven bags of cement.

Costs of finished buildings are estimated at up to \$800 per square meter for building by contractors to international standards, \$400–500

²⁵ However, the National Water Directorate, which measures water quality, found in 2003 that only 32 percent of the urban population had access to safe drinking water.

²⁶ The 1997 population census found that a large majority (62 percent) of the urban population lived in houses built of local materials, while 28 percent lived in houses built of conventional construction materials. By 2005, the proportion of urban houses with cement block walls had increased to 40 percent, and those with corrugated metal roofing sheets to 43 percent (QUIBB 2004/2005).

per square meter for a self-built house that meets building regulations, and upward of \$250 per square meter for basic construction and finishes.

To illustrate the disparity between financial capacity and housing costs, a typical 36-square-meter low-cost house, with bare cement building blocks, corrugated metal sheet roof, and cement floor, and without bathroom or kitchen, can be built for a minimum of Mt 225,000 (\$9,000). It would take more than 136 minimum salaries or the equivalent of more than nine years' salaries to pay for this house. A three-bedroom house of about 75 square meters that meets building standards would cost upward of \$30,000.

With a view toward improving quality of housing, while keeping costs down, a research project on the use of local construction materials recently was undertaken by the government. Its recommendations, approved by the Council of Ministers, include amending the Building Regulations to permit the use of local materials and setting up a Building Research Unit to monitor construction technologies, under research, and recommend appropriate technologies (República de Moçambique 2007a).

Markets for buying and selling existing properties are confined to urban areas and tourist development areas and are limited to the wealthiest groups. Although informal markets for peri-urban houses exist, they seem not to be active. In the rare event that a house is no longer needed for use by its owner or his extended family, householders generally opt to benefit from its value through renting it rather than selling, which is in keeping with the traditional reluctance to sell family property. Speculative housing construction is also a limited activity, confined to Maputo and the surrounding areas and designed almost exclusively for the wealthiest groups.

Self-build

Land Supply. The great majority of households seeking a house have to organize its construction themselves. The first step in obtaining a house therefore is finding land on which to build. Applicants should submit a request for a plot to the Municipal Council and, if successful, they receive provisional authorization (DUAT) to use the land. The DUAT includes time limits for start and completion of building that are defined by the Municipal Council. Households then apply to the Municipality for a construction licence, which they do through submission of a building project. Project drawings can be purchased from a construction technician.

Although titleholders should register the provisional DUAT with the Real Property Register, in practice, few of the plots demarcated since independence in 1975 have been registered. The land cadastre has not been officially updated because of the lack of legal procedures for the approval of land use plans, which were approved in 2007 as part of the Territorial Planning Law. Thus, it has been difficult to register houses built on plots in suburban areas demarcated since 1975. Therefore, these homes do not have legal documentation and cannot be used as collateral for bank loans.

In the City of Maputo the Municipal Council is starting a process aimed at regularizing, where possible, the informal occupation in the city and identifying land available for development. For regularization of existing occupation, the Council is currently using the Master Plan for Lourenço Marques of 1973 (the last plan to be approved), but plans made and implemented in the 1980s for extensive areas of housing plots with basic services are being submitted for approval, as well, which would enable regularization of the plots. Work has started on preparation of a new Structure Plan for the city, to be followed by detailed plans for several suburban *bairros*.

No complete data are available on the number of plots officially made available in recent years,²⁷ but it is evident that plots provided meet only a small percentage of the real demand. Maputo Municipal Council suspended receipt of land applications five years ago to deal with the backlog of applications. Matola Municipal Council has suspended receipt of new land applications outside areas with an urbanisation plan, to deal with the more than 10,000 outstanding applications.²⁸ About 600 plots currently are available in Matola and another 4,000 plots are expected to be demarcated by the end of 2008.

In the larger towns, houses built on formally allocated plots must comply with national building regulations, which require brick or cement block walls, and reinforced concrete beams, thereby excluding all but the wealthiest households. In the cities of Nampula and Pemba, for example, no plots have been provided for low-income groups since the municipalities were established in 1998.

²⁷ The 2004 Annual Report of DNHU indicates that in that year a total of 3,478 plots were laid out in urban areas in five of the country's 11 provinces, but the report provided no data for other provinces.

²⁸ During the past three months, they have processed 857 applications for DUAT. They also process about 45 applications per month for building licenses.

Box 2. Provision of services and infrastructure

Provision of building plots and basic urbanization is the responsibility of the municipalities and district governments. The first phase of urbanization consists of plot demarcation and opening of accesses, often achieved by removing vegetation and topsoil and leveling the subsoil. Water supply is not provided at first; builders and residents often open wells on their plots and may sell water to their neighbors. Once occupation becomes consolidated, drinking water is usually supplied through public standpipes or taps, based on boreholes, protected wells, or piped networks. Where piped water networks exist, householders can pay for a connection to their plot or house. Sewerage networks are limited, even in the cement cities, and sanitation generally is dealt with on site, through traditional or improved latrines for low-cost housing and septic tanks for houses with conventional bathrooms. The national electricity supply company, Electricidade de Moçambique (EDM), responds to demand, and electricity will be provided at an early stage if there are potential paying customers. Construction of access roads and local storm drainage networks usually occurs during the last phase of urbanization and, in practice, is undertaken only in specific projects (for example, FFH) or in high-income areas with direct contribution from property owners.

The main reasons why Municipal Councils have been unable to provide land for housing include:

- Shortage of technical and financial capacity to prepare and implement urbanization plans
- Outside the cement cities, the existing land occupation is of an uncertain legal status and may be dense and unplanned, making preparation of urbanization plans complicated
- Land conflicts with existing land holders increasingly arise when attempts are made to implement plans

In these circumstances, a thriving, though illegal, market exists in formally demarcated, undeveloped plots. Households unable to obtain formal plots, especially new migrants from rural areas, occupy informal plots often on environmentally hazardous land, thus perpetuating unplanned settlements. For these plots, they have to pay the previous “owner” or the local leaders.

Box 3. Informal markets in formal building plots

In the northern city of Nampula, because of scarcity, prices range from Mt 40,000–150,000 (\$1,600–\$6,000) for an officially demarcated plot of 20 by 40 meters. In Maputo city, prices range from Mt 50,000 (\$2,000) for a 15- by 30-meter plot without services to Mt 150,000 (\$6,000) for a 20- by 40-meter plot with piped water and electricity in the *bairro* of Mahotas.

In the suburbs of Maputo, the informal market for plots and houses operates with little price information. Those who want to sell plots usually display a notice on the property with a contact telephone number. People who set themselves up as intermediaries travel around looking for properties for sale and advertise their services by word of mouth and mobile phone. These intermediaries present potential buyers to sellers and demand a fee if a successful sale is made. Conflicts often emerge between sellers and intermediaries, particularly when the seller does not know them.

Once a price has been agreed and paid, the buyer and the seller go jointly to the local *bairro* structures (*Chefe de Quarteirão* and *Bairro Secretary*) and report that the land has been acquired by the buyer (without mentioning that the land has been sold, as this is illegal). Where a formal plot is involved, the *bairro* structures will then prepare a document to inform the Municipal Council that land concession has been transferred, a service for which there is an official charge. The new “concessionary” can then go to Municipal Council and ask for a plot to be put in his name (involving further official charges) and apply for a construction licence, through submission of a building project. However, most people go ahead and build before legalizing the plot or applying for a construction licence. They may apply to regularize the occupation later. This procedure is also followed in the sale of plots on the urban periphery. These plots are demarcated unofficially by their traditional “owners”, so as to benefit from the urban expansion that otherwise deprives them of their rural livelihood.

Construction: In view of the high costs and the prevailing low income levels, construction is a lengthy, incremental process with periods of great activity and periods of dormancy, depending on the availability of funds. Usually a *depêndencia*—a small house attached to the rear or side boundary of the plot—is built first, because this can be built without a construction licence and can provide accommodation for the household during construction of the main house.

During the periods of construction activity, almost all the disposable household income is channeled into the construction project. Financial assistance or assistance in kind will be sought from the extended family, salary advances will be sought from employers, funds will be withdrawn from informal savings schemes and, exceptionally, a short-term loan may be taken out to buy materials. Normally, in urban areas, the house owner will hire masons and laborers and, later, tile layers, plumbers, and electricians on an informal basis. Construction of a house may take up to 10 years, by which time a durable house will be complete, with electricity, and perhaps piped water and sanitation. This mode of construction is recognized by the municipalities, and the deadlines for start and completion of construction are routinely extended. Extensions are granted with an application to the Municipal Council and payment of a small, official charge.

In this way, through support of extended families, small loans, and incremental building, households with low incomes manage to build houses of a size and quality quite beyond their theoretical capacity.

Lower-income groups may build rudimentary houses or *dependências* of cement block or even of reeds (*caniço*) on undemarcated land on the urban fringe or on environmentally hazardous sites. This may be part of a strategy

to obtain a basic house as soon as they can, with the aim of gradually improving it and consolidating their land occupation over the years. As building costs rise, however, they may no longer be able to build and increasingly may resort to staying with relatives in the inner suburban areas, thus increasing overcrowding.

Building for Sale

Relatively few new buildings are for sale. Figures for the number of new houses completed and the number of developers involved are not available. Investors include local NGOs looking to raise income, as well as local building firms. South African companies have investigated the market but have been put off by high construction and transaction costs.

There is no legal impediment to speculative construction, although developers have trouble acquiring land for housing development, mainly because of the outdated land cadastre. The developer obtains the DUAT for the land to be developed and, once the property is built, constitutes a condominium and sectional titles are granted to purchasers. This process is said to be “reasonably straightforward.”²⁹

From independence in 1975 until the mid-1990s, hardly any housing units were built for sale. Since then, the private sector has concentrated on building housing only for the most wealthy mainly in the cities of Maputo and Matola. For high-income groups, the weaknesses of the Condominium Law are effectively overcome by making specific regulations in each condominium.

Box 4. House prices in formal markets

The formal housing market is concentrated in Maputo, Matola, and surrounding areas and serves an extremely small group of the economic elite, including Mozambicans working for diplomatic missions; NGOs earning salaries far above other groups, often in foreign currency; and foreigners.

Prices for existing properties range from a minimum of \$50,000 for a two-bedroom apartment in the cement city of Maputo, \$175,000 for three-bedroom apartment overlooking the sea, and upward of \$300,000 for houses in the richer areas of Maputo City. Lower down the market are properties of conventional construction in the urbanized suburbs of Maputo, with documentation, which occasionally become available at prices starting from \$16,000 for a two-bedroom house.

Prices for dwellings in new condominiums range from \$150,000 for houses in Matola to \$300,000 and upward for houses and apartments in the cement city of Maputo. New low-cost houses being built in Mali, Marracuene, start at Mt 300,000 (\$12,000) for a one-bedroom house of about 27.4 square meters (with external bathroom and kitchen); Mt 400,000 (\$16,000) for a two-bedroom house of about 40 square meters; and Mt 550,000 (\$22,000) for a three-bedroom house of 60 square meters.

Practically no speculative housing has been built for middle-income groups, due mainly to the high costs of construction. On the one hand, it is less profitable to build cheaper houses, but on the other hand, there may be little demand, because the less well-off know they can build better and more by self-management of the building process. However, some developments targeted at middle-income groups are now being planned, including 100–200 houses to be built within two years in Matola by local builders, with funding from Barclays Bank and a target price of \$30,000 for a two-bedroom house. Although the initial tender process in Maputo was unsuccessful, the Millennium BIM Bank, in partnership with the Municipal Councils and private builders, also has plans to fund development of middle-income housing for sale in Maputo and Matola.

An unusual project of low-cost housing is being built in Marracuene District, about 30 kilometers north of Maputo, by a firm specializing in foodstuffs, rather than construction. The project plans to provide 200 one- two- and three-bedroom houses on plots of 450–800 square meters, as well as plots for self-built housing, with schools, a health center, a commercial center, a playing field, and public garden. Prices quoted are accessible to middle-income households, ranging from \$12,000 to \$22,000.

Building for Rent

Only 13 percent of households in urban areas were living in rented property in 2005 and many of these are likely to be at the upper levels of the market (INE 2004–05). At lower levels of the market, however, renting appears to be on the increase.

Building for rent is limited to individual initiatives at the extreme lower and upper ends of the market. At the lower end of the market, informal backyard construction of buildings with individual rooms for rent, with

²⁹ Interview with Rita Furtado, consultant lawyer, 18 April, 2008.

communal latrines, is reported in the inner suburbs of Maputo and Nampula, further overloading the limited infrastructure services. At the other extreme, many of most luxurious houses built over the last 10 years in Maputo have been rented immediately to diplomats and other expatriates.

Underdeveloped property market

Formal Housing Markets

Formal housing markets, dealing in fully documented properties, are limited because of the generalized problems of documentation for houses outside the cement cities. The older properties that come onto the market are mainly formerly nationalized houses and apartments, for which documentation is obtainable albeit through a sometimes lengthy bureaucratic process.

Many houses have inadequate documentation, and one estate agent estimated that about 50 percent of house sales in the city of Maputo are legally dubious.

Market prices are unstable and opportunistic because of the small size of the market and the lack of public information about prices. The activity of estate agency is unregulated and there are few formally constituted agencies, and practically none are based outside Maputo or Matola. Informal agents proliferate, using e-mail and advertisements in newspapers to promote their services. Private sellers advertise houses in shops, on lampposts, and so on.

Informal markets

As in the case of plots, houses are sold by word of mouth and more detailed surveys in the field would be necessary to obtain quantitative information, particularly outside Maputo. Concrete block houses of basic construction on small informal plots without water and electricity in Hulene, an established suburb of Maputo, fetch Mt 65,000–70,000 (\$2,600–\$2,800), while a two-bedroom house with electricity on an informal plot in more central suburb can sell for Mt 150,000 (\$6,000). These prices are extremely low compared with the cost of building new homes and, indeed, are less expensive than the sale value of formally demarcated building plots. These houses are on much smaller sites, of perhaps 150 square meters in Chamanculo or Maxaquene, and have poor access and services. On the other hand, such low prices indicate that, for lower-income groups, houses are considered mainly for their use value and that there is little or no overlapping between different markets.

Rental Markets

Rent levels for houses in the cement cities are high, especially in Maputo where they are distorted by the relatively large foreign community of diplomats, development workers, and others. For example, to rent a garage to live in the City of Maputo costs Mt 4,000 (\$166) per month, which is more than twice the minimum salary. A small house or apartment in the more modest parts of the cement city costs at least Mt 6,000–10,000 (\$250–\$400) per month, equivalent to between four and seven minimum salaries.

Hidden Homelessness

The severity of Mozambique's housing problems, which are caused by the constraints described in this report, is not immediately apparent because of the "hidden homelessness phenomenon."

In a situation of poverty and weak financial services, increased homelessness is to be expected. Nevertheless, the census indicates that few people are without a roof over their heads. Instead, we find what could be called "hidden homelessness," as statistics show a tendency toward overcrowding in the urban areas. Censuses and other household surveys are poorly suited for detecting the homeless, however, and reliable figures are not available. According to IAF, in 2003, the average household size in Maputo was 6.3 as opposed to 5.2 in the urban areas as a whole and 4.7 in the rural areas. A survey of social relations and poverty in Maputo, in 2007, found an even higher average household size of 7.5 (Paulo, Rosário, and Tvedten 2007, 13).

Many immigrants and young adults stay with family or friends in the cities for long periods of time, often years,

until they eventually find a way to obtain a plot and have the financial capacity to start constructing their house, usually in a peri-urban area. In terms of specific needs for homes, young people and immigrants stand out. The young are particularly affected by un- and underemployment, and therefore have low levels of housing affordability.

In the absence of statistical data, the best attempt thus far to roughly guesstimate and put into perspective the quantitative urban housing needs on a national scale was done by José Forjaz in his 2006 memorandum. This memo was prepared in connection with activities by UN-HABITAT and government agencies to defining a housing strategy for Mozambique (Forjaz 2006).

Forjaz tentatively distinguished four socioeconomic strata in the urban context, mainly based on their area of residence. His estimates suggested the following:

- The poor and low-income stratum make up the vast majority of the urban population. These individuals live in the “informal” urban *bairros* with a largely inadequate standard of houses and income levels around and below the minimum salary level.³⁰ The guesstimated number of families in this group is 1,020,000 or 75 percent of the urban population.
- The next social stratum typically are living in “semi-urbanized” *bairros* (that is, *bairros* with some basic infrastructure) and have incomes above minimum wage or salaries above the minimum salary level. The guesstimated number of families in this group is 340,000.
- The third social stratum includes employees in the private sector and civil servants with higher-level jobs, including university teachers.³¹ This stratum is guesstimated to include 12,000 families, living in semi-urbanized and urbanized areas.
- The fourth and upper social stratum is essentially the elite with high incomes and acceptable direct housing conditions, whose concerns are mostly related to the quality of urban infrastructure and security issues. This stratum is estimated at 3,800 families, corresponding to less than one in a thousand of Mozambican households.

Overall, Forjaz estimates that more than 1.3 million urban households currently live under circumstances characterized by inadequate housing, whether inadequate in terms of place of residence or urban infrastructure and services.³² While inadequate housing is a condition that in different ways affects all social strata, the poor and low-income group makes up the vast majority (about 75 percent of the population) with housing needs. The rural-urban migration rates between 3.5 and 4 percent annually suggest additional urban housing needs. In 2007 alone,³³ some 74,600 families (370,000 inhabitants) had a corresponding estimated investment need for housing of \$540 million. These numbers will increase at an exponential scale in the years to come.

Conclusion and Recommendations

This preliminary review of housing finance constraints in Mozambique highlights the fact that significant steps are required to develop an effective market-oriented housing-finance system.

Given the improved macroeconomic conditions, now is a good time to implement the requisite infrastructure for an effective primary housing market, including a modern housing policy, strong regulatory framework for property registration and transfer, positive environment for contract enforcement, and streamlined administrative structures. Deliberate actions are required to energize the housing finance market.

The development of housing finance should not be undertaken without simultaneously addressing the constraints that stunt the provision of land and housing in urban areas. Housing finance reforms must occur alongside sustained land and housing supply reforms, most notably, updating the land and housing policies;

³⁰ Currently around \$70 per month.

³¹ Indicative salary levels for a civil servant with a bachelor's degree is approximately \$240 per month, for a *licenciado* degree is about \$330 per month, and for a top civil servant is around \$1,000–1,500 per month. Bonuses and benefits (for example, a car) for responsibility posts (such as heads of department) add to top civil servants' real income.

³² Adequate housing is not defined in the document.

³³ The figure relates to estimates for 2007 (year 1) only. The author's intention is to advocate for putting housing on the political agenda by focusing on incremental housing needs separately.

overhauling the land titling and registration systems; improving the quality of the low-income rental market; undertaking capacity building; redefining the role of FFH; and improving overall access to finance.

Offering more home loans at better terms without addressing the limitations in supply of more affordable housing might not only stop the progress of the mortgage market, but also generate counterproductive effects—in particular, a further concentration of the new housing production for the highest brackets of the population.

Some of the key policy reform areas include the following:

- **Update the land and housing policies:** Many issues are involved in promoting supply, including the desired number, size, and quality of housing, all of which call for comprehensive policies. The first step should be a comprehensive review of the current *land ownership and transfer policy*, including and overhaul of urban planning, provision of land by the state, and building of professional expertise. The second step should be a *housing development policy* to replace the long-obsolete 1990 document. This pressing need has been considered in the ongoing discussions of a new policy framework. A housing policy document would shed light on the housing stock, construction volumes, and accumulated needs, for which no official assessment exists.
- **Overhaul the land titling and registration systems:** In connection with land and construction constraints, it is critical to foster the emergence of a true real estate market with sufficiently active second-hand transactions. In that respect, the property registration and transfer process needs urgent review. The existing lack of market transparency instruments to quickly confirm or register ownership and transfers is a major deficiency that has to be addressed. Without a determined overhaul of the land and titling registration systems, mortgage lending will remain confined to low volumes and high costs. Achieving results in a reasonable time frame implies that (i) a pragmatic—as opposed to overambitious—approach be applied in the legal overhaul, and (ii) sufficient investments be made in computer systems and geographic surveys. Policy options that the government should consider include allowing leasehold mortgages to more easily secure financing for the development of plots, merging the various registrations administrations, equipping and training more registration centers, and finding a formula to accelerate registration of the 1975–2007 stock.
- **Improve the quality of the low- and middle-income rental market:** The goal of a new and comprehensive equilibrium of the housing market must encompass an improvement of the rental sector. This major component of the housing stock contributes to the current deadlocks and demand and supply mismatches. The private speculative supply of housing should be encouraged. In this regard, it is critical to rehabilitate formerly nationalized apartment buildings, some of which are many stories high and in a poor condition, with infiltration of water and possible structural damage. The condominiums do not have the capacity to organize and fund rehabilitation or even repairs, nor the possibility of securing a loan. The law is inadequate and the residents have inadequate resources, placing in jeopardy the value of their property as well as the safety of other citizens. For housing finance policy, the rental market poses opportunities for addressing the growing demand for housing.
- **Undertake capacity building:** Equally important, as the legal and institutional reforms are put in place, is the need for a deliberate capacity and institutional building process for all stakeholders who are actively engaged in housing finance-related activities. These activities, for many, are relatively new or radically different from past policies and procedures. Capacity building activities need to include (i) public sector agents and institutions (bank supervisors, officials of the Ministries of Finance and of Housing, magistrates and other judicial communities), and (ii) private sector agents and institutions (staff of financial institutions, developers and builders, other real estate professionals, brokers, appraisers, lawyers). Public sector training programs could focus on the constraints facing lenders, the standardized implementation of the new foreclosure framework, the evaluation and oversight of credit and financial risks, as well as the monitoring of real estate market cycles and imbalances. The training of market players could cover all the major techniques and professional skills involved in the provision of mortgage finance, including marketing, risk mitigation and management, funding, and pricing.
- **Redefine the role of FFH:** At present the FFH has no funding source, it has had little impact to date in terms of reducing the housing gap, and it now intends to become a housing finance institution offering 100 percent loans at beneficial rates. Further analysis is probably required, but the findings of this report alone raise questions on the development of market-based financing. More important, it poses a potential contingent liability on government resources. The FFH could be restructured toward either (i) a limited role

with short-term loans aimed at helping buyers acquire land or (ii) a broader secondary market role of securing and financing commercial bank mortgages through long-term financing. Both options present benefits and risks that need deliberate consideration.

- **Improve access to housing finance:** Ultimately, however, housing finance reforms are closely linked to the nation's overall agenda to increase access to finance. Many of the reforms are linked to finding ways to encourage the financial system as a whole to cater to less affluent borrowers. The recommendation to strengthen the enforceability of mortgage rights should play a critical role in this respect. This is essential to ensure that lenders rely less on merely personal parameters and to mitigate ex ante personal risk factors through reliable collateral.

These recommendations are preliminary. More research is required on such issues as the current housing stock gap, state of the rental market, and the financing gap—issues that this paper has not explored because of the lack of available data. It is possible that this report underestimates the scale of the problem. Efforts are needed to systematically collect and analyze housing supply and demand data that take into account population trends and existing construction levels, as well as estimate housing needs and the current shortfall. This information is central to developing a sound housing policy and guiding future research, policy design, development, and implementation. Further research using data on the levels of rents in Maputo compared with equivalent mortgage payments may reveal interesting implications for housing policy design, development, and implementation. Finally, it appears that housing in Mozambique is financed using deposits only. As a source of financing for housing, this is particularly limiting. This paper has not explored the full range of alternative sources of longer-term financing that might be available for the financial sector in Mozambique, such as pension and insurance funds.

BIBLIOGRAPHY³⁴

1. Allen, Charlotte and Johnsen, Vibe (2006) "An overview of the current state of urban development, planning and land management in Mozambique", Report for Rooftops Canada, Toronto, June
2. Athmer, Gabrielle, Hans Bekkers, Henriqueta Hunguana, Benedito Murambire, and Fion de Vletter (2006). "The Microfinance Market in Maputo, Mozambique: Supply, Demand and Impact: A case study of NovoBanco, Socremo and Tchuma." Netherlands Platform for Microfinance, December 2006. www.microfinance.nl.
3. Banco de Moçambique (Mozambican Central Bank) (2008). www.bancomoc.mz/index.php?menu=4312&land=po&id=2276
4. Domingo (2008). "Município Expande Zonas Residenciais." Maputo, 20 April.
5. Economist Intelligence Unit (2007). "Mozambique Country Report." EIU, London, May.
6. Forjaz, José (2006). "Uma Estratégia de Habitação para Moçambique." Memorandum for consideration of the Minister of Public Works and Housing, Maputo, July (unpublished).
7. Fundo de Fomento de Habitação (2007 and 2008). "Abrigo." Bulletin of the FFH, April–June 2007, October–December 2007, April–June 2008, Maputo.
8. Green, R. (1997). "Follow the Leader: How Changes in Residential and Nonresidential Investment Predict Changes in GDP." *Real Estate Economics* 25 (2): 253–70.
9. INE (Instituto Nacional de Estatística) (2007). "Third National Census of Population and Housing, 2007 (preliminary results)." www.ine.gov.mz/home_page/censo2007.

³⁴ The study is based on a range of documentation and interviews. Key documentation consulted includes research reports and other studies as well as national statistics, in particular the following: (a) The National Population and Housing Census of 1997; (b) The regular National Household Surveys (IAF, *Inquérito aos Agregados Familiares*) of 1996/97 and 2002/03, undertaken with a view to informing poverty monitoring and evaluation; (c) The regular National Surveys of Well Being Indicators (QUIBB, *Questionário dos Indicadores Básicos de Bem Estar*). This report has not had the benefit of the 2007 population census as the data are not yet available. Other constraints include the level of disaggregation and comparability of data, for which different concepts or indicators are used to express the same phenomenon. In some respects, statistics are skewed or biased—for example, employment data, which emphasize formal employment to the exclusion informal employment. To collect additional documentation and information, semistructured interviews were conducted with various key informants from different institutions, including government departments, municipalities, commercial banks, nongovernmental organizations (NGOs), microfinance institutions (MFIs), estate agents, the World Bank, and a focus group of public and private sector employees and residents in Maputo and its satellite city Matola for complete list of those interviewed). In general, parts of the banking and MFI sector demonstrated some reluctance to provide information. Staff and legal advisors of three commercial banks that provide housing loans (Millennium *Banco Internacional de Moçambique* (BIM), Barclays, and Standard Bank) were interviewed. Four MFIs were consulted: Tchuma, Banco Oportunidade, and Banco ProCredit, with direct involvement in microcredit, as well as *Gabinete de Apoio à Pequena Indústria* (GAPI, the small industry support bureau), which in this context can be seen as a national microfinance donor.³⁴ An important source of information was a study on the microfinance market in Maputo covering three MFIs: Tchuma, *Sociedade de Crédito de Moçambique* (SOCREMO), and Banco ProCredit (Athmer et al. 2006).

10. INE (Instituto Nacional de Estatística) (undated). "Social, Demographic and Economic Statistics for Mozambique (ESDEM 4.0)." CD-ROM, INE, Maputo.
www.ine.gov.mz/esdem/esdem_manual.
11. INE (Instituto Nacional de Estatística) (2004). "Inquérito aos Agregados Familiares sobre o Orçamento Familiar, 2002-03." Relatório Final, INE, Maputo.
12. INE (Instituto Nacional de Estatística) (2004–05). "Labour Force Survey 2004–05."
www.ine.gov.mz/sectorias_dir/epreg/frabalho.
13. INE (Instituto Nacional de Estatística) Questionário dos Indicadores Básicos de Bem Estar (QIUBB), (2000/2001, 2004/2005)
14. INE (Instituto Nacional de Estatística) (2008).
www.ine.gov.mz.
15. Irish Aid (2008). www.irishaid.gov.ie.
16. James, Robert C., Channing Arndt, and Kenneth R. Simler (2005). "Has Economic Growth in Mozambique Been Pro-Poor?" FCND Discussion Paper 202, International Food Policy Research Institute, Washington, D.C., December.
17. Jenkins, Paul (1998). "National and International Shelter policy initiatives in Mozambique: housing the urban poor at the periphery." Doctoral thesis, Centre for Environment and Human Settlements, School of Planning and Housing, Edinburgh College of Art and Heriot-Watt University (unpublished).
18. Machava, Ricardo (2008). "Uma vida a fazer poupança para ter uma casa!" *O País*, Maputo, April 4.
19. Ministério das Obras Públicas (2005). "Direcção Nacional de Habitação e Urbanismo." Annual Report for 2004, Maputo (unpublished).
20. Ministry of Planning and Finance (2004). "Poverty and Well-Being in Mozambique: The Second National Assessment." Maputo: MPP/IFPRI/Purdue University, March.
21. *O País Económico* (2006). "Sistema financeiro moçambicano ameaça ruir." Maputo, April 11.
22. *O País Económico?* (2008). "Desigualdades podem pôr em risco a estabilidade política." Maputo, April 4.
23. Paulo, Margarida, Carmeliza Rosário, and Inge Tvedten (2007). "'Xiculungo': Social Relations of Urban Poverty in Maputo, Mozambique." Report No. 13, 2007, Christian Michelsen Institute, Bergen, Norway.
24. República de Moçambique (2006). "Plano de Acção para a Redução da Pobreza Absoluta 2006-2009." PARPA II, Maputo, Poverty Reduction Strategy Paper of the Government of Mozambique, May 2.
25. República de Moçambique (2007a). "Projecto de Investigação de Materiais Locais de Construção (Edificações)." Maputo: Ministério de Ciência e Tecnologia/ Ministério das Obras Públicas e Habitação e Ministério dos Recursos Minerais, February.
26. República de Moçambique (2007b). "Relatório Final de Análise Funcional do MOPH." Prepared by KPMG Auditores e Consultores, SARL, Maputo: Ministério das Obras Públicas e Habitação, July 2 (unpublished).
27. Smith, Suzanne (2006). "Country Program Evaluation: Focusing on the Revolving Fund for Housing As Modeled by Habitat for Humanity Moçambique." Habitat: Maputo, April 5 (unpublished).
28. Tique, João Teodósio (2007). "Habitação e Meio Ambiente— Critérios Operativos e instrumentos metodológicos para o Planeamento de empreendimentos habitacionais de interesse social." Doctoral thesis, Università degli Studi di Roma, La Sapienza, Facoltà di Architettura, Rome, May (unpublished).
29. UN-HABITAT (2008). "Mozambique Country Programme Document 2008–2009." (Draft). UN Human Settlements Programme, Regional Office for Africa and the Arab States, Nairobi.
30. World Bank (2007a). "Fourth Poverty Reduction Support Credit." World Bank, Washington, D.C. http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&seArchMenuPK=64187283&siteName=WDS&entityID=000020953_20080109110450.
31. World Bank (2007b). "Beating the Odds, Sustaining Inclusion in a Growing Economy: A Mozambique Poverty, Gender and Social Assessment." Report No. 40048-MZ, World Bank, Washington, D.C.
32. World Bank (2008a). "Notes on Land Tenure in Mozambique." World Bank, Maputo (unpublished).
33. World Bank (2008b). "Improving Building Permitting and Immoveable Property Registration in Mozambique." A Report in Support of the Doing Business Unit's TA support for the Ministry of Industry and Commerce, Mozambique and its "Barriers to Investment Strategy." Doing Business Unit of IFC/IBRD, World Bank, and the Ministry of Industry and Commerce, Maputo (unpublished).

Legislation

1. Condominium. Decree 53/99 of 9 September.
2. Divestiture of Nationalised Housing. Decree 2/91 of 16 January.
3. Divestiture of Nationalised Housing. Law 5/91 of 9 January.
4. General Regulations for Urban Buildings. Diploma Legal No. 1976 of 10 May 1960.
5. Labour Law. Law 23/2007 of 1 August.
6. Land Law. Law 19/97 of 1 October.
7. Municipal Finance Law. Law 11/97 of 31 May.
8. Property Register Code. Decree-Law No. 47 611 of 28 March 1967.
9. Real Property Registration Code. Decree 47/611 of 28 March 1967, Código de Registo Predial
10. Regulations to the Land Law (mainly for rural areas). Decree 66/98 of 8 December.
11. Regulations to the Land Law. Decree 01/2003, amending Decree 66/98.
12. Territorial Planning Law. Law 19/2007 of 18 July.
13. Urban Land Regulations. Decree 60/2006 of 26 December.

