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Case studies in Financing Human Settlements in Africa:
Appropriate Legislative Frameworks and Innovations in
Implementation

Author: Dr James Mutero (Consultant)

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Abbreviations and Acronyms

ABS	Asset-Backed Securities
AMCHUD	African Ministerial Conference on Housing and Urban Development
AO	Al Omrane
DFI	Development Finance Institution
DRC	Democratic Republic of Congo
EMRC	Egypt Mortgage Refinance Company
FSC	Financial Sector Charter
FSH	<i>Fonds de Solidarite de l'Habitat</i>
GDP	Gross Domestic Product
GNI	Gross National Income
HMF	Housing Microfinance
LFF	Local Finance Facility
MFI	Microfinance Institution
NACHU	National Cooperative Housing Union
NGO	Non-Governmental Organization
NMRC	Nigeria Mortgage Refinance Company
NSSF	National Social Security Fund
REIT	Real Estate Investment Trust
RFU	Benin Urban Registry
SACCO	Savings and Cooperative Cooperatives
SUF	Slum Upgrading Facility
TMRC	Tanzania Mortgage Refinance Company
TZS	Tanzanian Shilling
VSP	<i>Villes Sans Bidonvilles</i>
WAEMU	West African Economic and Monetary Union

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Case studies in Financing Human Settlements in Africa: Appropriate Legislative Frameworks and Innovations in Implementation

1. Introduction

This thematic paper, prepared for AMCHUD 5, presents case studies in financing human settlements, with a focus on appropriate legislative frameworks and innovations in implementation. To contextualize the case studies, the paper first examines Africa's financial landscape, highlighting the evolution of government interventions in the financial sector. It is important to understand this wider financial context for it determines the feasible options for financing human settlements. A narrowly focused analysis that disregards the broader financial market, and its policy setting, would run the risk of proposing recommendations that are not viable.

Section 2 reviews the challenges that confront financial systems on the continent, especially in terms of their severely limited reach, and the implications of these challenges for human settlements financing. Finance is critical because it enables households to purchase their housing and related services over several years. This is an important point in view of the high cost of housing relative to income, making it difficult for most households to buy their housing outright from savings. On the supply side, poorly developed financial systems undermine the ability of the housing market to meet demand.

Although Africa's financial systems are underdeveloped and household access to finance is limited, advances in technology have started to open up interesting opportunities. In particular, technology is beginning to influence the way household savings are mobilized, and credit delivered. This raises the prospects for Africa leapfrogging other regions in the delivery of banking and financial services, a development that might have positive impacts on human settlements financing in the coming years.

The vast majority of urban households have low incomes as a result of which they *cannot* afford the conventional housing finance products on offer. Indeed, severely limited affordability lies at the core of the financing challenge confronting human settlements development in Africa. Equally important are supply-side constraints which, if left unaddressed, would severely limit the volume of finance available for human settlements. It is imperative, therefore, that innovative ways be found to address the main obstacles that undermine the balance between the demand for, and supply of, finance for human settlements. These issues are examined in Section 3, which scopes the financing challenge facing human settlements in the context of rapid urbanization. In particular, the stark reality of low household incomes and high housing prices is illustrated with available data for a large sample of African countries. This analysis provides insight into why all but a few households build their houses incrementally over many years.

Section 4 defines legal frameworks and presents a scheme for a structured discussion of this topic. The scheme proposes that legislative frameworks be examined in relation to: (a) first tier financial institutions that are regulated by the central bank; (b) second tier

institutions, such as housing cooperatives, that provide financial services; and (c) legislation that regulates other aspects of the financial market, including non-financial issues that have a bearing on human settlements financing. Examples are given of areas of legislative reform proposed by respondents to a recent questionnaire.

Section 5 starts with a definition of “innovation” and then proceeds to describe the five financing innovations explored in this paper: housing microfinance; mortgage re-financing facilities; the use of pension funds as a source of capital for housing; fiscal incentives to residential property developers; and land-based finance in informal settlements.

Section 6 presents five case studies of financing innovation, drawn from different sub-regions of the continent, and covering the areas of innovation set out in Section 5. The case studies highlight the legislative frameworks currently in force, and suggest appropriate reforms wherever relevant. The paper closes, in Section 7, with a number of conclusions and recommendations.

2. Africa’s Financial Landscape

Africa has the smallest financial system of any region in the world in both absolute terms and relative to economic activity¹. In their attempts to transform the financial sector, African governments have played changing roles over the last half century. In the 1960s and 1970s, the activist phase, government interventions were prominent not only through direct public ownership of banks and development finance institutions² but also through regulatory frameworks³. Government involvement sought to address two major constraints: limited access by locally owned enterprises and households to the privately owned and market-driven financial systems; and the severe shortage of long-term capital, essential for housing, infrastructure, and other development sectors. Outcomes of this interventionist phase were disappointing, largely because political interference in the running of publicly owned financial institutions led to poor decisions and thus undermined commercial success.

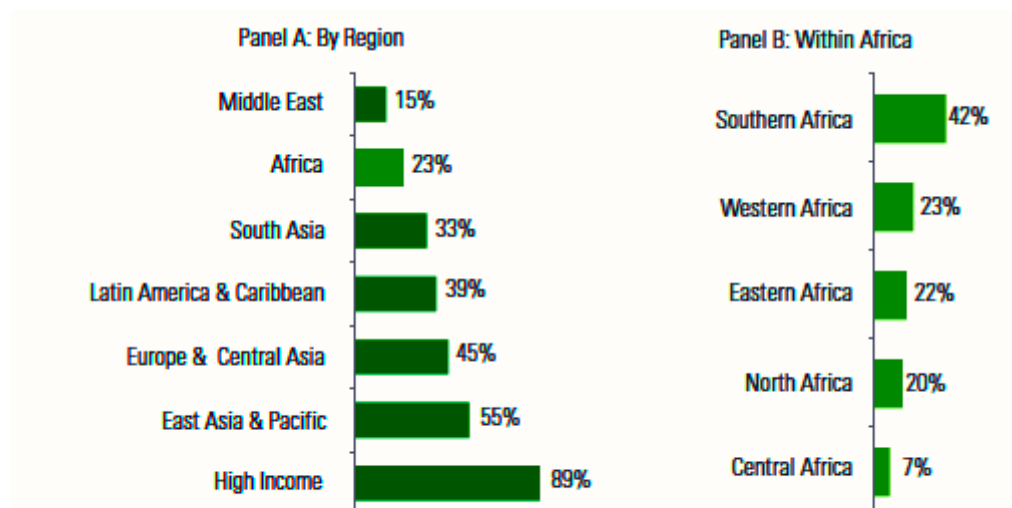
The 1980s and 1990’s were the privatization phase with international financial institutions as the main drivers of change. Private ownership of the financial system expanded in most countries, with the exception of a few such as Ethiopia, Eritrea and Togo where public ownership remained the norm⁴. Results of this phase were also unsatisfactory and this led, yet again, to greater government involvement in the financial sector, but re-calibrated to focus on market-enabling rather than market-replacing strategies.

In recent years, Government interventions have been focused on institution building with emphasis on several aspects: strengthening legal frameworks for contract enforcement⁵; improving disclosure standards to ensure better customer and investor access to information on corporate performance and governance; and raising the standards of banking regulation and supervision. Recent research supports the case for this type of government intervention⁶.

Whilst progress has been made over the years, financial development on the continent continues to face many challenges. Today, less than one in every 5 households has access to banking services although there are substantial sub-regional variations around this average. Account penetration, a measure of the proportion of adults with an account at a

formal financial institution, is highest in Southern Africa (42%), falling off sharply to 23% in Western Africa, 22% in Eastern Africa, 20% in North Africa, and to as low as 7% in Central Africa⁷. Fig. 1 compares the level of account penetration in Africa with other sub-regions of the world.

Fig. 1: Account Penetration in Africa and Other Sub-Regions of the World (% Adults)



Source: Demirgüç-Kunt and Klapper (2012).

Borrowing behaviour on the continent is also worth highlighting. To start with, most loans go towards meeting the costs of education, health and emergencies⁸, strongly suggesting that borrowing for housing is at the very early stages of development. Although 44% of adults are reported to have borrowed from both formal and informal sources in the previous 12 months, in Central and West Africa only a mere 3% had borrowed from a formal institution. Southern Africa had the highest proportion, at 7%. A far higher proportion of adults (39%) borrow from family and friends, including those who have this as their only source of credit (28%).⁹ These numbers matter, on the demand side, because *formal* urban housing, an important part of human settlements, generally requires *formal* financing to be affordable. On the supply side, for both urban housing and urban basic services, financial underdevelopment severely undermines provision as households and firms struggle to obtain affordable credit.

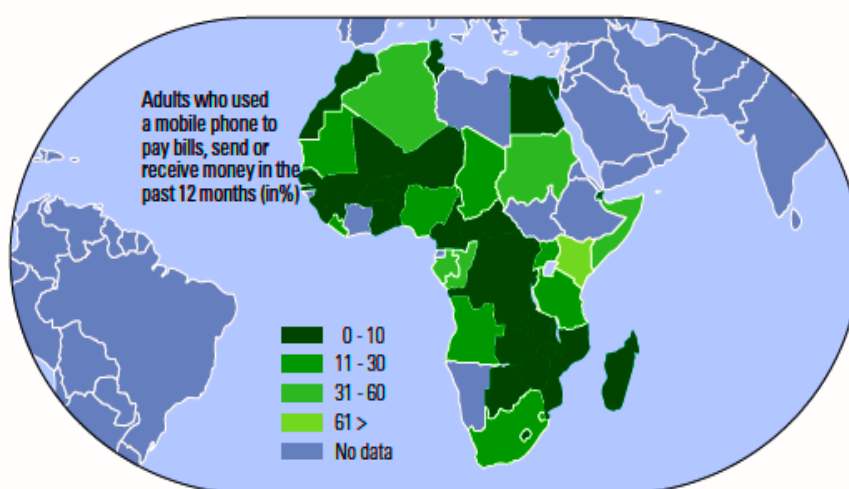
Beyond these statistics lie a number of serious challenges that finance for human settlements will need to confront. The overriding obstacle is that the vast majority of urban residents have low-incomes and, as a result, cannot afford conventional housing finance products such as mortgage loans. Other notable constraints are: (a) the general lack of credit histories for most prospective borrowers, thus making it difficult for lenders to assess creditworthiness; and (b) difficulties in securing and enforcing creditor rights¹⁰. Together, these constraints make lending costly and time consuming and are of particular relevance to housing finance. Statistical tests have shown that better credit information and stronger creditor rights result in higher volumes of credit¹¹. Additional hurdles, equally important, include the dearth of long-term capital for mortgage lending

and infrastructure financing, and weak lending institutions. Experience shows that legislation and regulations, properly framed and implemented, would go a long way towards removing some of these bottlenecks. This would be an important step towards addressing the main gaps in the supply of finance for human settlements.

The obstacles noted here and the accompanying numbers amply illustrate Africa's financial storyline. Ironically, whilst they show that the current situation is dire, they also point to the huge business potential in the large unbanked segment of the population. Innovations in tapping private capital and lending, for instance in housing microfinance, are starting to expand access for the poor and increase the loan portfolios of lenders. Advances in mobile banking technology (Fig. 2) are also making it possible to extend formal financial services to some of the poorest customers, helping them to save small amounts every day and obtain micro loans¹². This banking approach dramatically reduces transaction costs for both customer and financier. Whilst this technology currently has no practical application to housing microfinance, who knows what the future will bring? As observed in a recent report:

*“With over 640 million mobile phone subscribers in 2012, Africa has become the second most connected region in the world after the Asia-Pacific region. Given this large mobile customer base, and the absence of an extensive brick and mortar banks’ network, technology could be seen as a game changer in the sense that it could enable the continent’s financial system to outperform the traditional banking model and establish itself as the world leader in mobile financial services”.*¹³

Fig. 2: Mobile Money Users in Africa



Source: Demirgüç-Kunt and Klapper (2012).

3. Financing Human Settlements: Scoping the Challenge

Africa is rapidly urbanizing. About 40% of the continent's 1 billion population lives in cities and towns and is growing at 3.5% annually, the fastest rate in the developing world¹⁴. In Sub-Saharan Africa, about 65% of urban residents live in slums whilst in North Africa this proportion is lower as a result of more effective urban development strategies and higher investments in infrastructure¹⁵. These statistics, when viewed against the

backdrop of low incomes for the vast majority of households, point to a housing problem of unprecedented proportions.

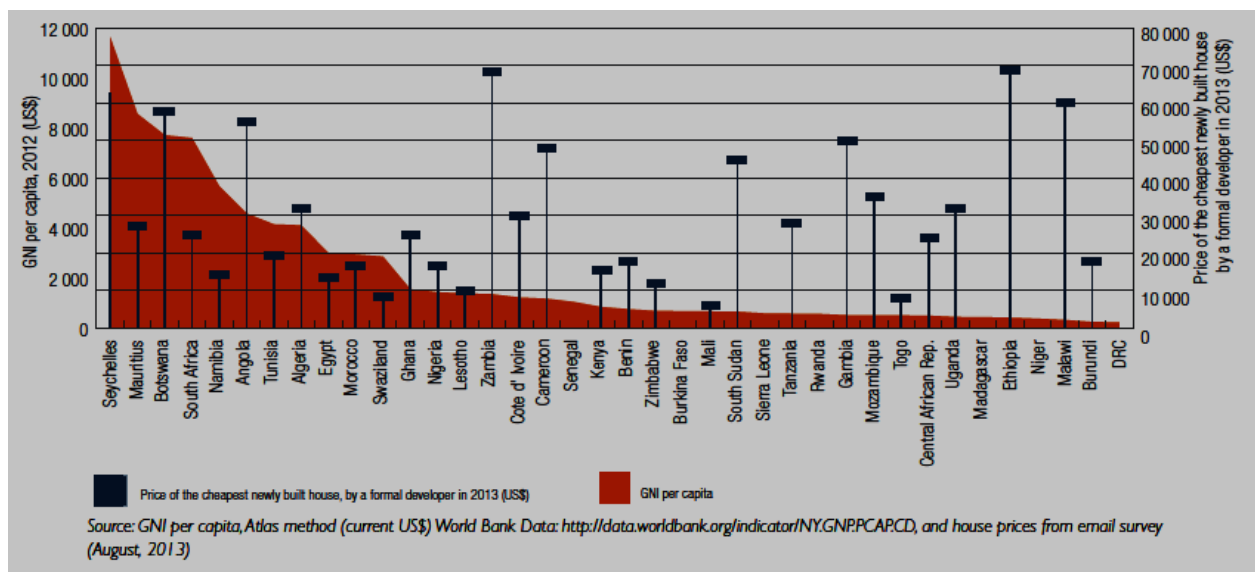
Partly because of its long history of under-provision of formal urban housing and basic services, and partly because of its rapid urbanization, Africa faces formidable supply-side challenges in its human settlements. Deficits of formal urban housing and services are concentrated in the lower segments of the housing market although shortages in the middle market range are also substantial.

Government programmes which have sought to finance and provide housing directly have generally not been effective¹⁶. On the whole, such programmes have produced housing that is affordable only by middle- and high-income urban residents. Housing supply by private developers has also been limited and, in most cities, well beyond the reach of the poor. The reality in Africa is that the majority of urban households build their own housing incrementally, often in unserviced neighbourhoods, or live as tenants in informal settlements. It is clear that the crux of the African housing problem is affordability or the lack of it, stemming primarily from the interplay of a number of factors: low household incomes, high prices (relative to income) of even the cheapest formal house on the market, severely limited access to finance, and unfavourable financing terms, especially high interest rates. In many countries, interest rates have been persistently high as a result of the market power of commercial banks, the small size of financial operations and high lending risks¹⁷.

To highlight the different country contexts, Fig. 3 shows the relationship between the Gross National Income per capita in 2012 and the price of the cheapest newly built house by a formal developer, in 2013 prices¹⁸. Whilst the house prices in the chart appear random, in that they do not show any systematic pattern, it is clear that the price-to-income ratio is highest for the countries with the lowest per capita income. This high ratio is a signal that formal housing markets in Africa are not working well¹⁹, although Mauritius, South Africa, Namibia and Tunisia are outliers that have outperformed other jurisdictions. As the World Bank points out:

“While there are situations in which the ratio can be higher in a less distorted market or lower in a more distorted market, it is consistently true that markets with unresponsive supply systems have comparatively high house price-to-income ratios while those with the most responsive systems have comparatively low ratios”²⁰.

Fig. 3: Relationship between Income and House Prices



A substantial proportion of African households have traditionally met their cash shortfalls by borrowing from family and friends, sometimes using such resources to buy housing inputs. An extension of this practice, found in most countries, is the rotating and savings credit association which goes by different local names in different countries. Although these forms of financial intermediation continue to serve their purpose, they are not well-suited for human settlements as loans are typically small and of very short duration. Moreover, they lack the capacity to go to scale. It is clear, therefore, that financial products tailored to the income realities of low income households are required as are cheaper housing solutions.

An often neglected aspect, in assessments of affordability, is that in low-income settlements with strong rental demand, housing has the added advantage of generating substantial income through subletting. Moreover, by serving as suitable sites for microenterprises, residential dwellings provide an additional opportunity for income generation. In this way, even for households with little *current* income, housing provides the means for generating *future* income which could go towards the purchase of a house²¹.

For the reasons advanced here, it is critically important to examine innovations in financing housing and urban basic services, a topic dealt with in Section 5.

4. Appropriate Legislative Frameworks

4.1 Defining Legislative Frameworks

Legislative frameworks could be viewed as policy instruments available to governments for purposes of achieving defined outcomes. Indeed, legislation constitutes only a part of the wider regulatory regime which governments craft to achieve their development objectives. A regulatory regime can be defined to include regulatory agencies together with a “set of measures, embodied in legislation or in government policy” whose primary goal is to “constrain, mould or control the behaviour of financial institutions operating within a national economy”.²²

With little exception, the current financial strategies on the continent assign to governments the role of facilitating the operation of the market and financial institutions. Multiple strands in this role can be distinguished: (a) strengthening legal frameworks for licensing, regulating and supervising financial institutions; (b) ensuring contract enforcement; and (c) improving disclosure standards to ensure better customer and investor access to financial information. In broad terms, therefore, appropriate legislative frameworks for human settlements financing should be aligned to this intervention strategy.

This section examines three types of legislative frameworks. The first type is the legislation that governs organizations that finance human settlements, broadly classified into:

(a) first tier institutions that are regulated by the central bank, consisting mainly of commercial banks, microfinance banks, and other deposit taking microfinance institutions; and non-bank financial institutions, such as pension funds, which are regulated by other bodies; and

(b) second tier institutions offering housing microloans as a part of their services, such as savings and credit cooperatives, NGOs, and non-deposit taking microfinance institutions. These organizations are typically not regulated by the central bank but by other regulators. Informal lenders have not been considered as, by definition, they are not regulated.

The concern of the second type of legislation is to regulate market behaviour, with a focus on the functioning of capital markets as well as access to financial information by lenders and borrowers; and the third addresses non-financial issues which, nonetheless, impact the operations of financial institutions, such as foreclosure in mortgage lending.

4.2 Legislation and First Tier Institutions

In the majority of countries, legislation governing first tier institutions deals with registration, licensing, regulation and supervision. Registration requirements are typically set out in company law. Practically all countries have a functional law for company registration and the main constraints have to do with the inefficiencies surrounding registration as reported in Doing Business Reports of the World Bank.

Licensing, regulation and supervision, the remit of central banks, are usually set out in a banking act of one sort or another. This type of legislation spells out the requirements for licensing, and there is often considerable detail on prudential requirements, either in the main statute or in subsidiary legislation and regulations. Prudential requirements focus on shareholding and capital structure, capital adequacy, liquidity, provisioning for bad debts, and limits on advances to directors and customers. Supervision clauses will generally be concerned with reporting requirements, inspection by the regulator and the powers of the regulator to take over or liquidate financial institutions. The overall objective is to ensure that financial institutions, especially banks, do not take risks that could: (a) unduly impair financial performance; (b) result in the loss of customer deposits; and (c) threaten the integrity of the financial system. The intention is not to remove all commercial risk since the threat of failure is an integral part of market economies, meant to weed out inefficient firms.

Box 1: Regulation in a Sample of Countries

- Until recently, Kenya's legislation did not allow pension schemes to use their funds to support pension-backed loans for housing nor to assign pension benefits for whatever purpose²³. This blanket restriction has been lifted and the Retirement Benefits (Mortgage Loans) Regulations, gazetted in 2009, now permit the use of pension funds to guarantee housing loans taken out by members from an authorized lender.
- The Microfinance Act in Kenya allows microlenders to become deposit taking institutions under Central Bank regulation. This Act provides an appropriate legislative framework for the growth of microfinance organizations, through deposit taking. An example is Rafiki DTM²⁴, a subsidiary of a local bank, which started operations in 2011²⁵. It offers business and housing micro loans as well as other financial products.
- In Morocco, microfinance institutions are, by law, established as non-profit organizations²⁶. Indeed, microfinance law initially restricted operations to business loans but was amended in 2004 to accommodate housing microfinance.
- In Tunisia, it is expected that the reform of microfinance legislation, at the end of 2011, will promote the entry of more firms into the sector. Previously, restrictive legislation and interest rate caps are reported to have stifled growth²⁷.
- In Uganda, Ugafode Microfinance is one of four deposit taking microfinance companies in the country that are regulated by the central bank. It was originally an NGO but was later incorporated as a company.
- In Zambia there are 25 microfinance institutions regulated by the Bank of Zambia but only two of these offer dedicated housing finance products²⁸. There are many micro-lenders, active in housing finance, which are not regulated by the central bank but their federated groups may be registered under the Societies Act. There is a recommendation that AMIZ, the Association of Microfinance Finance Institutions in Zambia, be assigned the role of regulator²⁹;
- In the WAEMU³⁰ sub-region, the banking Law was changed in 2010, compelling mortgage lenders, such as the Benin Housing Bank, to increase their capitalization to a minimum of CFA Franc 5 billion (about US\$10 million).

4.3 Legislation and Second Tier Institutions

Legislation usually spells out the requirements for registering a second tier institution, and also determines which body will act as regulator. It is common to find organization-specific legislation that governs the operations of such bodies as NGOs, cooperatives, and microfinance institutions. Important obstacles on the continent usually include outdated statutes that do not address current financing challenges and opportunities, and limited institutional capacity to ensure compliance with the law.

4.4 Market-Related Legislation

Legislation in this category typically deals with a variety of measures that enhance the operation of the financial market e.g. the creation of a capital market and its regulatory

body; the establishment of credit bureaus, primarily to provide credit information to lenders and thus enable them to contain credit risk³¹; and the establishment of rating agencies to assess the creditworthiness of financial institutions.

4.4 Legislation and Non-Financial Obstacles

There is a whole raft of non-financial obstacles that can severely impinge on the operations of financial institutions, especially those in the mortgage market. The most serious of these have to do with land titling, property registration and foreclosure, all of which can seriously impede the growth of the mortgage market (Box 2). In particular multiple land laws that are often outdated seriously constrain property registration, substantially increasing transaction costs to the detriment of lenders and borrowers. The exception seems to be South Africa, where the deeds registry is world class³², offering an example that other countries could learn from.

Box 2: Property Registration Impedes Mortgage Finance

- Before recent reforms of land laws in Kenya, there were about 20 statutes which impinged on the creation and perfection³³ of security interests, an obviously complex and costly framework for transacting in property rights³⁴;
- Rwanda has dramatically shortened the time it takes to transfer property, from more than a year in 2004, to less than a month in 2012. Over this period, property transfer fees fell from 10.3% of property value to 5.6%³⁵;
- In Zambia, mortgage lending is hampered by the difficulty of obtaining formal titles as well as the required planning and building approvals.³⁶

4.5 Areas of Reform

A questionnaire survey, conducted for this paper, provides examples of legislative reforms proposed by different country respondents. In Cameroon, a legal framework for housing cooperatives is required to facilitate shelter microlending. In the Gambia, the Financial Institutions Act does not make explicit reference to housing finance institutions, a gap that should be addressed. The existing provisioning³⁷ requirements in Kenya are not well-suited to providers of long-term housing loans as they are primarily framed to suit short- and medium-term lending by commercial banks. Moreover, additional changes to the Retirements Benefits Act have been advocated for to facilitate the use of pension funds in financing housing. In Mauritius, legislative reform to permit securitization of housing debt has already been announced in the 2014 Budget. Tax incentives to catalyse both mortgage finance and housing microfinance in Zimbabwe are considered an important part of legislative reform. A universal licensing regime for all financial institutions has also been recommended as has a legal provision to permit the use of social security funds for housing. In each case, the proposed reforms would require close scrutiny to determine their feasibility and relevance.

5. Innovations in Financing Human Settlements

5.1 Understanding Innovation

Innovation is one of those words that are commonly used without clearly defining what they mean. The notion that innovation refers to “moving away from business as usual”,

“breaking with tradition”, or “shifting away from conventional approaches that do not work” is supported in the literature³⁸. It is in this sense that innovation has been used in this paper, with a focus on best practices that demonstrate practical financing strategies for human settlements. More specifically, a financing approach is considered innovative if it qualifies in respect to any one of the following: (a) it has a substantial positive impact (actual or potential) on the volume of capital that goes into financing human settlements; or (b) it substantially widens access for low-income groups to housing finance; or (c) it introduces new resource mobilization or lending methods; or (d) it introduces new risk management strategies; or (e) it reforms existing institutional mechanisms or creates new ones that effectively deliver finance for human settlements.

5.2 Innovations in Financing Housing and Urban Basic Services

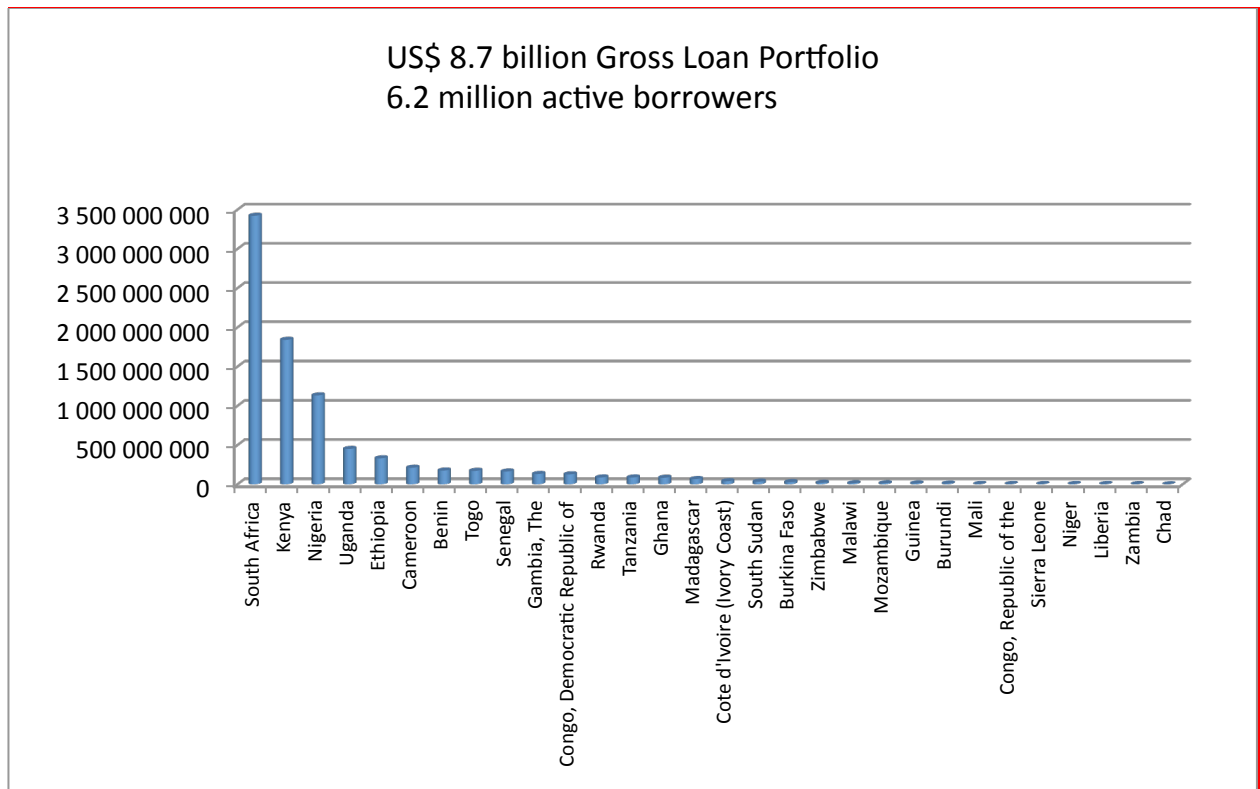
Five distinct areas of financing housing and urban basic services will be examined. The first is housing microfinance, commonly used in many African countries to reach the urban poor, though not the poorest, enabling them to improve and extend existing houses, often in urban slums. This type of microlending has also enabled poor households to build new houses incrementally, although this is less common than financing home improvements. The second innovation is the establishment of mortgage re-financing facilities in a number of countries, through partnerships between central banks and commercial banks, to provide long-term capital to primary mortgage lenders and thus address a key obstacle for this type of housing finance. The third is the use of pension funds as a source of long-term capital, in addition to enabling pensionable employees to finance down payments on their houses and loan closing costs³⁹. The fourth is the use of fiscal incentives to spur the production of social housing by private developers. The fifth is land-based finance in informal settlements, a form of land taxation whose success depends upon the introduction of reliable land information systems. The revenue generated is then used to finance local services thus tying taxation to service provision.

5.2.1 Housing Microfinance

Housing microfinance is considered innovative largely because of its ability to address the needs of households in the lower segments of the income pyramid. By using collateral substitutes to secure loans, instead of the conventional mortgage lien, this approach substantially improves access by the poor, most of whom do not hold formal title to land. So far, the vast majority of micro-lending operations on the continent have been small scale and their impact limited. To be truly innovative housing microfinance needs to go to scale but for this to happen, strategies are needed to mobilize the capital required to ramp up lending operations.

MIX Market data, for a group of 30 countries, shows that business microfinance has a well-established footprint on the continent (Fig. 4) with three countries, South Africa, Kenya, and Nigeria, accounting for nearly 75% of the microfinance portfolio of about US\$ 9 billion. For the sample of 30 countries, the housing microfinance portfolio could be as high as \$3.5 billion⁴⁰. There are other countries that are not in the Mix Market data, such as Morocco, that have large microfinance markets. Notably, Morocco accounts for a half of all microfinance clients in the Middle East⁴¹.

Fig. 4: Africa Microfinance Market Profile: Data from MFIs Reporting to the MIX Market in 2012⁴² (amounts in US\$)



The near universal presence of microfinance institutions (MFIs) in Africa strongly suggests that housing microfinance has the potential to go to scale in most countries. This conclusion is not far-fetched bearing in mind that MFIs have tailored some of their products to meet housing needs, driven by their market experience of how to originate and deliver microcredit to the poor (Box 3). They also see housing microfinance products as adding value to their services and as a client loyalty enhancer⁴³. The examples in the box go to show that MFIs offer an appropriate institutional platform for promoting and expanding housing microfinance.

Box 3: Housing Microfinance in Selected Countries⁴⁴

- In Angola, KixiCredito is the largest microfinancier with more than 15,000 clients and, in 2012, had a lending programme exceeding US\$ 30 million⁴⁵. It has a housing microloan product, KixiCasa, developed when it was realized that 30% of loans were being diverted to housing.
- Benin has a strong microfinance sector, with about 56 registered microfinance institutions, some of which offer housing micro loans. The dominant MFI is *Federation des Caisse d'Epargne et de Credit Agricole Mutuel* which collects more than 80% of household deposits.
- In Morocco, the two largest microfinance institutions are Zakoura and Al Amana which give loans for income generation as well as for home improvement and connections to basic services. The removal, in 2004, of a ban that had hitherto stopped microfinance institutions from making housing loans opened the way for this type of lending⁴⁶. The introduction of guarantee mechanisms to enhance the creditworthiness of both individual borrowers and retailers of microcredit provided was yet another boost to this market.
- In Mozambique, housing microfinance is in the early stages of development in a setting with a strong microfinance industry and specialized microfinance laws. There are eight microbanks, seven credit cooperatives, and 166 microfinance institutions registered with the central bank.
- Namibia has a Financial Sector Charter (FSC), a voluntary code that seeks to transform the financial industry so that it addresses the needs of disadvantaged segments of the population. In 2012 the FSC developed new legislation to provide a regulatory framework for banks offering microcredit to low-income clients. Although the country has a small microfinance sector, housing microfinance has started.
- In Uganda, housing improvement loans issued by Centenary Bank are a substantial proportion of small business loans.
- In South Africa, two state-owned institutions, the National Housing Finance Corporation and the Rural Housing Loan Fund, provide wholesale finance to microlenders who onlend to households to improve their houses.

Commercial banks, also active in the micro-credit market, offer a complementary institutional channel and generally have the additional advantage of well-established branch networks. Although their microloans are rarely tailor made for housing, there is evidence that clients typically disguise their borrowing as being for commercial purposes but use their loans to purchase housing inputs: residential plots, building materials and construction labour⁴⁷.

On the international scene, there are many investment bodies that support general microfinance in Africa, thus providing a platform for the growth of housing microfinance (Box 4).

Box 4: Development Finance Institutions and Housing Microfinance

Development finance institutions (DFIs) such as the American Overseas Private Investment Corporation (OPIC), the Belgian investment company (BIO), the International Finance Corporation (IFC), KfW (Germany) and Proparco (France), seek to stimulate investor interest in general microfinance by taking first loss risk positions or easing the risk burden in some other way for commercial investors. Much of their investment in HMF has been in many ways linked to general microfinance lending, with organisations they have invested in branching off into HMF. Double and triple bottom line⁴⁸ investment funds such as Acumen, Omdiyar Tufts Microfinance Fund, responsABILITY, ACCION International, FUNDSAL and others are connected by their objective to realise the social outcome of microfinance lending and poverty alleviation while also realising a commercially viable return. They are, like the DFIs, associated with HMF through general microfinance and the creation of HMF product lines within these organisations.

Reproduced from Kihato, M. (2013)

All organizations venturing into housing microfinance will need to confront three conflicting objectives: affordability for the borrowers; viability for the financial institutions; and resource mobilization for the expansion of the sector⁴⁹. Lending at scale is especially important so as to reduce the high administrative costs of originating and managing small loans. This is a hurdle that commercial banks and the bigger MFIs are generally able to surmount, in view of their typically large and diversified operations, but which frustrate the entry into the sector of single-purpose lenders. These high costs can also compel organizations specializing in housing microfinance to raise their interest rates above those of commercial bank loans of equivalent maturity and risk, undermining affordability.

Two other issues stand out. The first is the lack of a supportive institutional and regulatory framework thus frustrating the growth of housing microfinance⁵⁰. In particular, prudential regulations for housing microfinance are generally lacking, a critical bottleneck since the regulations commonly applied to the business microenterprise sector are inappropriate. For instance, because housing is a durable good with a high capital cost relative to household income, its financing must be for a longer duration than for microenterprise transactions. As a result, housing micro loans have a longer term, usually in the range of 3 to 6 years. This longer maturity suggests that different benchmarks should be used to measure the portfolio-at-risk.

The second issue is that where housing micro-loans finance single storey housing, usually the case in many slum upgrading projects, they promote suboptimal land use if construction is in high value city locations⁵¹. In such sites, it would be more efficient to build to higher densities although the lack of suitable finance often rules this out. This illustrates a clear nexus between finance and the efficiency imperative of the compact city.

If properly designed, housing microfinance products also enable countries to address rural housing needs. Policy analysis has traditionally advocated that rural housing is not a priority and that it should be tackled indirectly through general economic development as well as direct investments in infrastructure services such as clean water and safe sanitation. This position is supported by experience which shows that it is difficult to sustain the financing of rural housing unless it is tied to income generating activities. In Tanzania, the Presidential Trust Fund has introduced a housing finance product for rural

areas, offered to existing clients with a successful record of utilising business loans. This sequencing of financial assistance is critical for it ensures that housing loans are granted only to those who have a secure source of income generated from a business enterprise⁵².

A Kenyan case study is presented in Section 6, illustrating how the National Cooperative Housing Union (NACHU) has expanded its housing microfinance portfolio on the back of sound financial performance and operational efficiency.

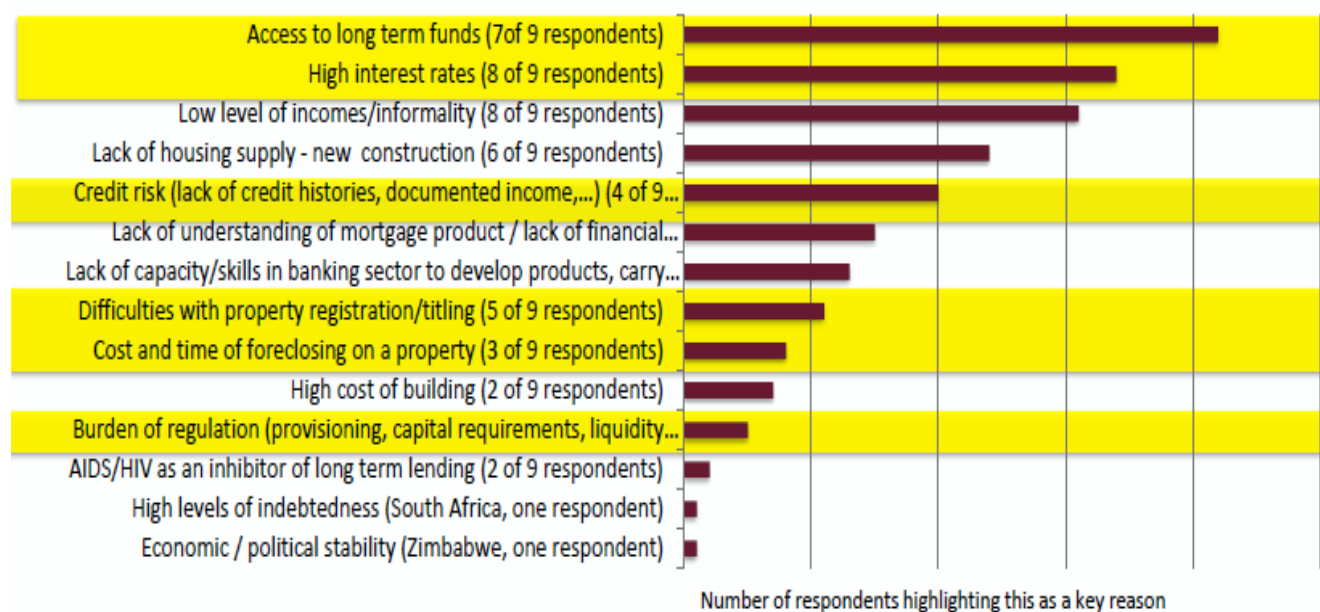
5.2.2 Mortgage Finance

In recent years, Africa has introduced innovations in the mortgage market. Although mortgage finance is only affordable by a mere 3%⁵³ of the continent's urban populations, it is considered here because of its potential to strengthen the capital market⁵⁴, to demonstrate the viability of public-private partnerships in housing finance, and to drive the legislative reforms in land administration that permit non-judicial foreclosure. Moreover, if innovations result in lower lending interest rates, the general expectation, mortgage lending could also reach further down the income distribution. Yet another benefit is that a growing mortgage sector would have a positive knock-on effect on the residential construction industry and its supply chain, thus helping to create additional jobs especially for unskilled people.

The mortgage market is most developed in only a handful of countries: Egypt, Mauritius, Morocco, Namibia, Seychelles, South Africa and Tunisia. The binding constraint in most countries is that the low incomes of the vast majority of urban households do not allow them to qualify for a mortgage loan. In view of this and a host of other hurdles, it would be unrealistic to expect a dramatic expansion of mortgage lending in the short to medium term.

Mortgage markets in Africa face a number of serious obstacles, illustrated in Fig. 5. Although the study sample is small, inviting caution in the interpretation of the results, other evidence supports the main findings⁵⁵. It is clear that the three most critical obstacles are: limited access to long-term funds; high interest rates; and low levels of income. The general shortage of long-term capital is largely attributable to poorly developed capital markets, denying commercial banks and other financial institutions access to the long-term finance that mortgage lending requires⁵⁶. In jurisdictions with high inflation, moreover, lenders resort to even higher nominal rates to achieve positive real interest rates⁵⁷. But lending rates are increased further by inordinately wide spreads, often reflecting limited competition, crowding out by government borrowing, and high levels of non-performing loans⁵⁸. For their part, low household incomes are a particularly serious inhibitor of market growth, especially in settings with high house prices.

Fig. 5: Key Mortgage Market Obstacles

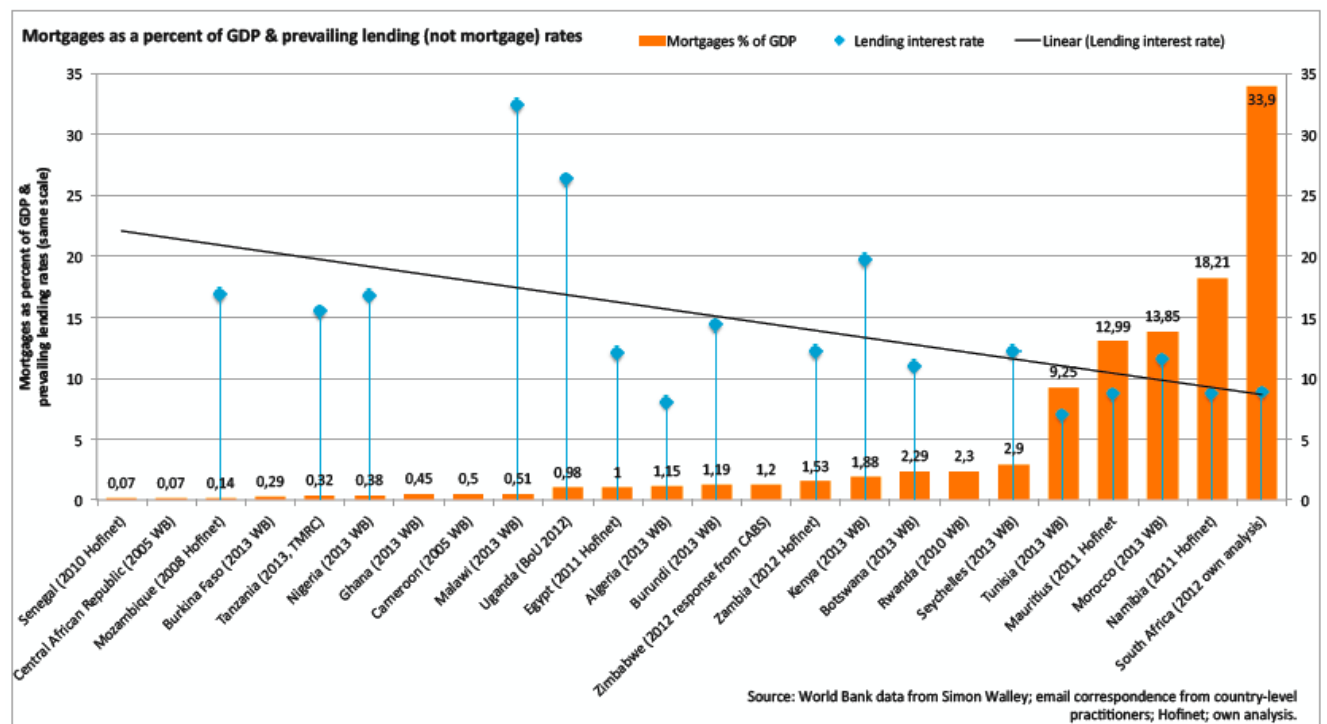


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The constraints cited here have stunted the growth of the mortgage market in Africa. Fig. 6 sets out, for 25 countries, the ratio of mortgage debt to GDP. This ratio is highest for South Africa (23.9%) and lowest for Senegal and the Central African Republic, both at 0.07%. In advanced economies, this ratio generally exceeds 50%.

There is a clear negative correlation between general lending rates and the mortgage debt to GDP ratio: in other words, countries with high lending rates have a low ratio and those with low lending rates have a high ratio⁵⁹, pointing to the harmful impact of high interest rates, among other factors, on the growth of the mortgage market⁶⁰.

Fig. 6: Mortgage Debt as a % of GDP



Reproduced from: Rust, K. (2013)⁶¹

Mortgage lenders in Africa have traditionally depended on short-term deposits to finance long-term mortgages. Using short-term liabilities to finance long-term assets is fraught with liquidity risk and, for this reason, lenders have found it difficult to expand their mortgage portfolios. In countries with a growing capital market, mortgage lenders have been able to raise long-term finance through the issuance of bonds and thus reduce their dependence on short-term deposits⁶². In this way, Housing Finance, one of the leading mortgage lenders in Kenya, has in recent years successfully floated a medium-term note⁶³ worth US\$ 120 million. But even in countries with an active capital market, less well-established lenders and new entrants will likely find it difficult to issue bonds on attractive terms. The overall result is that competition in the mortgage market is suppressed.

To overcome this funding problem, some African governments have established mortgage liquidity facilities i.e. refinancing companies that provide term capital to primary lenders. These companies are well-suited to countries with small mortgage markets because of their catalytic role⁶⁴. A refinancing company was established in Tunisia in 1997⁶⁵, followed by a securitization law in 2007. Liquidity facilities have also been created, with the assistance of international financial institutions, in Egypt, Tanzania, and Nigeria, as well as in the WAEMU sub-region of West Africa where one facility serves several countries. A case study of these mortgage market innovations is presented in Section 6, highlighting the common features as well as those that are particular to local contexts. In Tanzania, for instance, legislative reforms on foreclosure were necessary in order to spur the growth of the primary mortgage market. In Nigeria, funds have been included in Government's loan agreement with the World Bank so as to extend the reach of mortgage lending further down the income pyramid.

5.2.3 Using Pension Funds to Finance Housing

Pension funds are hugely attractive to providers of housing finance as they typically represent a large pool of domestic savings and generally consist of long-term liabilities. But the trustees and managers of these funds, especially those in the private sector, are not so sure: they tend to be conservative in their approach to fund investment to shield member assets from loss. Although the recent turmoil in the global financial markets has not been a major issue in some of the housing markets of the South it has nonetheless created additional anxiety about the security of housing investments. Further, in many jurisdictions, there are regulatory constraints to pension funds investing in the housing sector. All the same, trustees are increasingly aware of the need to continue seeking profitable investment opportunities in new areas that often include property in general, and housing in particular. Opportunities also exist for pension schemes to issue debt, on the strength of their balance sheets, and in this way to mobilize capital to finance housing for their members.

Pension funds can be used to finance housing in two important ways. The first is by allowing workers access to a part of their pension benefits to finance house down payments and loan closing costs. The second, which is commonplace in many countries, is to invest pension funds in bonds issued by mortgage lenders and mortgage liquidity facilities. Since pension funds are long-term liabilities they are well-suited for financing housing, a long-lived asset. One case study in Section 6 focuses on the four countries of East Africa – Kenya, Rwanda, Tanzania, and Uganda -- exploring the mechanisms that could be used to finance housing with pension funds.

5.2.4 Stimulating Social Housing through Fiscal Incentives to Developers

The development of social housing⁶⁶, at scale, through private developers is rare in Africa. Indeed, the formal developer market is generally weak even for middle and upper market segments, with few firms managing an output of more than 100 houses annually. But Morocco bucks the trend as it has a strong private developer industry that has produced social housing in large numbers. For this reason, the country offers useful lessons for governments that wish to strengthen their property development industry especially through partnerships with private firms.

The fourth case study reviews the use of fiscal incentives in Morocco to foster the production of social housing by private developers. The types of incentives used are examined and their effectiveness assessed. Lessons for other countries are listed.

5.2.5 Mobilizing Local Resources to Finance Urban Basic Services

Several obstacles have constrained the financing of urban basic services, such as water, sanitation and transportation, in spite of the importance of such infrastructure for human settlements. But there is African experience on land-based financing of basic services in deprived neighbourhoods. One of the case studies in Section 6 looks at this experience because of its potential application in other African contexts. The section also presents the general case for taxing unearned increments in land value arising from public investments in infrastructure.

6. Case Studies

6.1 Leveraging Operational Efficiency: The National Cooperative Housing Union, Kenya

The National Cooperative Housing Union (NACHU) in Kenya is an apex organization made up of primary housing cooperatives. It started operations in the early 1980's and began piloting housing microloans in the early 1990's. Since then, it has become an important provider of such loans to member cooperatives. NACHU has other product offerings, such as education loans, besides providing capacity building and technical support services to its members. It has staff in all major regions of the country.

For many years, NACHU's lending programme relied almost entirely on small donor grants and limited savings by its primary cooperatives, and this severely limited portfolio growth. In 2010, NACHU was able to secure a loan facility of nearly \$2.5 million from a local commercial bank, for microlending to residents of slum areas as well as house construction on green sites by low-income borrowers. The wholesale commercial loan was secured in part by an off-shore guarantee and partly by savings deposits by NACHU's members.

To access private capital NACHU had to ensure that its financial performance indicators were sound. In particular, it was important for the portfolio-at-risk to be within acceptable limits. After loan closing, rising interest rates restrained NACHU from drawing down the whole facility. However, this deal with a commercial bank and an offshore guarantor generated spin off benefits. First, it put pressure on NACHU to meet high prudential requirements, especially with regard to loan recovery. Second, it signalled to potential financiers that NACHU was creditworthy, raising its institutional reputation. Indeed, on the strength of its improved financial record and a sound governance structure, NACHU was able to secure a low-interest loan in local currency from an off-shore financier in 2011. This loan facility was initially capped at around US\$ 3.5 million but with the flexibility for additional resources to fund a bigger pipeline of projects. Although the loan was primarily meant for capital development, it was agreed that it could also be rolled over to serve as end finance, but repayable over 5-8 years. The loan facility has enabled NACHU to increase its housing microfinance portfolio more than ten-fold.⁶⁷ This case study shows that a relatively small retailer of housing microfinance can attract substantial funding on the strength of good financial performance and sound corporate governance.

NACHU is registered under the Cooperative Societies Act (2004) which is the legal framework for the registration and supervision of cooperatives in the country. The regulator is the SACCO Societies Regulatory Authority (SASRA) which was created to regulate the operations of what is a very large number of cooperative societies in Kenya⁶⁸. The financial market also acts as a *de facto* regulator of organizations that seek commercial loans because the failure to meet acceptable prudential standards would rule out access to such loans.

An alternative route for general and housing microlenders in Kenya is to set up as a microfinance institution under the legal framework of the Microfinance Act. This Act allows such lenders to offer housing microfinance products in addition to the opportunity to graduate into the tier of deposit-taking financial institutions under the regulation and supervision of the central bank. Both types of microlenders are able to expand their portfolios through deposit taking but within the prudential requirements set by the respective regulators. Evidence shows that deposit taking SACCOs in Kenya accumulate savings much faster than their non-deposit taking counterparts⁶⁹.

6.2 Mortgage Refinancing Facilities: Addressing the Shortage of Long-Term Capital⁷⁰

6.2.1 Mortgage Refinancing Facilities

To address the shortage of long term capital, Egypt, Nigeria, Tanzania and the WAEMU states have established mortgage liquidity facilities i.e. mortgage refinancing companies. These facilities have been set up to provide long-term capital to primary mortgage lenders. Although they are relatively new, their achievements and projections suggest that they will progressively play a central role in expanding mortgage lending and fostering competition in mortgage markets. These refinancing facilities are examined here to bring out their main features and to draw attention to some of the supporting legislative changes that have been instituted.

6.2.2 Egypt

Although Egypt has a well-established financial sector, in line with its historically strong economy, the country has a relatively small mortgage industry. The country's mortgage debt to GDP ratio is a mere 1%, far below that of its peers. To boost mortgage lending, government created the Egyptian Mortgage Refinance Company (EMRC) in 2006, with shareholding by the Central Bank, the National Finance Guarantee and Subsidy Fund, the National Bank of Egypt, the International Finance Corporation, and other lenders.

Since EMRC started operations, mortgage lending has grown rapidly with the number of mortgages doubling year-on-year: 3,000 in 2007; 7,200 in 2008; 14,230 in 2009; and 26,600 in 2010. In 2011, lending was slowed by the recent political turmoil and the number of loans failed to breach the 30,000 mark. EMRC clients, a mix of commercial banks and other mortgage lenders, had a total mortgage portfolio of nearly US\$ 680 million by the end of 2012. At that point, EMRC had refinanced about 15% of outstanding mortgages.

Lending has been constrained by the 2001 Real Estate Finance Law which limits the payment-to-income ratio to 25%. This is far lower than international benchmarks which show that households are often willing to pay much more to own a house. Amendments of this law have been held back by the current uncertain political process.

6.2.3 Tanzania

After two decades of economic liberalization, Tanzania now has 45 commercial banks and many other non-bank financial institutions. Still, its housing finance system is in the early stages of development. Mortgage finance is offered by 14 commercial banks but their outreach is very small, as mortgage loans are affordable by only about 3% of households. The mortgage portfolio is tiny, with the mortgage debt-to-GDP ratio standing at 0.32%.

To promote the growth of the mortgage market, government established the Tanzania Mortgage Refinance Company (TMRC) in 2010 as a non-deposit taking institution licensed and regulated by the Central Bank. TMRC will initially use a World Bank loan to refinance the mortgage portfolios of banks that are its shareholders. Subsequently, it will raise funds from the capital market. This market is quite small, though, with only a limited range of financial instruments and securities, and will benefit from the entry of TMRC. It is regulated by the Capital Markets and Securities Authority, established under the Capital Markets and Securities Act of 1994. Since TMRC loans are benchmarked against the Treasury bill rate (six month average rate), adjusted for risk, maturity, and a TMRC margin, their attractiveness will rise and fall with the Treasury bill rate.

TMRC has 11 shareholder banks, some of which offer mortgage loans. Its initial operations were slowed by the limited pool of mortgage loans that could be refinanced, but after a readjustment of its business strategy, TMRC can now also pre-finance mortgages. As of mid-2013, pre-financing stood at US\$ 4.8 million and refinanced loans at US\$ 2.6 million. As anticipated, the establishment of TMRC has started to catalyse the entry of new mortgage lenders. For instance, Bank of Africa is offering a mortgage product for the first time.

A supportive legal framework is a necessary, but not sufficient, condition for the mortgage market to grow. For many years, lending in Tanzania was constrained by a land law that made it difficult for lenders to foreclose in the event of borrower default. Other obstacles included delays in registering or “perfecting” mortgage liens, high interest rates, a limited supply of pre-built housing units, and the lack of preferential risk weighting⁷¹ for the mortgage assets held by banks. Recent legal reforms have sought to address the enforcement of creditor rights without jeopardizing borrower interests. Towards this end, the Mortgage Financing (Special Provisions Act) was passed in 2008. This legislation permits non-judicial foreclosure, meaning that lenders can, in principle, foreclose without resorting to the courts.

6.2.4 Nigeria

In spite of having the second largest economy in Africa, Nigeria has a very small mortgage portfolio with a mortgage debt to GDP ratio of only 1%. The country’s financial system, well-established, has been restructured several times leading to substantial improvements in performance. The formal housing finance system is driven by 20 commercial banks and 84 primary mortgage banks⁷².

To address the persisting shortage of long-term capital for mortgage lending, government established a mortgage liquidity facility in 2013, the Nigeria Mortgage Refinance Company (NMRC). As in Egypt and Tanzania, this company was created with the support of the World Bank. NMRC is a non-bank financial institution, registered as a limited liability company with majority shareholding by local financial institutions.

A ten-fold growth of the mortgage portfolio is projected over the next five years, mirroring the rapid growth of the Egyptian market after the creation of a liquidity facility.⁷³ A critical constraint is that although non-judicial foreclosure is provided for under Nigeria’s laws, lending companies regularly forego their right to register their liens at land registries, largely because this is a lengthy process. Indeed, according to the 2013 Doing Business Report, the country ranks poorly in terms of property registration, at 182 out of 185 countries. The end result is that lenders find it difficult to foreclose in the event of default.⁷⁴

To fast-track title and mortgage documentation, the Lagos state government has established an electronic document management system. Another positive development is that credit bureaus have been introduced in the country and credit checks have been made mandatory as a precondition to loan drawdown. Regulatory reforms underway include central bank regulations for the mortgage liquidity facility and Land Use Act regulations which cover land registration, foreclosure and mortgages.⁷⁵

6.2.5 Countries of the West African Economic and Monetary Union

The banking system is concentrated in three to five commercial banks in the majority of the countries of the West African Economic and Monetary Union (WAEMU). One central bank, with its headquarters in Senegal and national agencies in the other countries, regulates and supervises all banks and other financial institutions. Although there are

mortgage banks in six of the eight countries, the mortgage market is underdeveloped. To address this challenge, a regional mortgage fund, the *Caisse Regional de Refinancement Hypothecaire-UEMOA* was established in 2012 with its headquarters in Lome, Togo. The shareholders of this refinancing company include the West African Development Bank, Shelter Afrique and commercial banks in the region. At the beginning of 2013, the company raised more than US\$ 30 million on the regional bond market.

In spite of reforms, the registration of properties to obtain full property rights, referred to as *titre foncier*, remains a challenge in the WAEMU countries. The region has a mixed record in terms of property registration rankings, with Mali, Burkina Faso and Niger outperforming the other countries (Table 1).

Table 1: World Bank Doing Business Rankings 2013, out of 46 Countries in Sub-Saharan Africa

COUNTRIES	EASE OF DOING BUSINESS RANKING	CONSTRUCTION PERMITS RANKING	REGISTERING PROPERTY RANKING
Mali	23	16	13
Burkina Faso	24	9	19
Togo	25	30	36
Senegal	32	28	42
Benin	37	19	26
Niger	38	39	12
Cote d'Ivoire	39	41	35
Guinea Bissau	41	21	44

Source: World Bank Doing Business Report 2013

6.2.6 Summing Up

Refinancing companies in Egypt, Tanzania, Nigeria and the WAEMU sub-region, are poised to play a critically important role in energizing mortgage markets, primarily by providing long-term capital but also by triggering regulatory reforms. These reforms focus on revising land legislation to assure efficient systems for land titling and registration, and foreclosure in the event of borrower default. These refinancing facilities are typically set up as non-bank institutions and registered under company law as limited liability companies. Although the process of registering companies in many African countries can be time consuming, in no country does the law governing registration appear to have been the binding constraint. As these organizations are regulated and supervised by central banks, well-established in all countries, it may safely be concluded that there are no serious legal obstacles on this front. Lessons for countries that do not have re-financing facilities are summarized in Box 5.

Box 5: Mortgage Refinancing Facilities: What are the Key Lessons?

- Refinancing facilities act as suitable intermediaries between primary mortgage lenders and capital markets. In this way they enable countries with nascent mortgage markets to boost the supply of long-term capital and thus expand mortgage lending;
- Legislative reforms, especially to improve land titling and property registration are critically important for the expansion of mortgage lending. Refinancing facilities cannot expand their operations quickly in the absence of an adequate pool of mortgage loans;
- Refinancing facilities foster competition in the mortgage market by promoting the entry of new primary lenders;
- Refinancing facilities have the potential to mobilize capital at lower interest rates than primary mortgage lenders;
- Existing company law appears to be adequate for purposes of registering refinancing facilities.

6.3 The Potential for Using Pension Funds to Finance Housing in East Africa⁷⁶

This case study illustrates the potential use of pension funds to finance housing in the four East African countries of Kenya, Rwanda, Tanzania, and Uganda. Although the four jurisdictions are classified as low-income countries they show substantial diversity in their economic and financial characteristics. Kenya has the largest economy and most developed financial sector, thus offering broader opportunities to pension funds wishing to invest in housing. There are more limited choices in the other countries but the ongoing integration of capital markets in the region is expected to alter the investment landscape.

Two economic features of these countries have important implications for utilizing pension funds for housing: the state of their capital markets; and the rapid informalisation of the respective economies. The relatively shallow capital markets constrain avenues for investment, whilst informalisation works against employees seeking housing in three ways. First, informal workers, the majority in the labour force, cannot be direct beneficiaries as they are not members of pension funds. Second, pension investments in housing finance are usually routed through financial institutions that act as mortgage lenders. Yet these are the channels that typically exclude all but a small minority from accessing housing finance. Third, even where retirement benefit schemes invest directly in property development, informal workers often do not qualify for the housing on offer. In spite of these constraints, pension funds remain an important source of capital especially where they can be used to leverage housing finance through micro-lenders.

The following two financing models can be used to channel pension funds to the housing sector⁷⁷:

- **End-user models:** these assist a pension fund member to obtain finance for the purchase or construction of a home; and
- **Investment models:** these provide a channel for pension funds to boost the supply of housing finance either through direct investment in housing development, or using debt and equity.

6.3.1 End-user models

End-user models have two variants: direct loans and loans secured by retirement benefits.

Direct loans

There is no evidence of direct loans in Kenya, Tanzania and Rwanda, not surprisingly as the law does not allow such lending. In Uganda, there is evidence of a retirement benefit scheme that allows members to borrow to finance their housing. To qualify for a loan, a member must have saved for a minimum period of 4 years and started house construction.

Loans secured by retirement benefits

In Kenya, the Retirement Benefits (Mortgage Loans) Regulations, published in 2009, allow a retirement benefit scheme to assign up to 60 per cent of a member's accumulated benefits towards guaranteeing a loan amount of the same value from an approved lender, including microfinance institutions. But there will be no movement of funds from the pension scheme to the lender. This guarantee scheme, which draws on South African experience⁷⁸, requires additional legislative reforms to be effective.

In Tanzania, the Public Service Pension Fund can arrange for members to take out guaranteed loans from a local bank in which the Fund owns shares. There is no evidence of similar loan guarantees in Uganda and Rwanda.

6.3.2 Investment Models

Direct investments in housing development

In all four countries, there are many examples of direct investments in housing, especially by the public pension schemes. In Kenya, for instance, the National Social Security Fund has directly financed a mix of up-market and middle income housing. Private pension schemes, in contrast, are wary of investing in lower-income housing, especially in low-income rental accommodation which is taken to be risky. Pension funds in Tanzania and Uganda have also financed housing directly but the overall picture in all countries is that there is little appetite for investments in low-income housing⁷⁹.

Loans to mortgage lenders

Although it is not common for retirement benefit schemes to lend to mortgage finance institutions or place long-term deposits with them, there are cases of such lending in Kenya, Tanzania and Uganda.

Purchase of debt issued by housing finance institutions

In Kenya, Rwanda and Uganda, private sector pension schemes have invested in corporate bonds issued by housing finance institutions. In Kenya, pension schemes have also purchased corporate bonds issued by Shelter Afrique.

Acquiring equity in a housing finance institution

In the four countries, there are examples of pension schemes acquiring an equity stake in a mortgage lender. In Kenya, NSSF owns substantial equity in a leading mortgage lender whilst in Tanzania the public pension funds are allowed to acquire equity in institutions

that specialize in housing finance products or housing development. In Rwanda, the main pension fund holds shares in several companies two of which provide mortgage loans. In Uganda, NSSF and the Bank of Uganda Retirement Benefits Scheme are among the top ten shareholders of Stanbic Bank, a mortgage lender.

Other investment methods

Most private sector pension funds find investing in real estate very risky. Although they are open to such investments, many have not built up substantial portfolios to be able to invest in property. But Real Estate Investment Trusts (REITs) and mortgage liquidity facilities, where they exist, are two institutional vehicles that would provide channels for pension fund investments in housing.

6.3.3 Summing up

Table 2 summarises the various direct and indirect channels used by pension funds to finance housing in the East African region.

Table 2: Different Models of Mobilising Pension Assets for Housing

			Kenya	Tanzania	Rwanda	Uganda
End User Models	Direct access to funds via partial or full withdrawal which could in principle be used to finance housing	Permitted?	No	No	Yes	No
		Done?	No	No	Yes & No ⁸⁰	No
	Loan from fund to a member	Permitted?	No	No	Yes	Yes & No
		Done?	No	No	Yes & No	Yes & No
	Loans secured by retirement benefits	Permitted?	No	Yes	No	No
		Done?	No	In the pipeline	No	No
Issue of debt by a pension fund (e.g. through a bond) to mobilize capital to support housing finance for members	Permitted?	No	Yes but would require amendment of trust deed	No	No	
	Done?	No	No	No	No	
Investment Models	Invest in housing projects	Permitted?	Yes	Yes	Yes	Yes ⁸¹
		Done?	Yes	Yes	Yes & No	Yes
	Invest in housing development companies	Permitted?	No	? ⁸²	No	No
		Done?	No	?	No	No
	Invest in equity of mortgage lenders	Permitted?	Yes	Yes	Yes	Yes
		Done?	Yes	Yes	Yes & No	Yes
	Purchase of debt instruments (e.g. bonds) of mortgage lenders (e.g. commercial banks) or financiers of housing developers	Permitted?	Yes	Yes	Yes	Yes
		Done?	Yes	Yes	Yes	Yes
	Invest in asset backed securities (ABS)	Permitted?	No legislation for ABS	Yes	No legislation for ABS	No legislation for ABS
		Done?	N/A	Not yet	N/A	N/A
	Invest in Real Estate Investment Trusts	Permitted?	No legislation for REITs	Yes (once REITs established)	No legislation for REITs	No legislation for REITs
		Done?	N/A	Not yet	N/A	N/A

N/A: Not Applicable

This case study has shown that in spite of underdeveloped capital markets and growing informalization of African economies, pension funds and other occupational schemes can act as an important source of housing finance. This lesson is applicable to many other countries on the continent especially where there is a substantial stock of pension funds. To broaden coverage, ways of widening provident and pension funds to cover informal sector workers would be an important innovation.

6.4 Stimulating Social Housing through Fiscal Incentives to Developers: The Case of Morocco⁸³

Morocco's economy has started to recover after a slowdown in 2012, brought on by Europe's financial crisis. GDP growth in the first quarter of 2013 was estimated at 4.9% (annual equivalent). As a result of sound macroeconomic management, the country has brought inflation under control⁸⁴ and interest rates, market determined, have remained below 4% per annum for many years. This favourable economic setting, together with pro-poor housing finance policies, has spurred the expansion of the housing finance market. By continental standards, Morocco has an advanced housing finance sector, and both mortgage finance and housing microfinance portfolios have grown rapidly over the years. There is a strong real estate market with the capacity to undertake large-scale residential developments, including the building of social housing.

Government's holding corporation, Al Omrane (AO), is the main driver of government's *Villes Sans Bidonvilles*⁸⁵ (VSB) programme whose focus is the phasing out of slums through social housing⁸⁶. AO started operations in 2004, following the amalgamation of ten government agencies with overlapping mandates⁸⁷. This institutional consolidation was anchored on new legislation⁸⁸. AO's development of social housing, and even new towns, is complemented by private developers who obtain free land from government and local authorities. Such developers are then expected to procure construction finance and build social housing.

The VSP has attracted funding from international donors such as the European Investment Bank, *Agence Francaise de Developpement* and the European Union⁸⁹. Moreover, government is reported to have set aside US\$ 8.3 billion since 2004 to support low-income housing. Although the targeted production of 170,000 units annually has not been met, progress has been impressive, with 143,000 houses under construction in 2012. Developers have also committed to building 900,000 units by 2020⁹⁰.

A central plank of Government policy is to stimulate residential property development through tax incentives that exempt developers of social housing from corporation tax, land registration fees, cement taxes and value added tax⁹¹. These exemptions are set out in the Finance Law of 2010, renewed in 2013. Tax breaks were originally restricted to large property developers but recent reforms have seen these incentives extended to small and medium sized enterprises. This was achieved by lowering from 500 to 150, the number of social houses over five years that a developer must build to qualify⁹². Tax incentives were introduced as a part of the VSB programme and have given substantial impetus to the private developer industry. It is projected that the widening of fiscal incentives to accommodate more firms will reduce the historical dominance of a few large developers, and thus spur competition.

Government policy has set three tiers of affordability which provide a framework for determining incentives to developers. For each tier, there are clear price and quality benchmarks that must be met by a developer and these were most recently reset by the 2013 Finance Law. With government subsidies, houses in the lowest tier sell for not more

than \$16,600 and are affordable by households that earn less than 1.5 times the minimum monthly wage. These dwelling units have a floor area of 50 – 80 m². Houses in the next tier, also with an area of less than 80m², sell for not more than US\$ 31,000 and are affordable by households earning between 1.5 and 2.5 the minimum monthly wage. The third tier, comprising middle income housing, has a price ceiling of US\$ 714 per m², including value added tax, and a floor area of 80-100 m². This type of housing is meant for people with a monthly income not exceeding US\$ 2,380. A developer who meets these price and quality standards qualifies for tax breaks but subsidies must be passed on to home buyers.

To foster housing uptake, and encourage private lenders to go down market, Government has established Fogarim, a guarantee fund for households with small and irregular incomes. Partial guarantees, ranging from 70-80% of the loan amounts due, have benefitted 75,000 borrowers since its creation in 2004. At the same time, government's housing ministry manages a subsidy fund for social housing, *Fonds de Solidarite de l'Habitat (FSH)*, which derives its resources from a ten percent tax on cement sales. FSH provides a purchase subsidy of 30% to eligible former residents of informal settlements⁹³.

Whilst developers have accelerated house production, on the back of tax reliefs, they have neglected the lowest-priced housing tier as it does not enable them to optimize their profits. This means that many households that would otherwise qualify are excluded but they have the alternative of purchasing subsidised residential plots under the VSB programme or continuing to reside in informal settlements.

Developers have also been reluctant to build at prices above the highest tier as doing so would deny them tax reliefs. Although this developer behaviour is a rational response to the incentives on offer, it has constrained product diversity. Moreover, most units have been bought by the middle class. Yet another downside is that in spite of existing housing deficits, there are many vacant houses⁹⁴, pointing to the need for adjustments in programme design.

Eight key lessons can be drawn from this case study (Box 6).

Box 6: The Developer Industry: Eight Key Lessons from Morocco's Experience

- Institutional reforms and fiscal incentives can give substantial impetus to the property development market but these must be supported by appropriate legislation to be effective;
- Incentives should be offered to a broad spectrum of developers to ensure competition in the market;
- Developers will avoid market segments that do not allow them to optimize profits. Therefore, incentives should be designed in a way that counters this behavior, ensuring that they are not skewed;
- Direct interventions by the public sector should focus on delivering serviced land, not house building. The latter should be left to private developers;
- Programme design should promote product diversity to foster the development of more socially inclusive neighbourhoods;
- A facility to provide partial guarantees to those with low incomes is an essential piece of the financial architecture as it encourages lenders to go down market;
- Aligning housing delivery with affordability is a complex process with no easy or quick fixes, pointing to the need for regular programme evaluation and

adaptation;

- There is no satisfactory method of reaching households at the bottom of the income pyramid with housing delivered by formal developers⁹⁵.

6.5 Land-Based Financing

6.5.1 A Constrained Financial Setting

Urban basic services are an essential component of human settlements. But the financing of these services has faced serious obstacles in practically all African cities and towns:

(a) In decentralizing countries, fiscal transfers from national government to subnational authorities have been inadequate, undermining the ability of municipal governments to finance capital projects;

(b) Land-based financing has not been adequately exploited in spite of the huge potential for this mechanism to generate the local resources needed to finance urban basic services. The lack of robust land information systems and appropriate legislation are largely to blame;

(c) Most municipal governments, as well as their utility companies, have a poor financial record making it all but impossible for them to obtain long-term loans from commercial banks. Moreover, the lack of a well-developed capital market is a major obstacle.⁹⁶ Even in countries with growing capital markets bond issues will remain out of reach until municipal authorities substantially improve their financial performance.

(d) Sector reforms, especially in water and sanitation, have seen municipal governments spin off their revenue generating services to other independent bodies, thus undermining the prospects of issuing revenue bonds⁹⁷. For society at large, though, this is not necessarily a disadvantage if the utilities that take over these services are able to carry out their functions more efficiently.

In this constrained financial setting, local governments need to optimize land-based taxation in order to finance urban basic services that directly benefit local communities, especially in low-income neighbourhoods. Indeed, informal settlements generally fall outside the property tax net as they have no official recognition and are not properly documented. A reliable land information system, not based on the traditional cadastral surveys and titling that are so expensive and time consuming, would provide a platform for extending land taxation to such settlements. In doing so, care should be taken to ensure that taxation is designed as a benefit tax whereby tax revenues go into improving local services. In this way, local communities would benefit from enhanced property values and would readily acknowledge the alignment between taxation and service delivery.

This case study focuses on land-based financing in an African context, using Benin as an example. The section closes with a presentation of the general case for taxing unearned increments in land value arising from public investments in infrastructure.

6.5.2 The Case of Benin

It is not possible to expand land-based financing in the absence of an efficient land information system. Box 7 illustrates how this type of financing was made possible by a reliable land information system.

Box 7: Benin: An Example of Land-Based Financing

The Benin Urban Registry (RFU) is a land information system which aims to improve substantially the management capacity of local authorities to respond effectively to urbanization. The period 1991-2002 was marked by a low yield of local taxes. At the same time, the administrative districts faced significant needs for infrastructure, public facilities and urban services in addition to the issue of tenure security. It became necessary to design and develop tools for acquiring a reliable information system with the aim to substantially improve local resources. Launched in 1992 in Parakou, the RFU has now been implemented in the three largest cities – Cotonou, Porto Novo and Parakou – in addition to many smaller towns.

Implementation of the RFU in an area begins with aerial photos and maps. Field surveys collect information on occupants, land use and construction materials. Legal occupancy through municipal occupancy permits can be established either through some type of recognized documentation or simply by neighborhood recognition. Registration with RFU establishes a recognized tenure right which can be converted to a full title. Equally important is the fact that implementation of the RFU was not solely carried out by local authorities, but it involved also a cross section of community based organizations.

The impacts on local finances are substantial because of three factors: enlargement of the tax base, a better knowledge of the tax base and improvement in collections. Even if the tax potential is still far from fully mobilized, tax revenues of the Communes which are testing RFU procedures increased considerably. In Parakou and Cotonou, tax revenues have been more than quintupled since the implementation of the RFU system, respectively. Results have been slower in Porto-Novo. In Benin, RFU is perceived and recognized as a relevant and efficient tool for mobilizing fiscal resources in Communes involved in securing land and financing urbanization.

Reproduced from Global Land Tool Network. See <http://www.glt.n.net/index.php/land-tools/land-based-financing>

6.5.3. Land Value Capture – an Innovative Instrument for Generating Additional Municipal Revenue

Innovative land-based financing methods such as land value capture (land value sharing) are effective ways to raise revenue for local authorities when traditional sources of revenue are inadequate. Land value capture, if properly designed alongside other instruments, can be a powerful method of public financing, whereby increases in private land values generated by public investments, particularly in transport infrastructure, are captured in their entirety or in part by the public sector for public purposes. The increases in private land value (capital gains) due to public investments are unearned profits to the private land owners who do not have to bear any costs. These unearned profits can be captured indirectly by means of real estate taxes, impact fees or other forms of taxes, or directly by converting them to land-related benefits such as on-site improvements and trading of urban development rights. It is a way of internalizing the positive externalities of public investments and redirecting this capital towards public services and amenities.

Value capture funding is commonly associated with expensive transport infrastructure improvements. Since such improvements increase private land values, capturing even a small share of the rise in value can help finance transport infrastructure projects. While undertaking any form of land and property taxation, including value capture, it is

important not to penalize and discourage private investments in land and undermine tenure rights for all, particularly for the urban poor, youth and women. Transport infrastructure drives development and, therefore, tax revenues derived from unearned increases in land value should subsidize transportation.

7. Conclusions and Recommendations

With Africa's financial landscape as its backdrop, this paper has examined the challenges of human settlements financing on the continent. In doing so, it has proffered a scheme for examining appropriate legislative frameworks in addition to defining innovation in the context of human settlements financing. The paper has emphasized that the vast majority of urban households cannot afford conventional housing, leaving them with no option but to build their houses incrementally over many years. Although this approach ensures the delivery of affordable housing, resource use is generally not optimal. This is because houses often remain unfinished and unoccupied for many years. To turn this situation around, financing innovations are required.

The five case studies presented illustrate the range of innovative approaches that are being pursued on the continent to finance housing and urban basic services for all income groups. These case studies are drawn from different countries, the better to highlight common issues as well as differences in regional contexts.

The main conclusions are:

Housing Microfinance:

- In spite of incomplete statistics on housing microfinance, there is robust evidence that this financial product is available in all regions of Africa, directly or indirectly, from a variety of financial institutions. These include commercial and microfinance banks, business microfinance organizations, and single purpose housing microfinance institutions. It is clear from this evidence that housing microfinance is gaining ground and has the potential to go to scale;
- Single-purpose firms find it difficult to deliver housing microfinance efficiently because of the high transaction costs of small loans. This is a problem commercial banks and broad-spectrum microfinance organizations are able to surmount because they operate at scale and offer a wider variety of financial products;
- Existing legislative frameworks permit deposit taking by microlenders, subject to meeting prudential requirements set by the regulator. This avenue provides these organizations with the means of scaling up;
- Accessing wholesale loans through guarantees governed by contract law offers another pathway towards scale lending. But microlenders must have solid financials, for instance a low level of portfolio-at-risk, to access such loans;
- Prudential regulations for housing microfinance are generally lacking, a critical bottleneck since the regulations commonly applied to the business microenterprise sector are inappropriate;
- There is inadequate continental data on housing microfinance, making it difficult to determine the scale and scope of this type of lending.

Mortgage Liquidity Facilities

- Mortgage liquidity facilities act as suitable intermediaries between primary mortgage lenders and capital markets and, in this way, boost the supply of long-term capital for mortgage lending;
- Legislative reforms, especially to improve land titling and property registration, are critically important for the expansion of mortgage lending.

- Refinancing facilities cannot expand their operations quickly if primary lenders do not own an adequate pool of mortgage loans. For this reason, pre-financing should also be considered;
- Refinancing facilities foster competition in the mortgage market by promoting the entry of new primary lenders;
- Refinancing facilities have the potential to raise capital at lower interest rates than primary mortgage lenders;
- Existing company law appears to be adequate for purposes of registering refinancing facilities;
- A growing mortgage sector has a positive knock-on effect on the capital market, and on the residential construction industry and its supply chain, thus helping to create additional jobs especially for unskilled people.

Pension funds

- In spite of underdeveloped capital markets and growing informalization of African economies, pension funds and other occupational schemes can act as an important source of housing finance. This lesson is applicable to countries on the continent especially where there is a substantial stock of pension funds;
- Appropriate legislation is required to permit pension schemes to guarantee housing loans to members;
- REITs would provide an appropriate institutional channel for pension fund investment in housing. But REIT legislation is lacking in many countries;
- To broaden coverage, ways of widening provident and pension funds to cover informal sector workers would be an important innovation.

Fiscal incentives to Residential property developers

- Institutional reforms and fiscal incentives can give substantial impetus to the property development market but these must be supported by appropriate legislation to be effective;
- Incentives should be offered to a broad spectrum of developers to ensure competition in the market;
- Developers will avoid market segments that do not allow them to optimize profits. Therefore, incentives should be designed in a way that counters this behavior, ensuring that they are not skewed;
- Programme design should promote product diversity to foster the development of more socially inclusive neighbourhoods;
- A facility to provide partial guarantees to those with low incomes is an essential piece of the financial architecture as it encourages lenders to go down market;
- Aligning housing delivery with affordability is a complex process with no easy or quick fixes, pointing to the need for regular programme evaluation and adaptation;
- There is no satisfactory method of reaching households at the bottom of the income pyramid with housing delivered by formal developers.

Land-based Financing

- In decentralizing countries, fiscal transfers from national governments to subnational authorities have been inadequate, undermining the ability of municipal governments to finance capital projects;
- Land-based financing has not been adequately exploited in spite of the huge potential for this mechanism to generate the local resources needed to finance urban basic services. The lack of robust land information systems and appropriate legislation are largely to blame;
- Land value capture (land value sharing) is an effective way of raising municipal revenue for financing urban basic services when traditional sources of revenue are inadequate;
- Most municipal governments, and some of their utility companies, have a poor financial record making it all but impossible for them to obtain long-term loans from commercial banks.

Recommendations

The main recommendations are:

A. Legislation and Regulations

Governments should:

- Enact legislation, where it does not exist, to enable the registration and regulation of housing micro-lenders, including housing cooperatives;
- Develop appropriate prudential regulations for housing microfinance institutions;
- Institute legislative reforms to improve land titling, property registration and foreclosure;
- Ensure that legislation allows pension schemes to guarantee housing loans to members;
- Promote the development of a capital market and enact the legislation required for this purpose;
- Enact legislation for the creation of REITs.

B. Innovations

Governments should:

- Support, in partnership with municipal authorities, high density development in centrally located informal settlements in order to ensure optimal land use in line with the imperative for compact cities. But local communities should be assisted to devise affordable financing solutions for this type of development to ensure that their property rights are protected;
- Create mortgage liquidity facilities, where these do not exist, in order to foster the growth of the mortgage market;
- Give fiscal incentives to a broad spectrum of residential property developers to ensure competition in the market;

- Promote land-based financing, including land value capture, as a way of generating the local resources needed to finance urban basic services. In this regard, Governments should establish reliable land information systems where these do not exist;
- Focus on delivering serviced land without getting involved in house building. The latter should be left to private developers;
- Promote research on housing microfinance in collaboration with development partners such as UN-Habitat and the African Development Bank.

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End Notes

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- ¹ Beck, T., et al. (2009)
- ² Beck, T. et al. (2009)
- ³ For instance by determining maximum interest rates.
- ⁴ Beck, T. et al. (pp 40)
- ⁵ For instance, through improved court systems, establishment of alternative dispute resolution mechanisms and improved collateral registries.
- ⁶ World Bank (2012)
- ⁷ Demirguc-Kunt, and Klapper, L. (2013)
- ⁸ Demirguc-Kunt, and Klapper, L. (2013)
- ⁹ Demirguc-Kunt, and Klapper, L. (2013), pp 51.
- ¹⁰ World Bank (2007)
- ¹¹ World Bank (2007)
- ¹² M-Shwari, a mobile banking product introduced by a local Kenyan bank and a mobile service provider, was reported to have drawn in more than 850,000 customers in the first 3 weeks, taking in nearly \$12 million in new deposits and processing more than 5 million transactions. See <http://www.capitalfm.co.ke/business/2013/09/m-shwari-wins-global-emerging-technology-award/>
- ¹³ Triki, T. and Faye, I. (2013)
- ¹⁴ See AUHF 2013.
- ¹⁵ African Development Bank (2012). See <http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/urbanization-in-africa-10143/>
- ¹⁶ See, for instance, Rust, K. (2013) and Collier, P. and Venables, A. J. (2013)
- ¹⁷ Beck, T. et al. (2011)
- ¹⁸ Reproduced from Centre for Affordable Housing Finance in Africa (2013)
- ¹⁹ The median value for industrial countries is given as 3.9. See World Bank (1993). That publication uses the median house price as the denominator, not the lowest price. The comparable ratio for Africa exceeds 10. See UN-Habitat (2005) pp. 69.
- ²⁰ World Bank (1993) pp 96.
- ²¹ See, for instance, Jorgensen, N. O. (2013)
- ²² Currie, C. (2003).
- ²³ Chirchir, S. K. (2006)
- ²⁴ Deposit Taking Microfinance
- ²⁵ http://www.rafiki.co.ke/index.php?option=com_content&view=article&id=84&Itemid=92
- ²⁶ Martin R. et al. (2008)
- ²⁷ Centre for Affordable Housing Finance in Africa (2013)
- ²⁸ Drummond, R. et al. (2013) pp. 5
- ²⁹ Drummond, R. et al. (2013) pp. 9.
- ³⁰ West African Economic and Monetary Union. The countries in this Union are: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo.
- ³¹ In Kenya, for instance, it was difficult to operate credit reference bureaus until after 2008 when the Banking (Credit Reference Bureau) Regulations were issued by the Central Bank.
- ³² Centre for Affordable Housing finance in Africa (2013)
- ³³ A [lien](#) is perfected by registering it with appropriate [statutory authority](#) so that it is made legally enforceable and any subsequent [claim](#) on that asset is given a junior [status](#). Business dictionary.com
- ³⁴ Shorebank International Ltd and Walker Kontos (2009)
- ³⁵ World Bank (2013) *Doing Business 2013*
- ³⁶ Drummond, R. et al. (2013)
- ³⁷ This the provision in financial statements to cover expected credit losses arising from lending operations.
- ³⁸ See, for instance, Mazzucato, M. (2011)
- ³⁹ E.g. legal fees and stamp duty.
- ⁴⁰ Assuming that 40% of microfinance loans go into housing – see Habitat for Humanity (2013)
- ⁴¹ Centre for Affordable Housing Finance in Africa (2013)
- ⁴² <http://www.mixmarket.org/mfi/region/Africa>

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- ⁴³ Kihato, M. (2013)
- ⁴⁴ Based primarily on Centre for Affordable Housing Finance in Africa (2013)
- ⁴⁵ Cain, A. (2013).
- ⁴⁶ Martin, R. J. and Mathema, A. S. (2008)
- ⁴⁷ See Habitat for Humanity (2013), and Kihato, M. (2013) who puts this proportion as ranging from 15-40%.
- ⁴⁸ i.e. including social and environmental concerns besides the traditional bottom line of financial profit.
- ⁴⁹ Daphnis and Ferguson, B. (2004)
- ⁵⁰ UN-Habitat (2011)
- ⁵¹ See Collier, P. and Venables, A. J. (2013)
- ⁵² Mutero, J. (2010)
- ⁵³ For Botswana, Malawi, Tanzania, and Zambia, recent studies show that this percentage is as low as 1.5%.
See Kihato, M. (2013)
- ⁵⁴ For instance, where mortgage refinance facilities are established, the long-term bonds they issue are an attractive investment for pension funds and other investors seeking investment instruments that match their long-term liabilities.
- ⁵⁵ See, for instance, UN-Habitat (2008) pp. 7. An example is given of Tanzania where, even after several years, foreclosure by a commercial bank had not been possible. This is a common story in many African mortgage markets. The costs of this type of delay are often substantial.
- ⁵⁶ Commercial banks typically rely on short-term deposits to finance long-term mortgage loans i.e. borrowing short to lend long. This mismatch between liabilities (customer deposits) and assets is fraught with risk, especially liquidity and interest rate risk.
- ⁵⁷ The real interest rate is the difference between the nominal rate (i.e. the actual rate in the market) and the rate of inflation.
- ⁵⁸ See, for instance, Collier, P. and Venables, A. J. (2013)
- ⁵⁹ Further research, based on econometric testing, would be able to illustrate the impact of the different “inhibitors” of mortgage lending i.e. high interest rates, shortage of long term capital, delays in registering of mortgage liens etc.
- ⁶⁰ It should be noted that the interest rates referred to here are not mortgage lending rates but the prevailing lending rates.
- ⁶¹ Rust, K. (2013)
- ⁶² Only six years ago, Housing Finance depended entirely on short term customer deposits to support its mortgage lending. By 2012, the company had changed its funding mix, with reliance on short term deposits reduced to 66% of total mortgage funding. Source: Presentation by Frank Ireri at an AUHF conference, cited in Rust, K. (2013).
- ⁶³ A financial security that generally has a shorter term than a bond.
- ⁶⁴ Hassler, O. (2011)
- ⁶⁵ *Societe de Refinancement Hypothecaire* or Mortgage Refinancing Company
- ⁶⁶ There is no universally accepted definition of social housing but the term generally connotes subsidized housing affordable by households with incomes below the median and who are not ordinarily served by market-priced formal housing.
- ⁶⁷ Interview with NACHU, November 2013.
- ⁶⁸ See, for instance, PROCASUR Africa (2012)
- ⁶⁹ PROCASUR Africa (2012)
- ⁷⁰ This section draws its information largely from the “Centre for Affordable Housing Finance in Africa (2013)
- ⁷¹ Risk weighting assigns different levels of risk to bank assets and provides a basis for determining capitalization requirements for financial institutions and banks.
- ⁷² World Bank (2013)
- ⁷³ Centre for Affordable Housing Finance in Africa (2013)
- ⁷⁴ World Bank (2013)
- ⁷⁵ World Bank (2013)
- ⁷⁶ Based on Mutero, J. (2011)
- ⁷⁷ Genesis (2009)
- ⁷⁸ Sing, L. (2009)
- ⁷⁹ Field interviews.
- ⁸⁰ Where Yes and No both appear, some funds permit and others do not.
- ⁸¹ All private schemes permit investments in housing but only one has actually done so.

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- ⁸² Denotes the lack of information on whether or not this can be done
- ⁸³ Based largely on Centre for Affordable Housing Finance in Africa (2013)
- ⁸⁴ Also partly the result of controls over food and energy prices – see European Bank for Reconstruction and Development (2012).
- ⁸⁵ Cities without Slums. This programme, ending in 2012, was to be evaluated to inform the design of a successor programme.
- ⁸⁶ Subsidized housing generally meant for households with incomes below median.
- ⁸⁷ World Bank (2010) (which one is this?)
- ⁸⁸ World Bank, (2010)
- ⁸⁹ Martin R. et al. (2008)
- ⁹⁰ Centre for Affordable Housing Finance in Africa (2013)
- ⁹¹ See <http://opentoexport.com/article/morocco-housing-demand-stimulates-growth/>
- ⁹² Centre for Affordable Housing Finance in Africa (2013). Also see <http://opentoexport.com/article/morocco-housing-demand-stimulates-growth/>
- ⁹³ Martin et al. (2008)
- ⁹⁴ World Bank, *op cit*. One of the reasons given for these vacancies is that some residents of informal settlements are reluctant to move to new housing, if it has a poor location. Another is that local politicians will discourage residents from moving so that they (politicians) do not to lose their pool of voters.
- ⁹⁵ The exception is where subsidies, if affordable, and/or income from subletting, are sufficient for loan repayment.
- ⁹⁶ See, for instance, Paulais, Thierry (2012) pp. 15)
- ⁹⁷ See, for instance, Paulais, Thierry (2012) pp. 117)