Southern African Development Community (SADC)

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Overview

The Southern African Development Community (SADC), established in 1992, was preceded by the South African Development Coordination Conference of 1980. It was founded on the ideals of basic development, regional integration and dependency reduction.[1] The SADC comprises 16 member states that include Angola, Botswana, Comoros, Democratic Republic of Congo (DRC), Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, eSwatini (Swaziland), United Republic of Tanzania, Zambia and Zimbabwe.[2]

The main objectives of the SADC are to attain "economic development and growth, democracy, peace and security, poverty alleviation, self-sustaining development founded on collective self-reliance, enhancement of the standard and quality of life of the peoples of Southern Africa, and support of the socially disadvantaged through regional integration".[3]

The SADC population increased by 2.5 percent from 336.9 million in 2017 to an estimated total of 345.2 million in 2018. Among the member states, the DRC had the largest population share at 26.6 percent, followed by South Africa at 16.7 percent and Tanzania at 15.7 percent.[4] The urban population is estimated at 55 percent with an urbanisation rate of 3.1 percent a year on average.[5] The regional GDP is reported at 1.8 percent in 2018 compared to 2.1 percent in 2017.

Investment within the housing and housing finance sector has been on the increase since 2008. The nature of this investment ranges from Development Finance Institutions (DFI) sourcing funds from international bodies such as the African Development Bank or World Bank, pension funds, private companies, and government.[6] The top five SADC investment locations, South Africa, Zambia, Mozambique, Angola and Namibia, account for 90 percent of capital spending.[7] The financing instruments are characterised as either debt or equity. Of debt investments, loans or credit lines, 35 percent finance SMEs, 20 percent support the financial sector, 16 percent go to building housing, 15 percent to housing finance, 12 percent to infrastructure and 2 percent to slum upgrading.[8] Of equity investments within the sector, 36 percent was for building housing, 30 percent financing SMEs, 11 percent support for the financial sector and 23 percent housing finance.[9]

General obstacles to regional growth include high unemployment, systemic poverty, weak commodity prices, economic strain, environmental vulnerabilities such as droughts, growing debt, high remittance fees and high inflation.[10]

On average 39.7 percent of the SADC population live under the poverty line. Although the unemployment rate on average is 12.9 percent, this is distorted by high performing states such as Madagascar (1.8 percent), Tanzania (2.2. percent) and the DRC (3.7 percent) along with poorly performing states such as South Africa (27.7 percent), Lesotho (27.3 percent) and Eswatini (26.4 percent). Employment within the region has, however, not equated to poverty alleviation Moreover, the region shows stark contrasts in countries such as Madagascar, which has both the lowest unemployment rate of 1.8 percent and the highest poverty rate of 54.1 percent of the population under the poverty line, followed closely by South Africa which has the highest unemployment rate and second highest poverty rate with 52.9 percent of the population below the poverty line.

To improve regional trade with the international market, six SADC member states entered into a trade agreement with the European Union (EU) as of June 2016. The countries of the Economic Partnership Agreement (EPA) are Botswana, Lesotho, Mozambique, Namibia, South Africa and Eswatini. The EPA is an asymmetrical trade structure in which the SADC countries are not required to ensure the same level of market openness.[11] The remaining SADC member states are in negotiations to enter into arrangements under alternate regional groupings.[12]

Cross-border trade which originates in Johannesburg, the largest metropolitan area in the country, reinforces South Africa's status as core anchor and foundation for the SADC. The industry revolves around the bulk sale and purchase of goods, including clothing, shoes, and household goods. This informal economy functions predominantly in cash and is largely operated by citizens of other African and SADC countries such as Malawi and Zimbabwe.[13] This industry creates a demand for migrant housing and boosts the remittance structure. It emphasises the porous migratory nature of the SADC region, which is a critical factor, as urban populations and housing demands fluctuate regionally depending on where economic opportunities arise. The lack of predictability makes it difficult to deliver housing accurately to service the market. It also affects affordability as a single household could be separated and require more than one dwelling which needs to be financed.

Strategic interventions and direction from SADC seek to steer growth opportunities towards increased investment in non-oil sectors like electricity, construction and technology, along with focusing on mining and large infrastructure projects to bolster commodity prices and consumer markets.[14] However, there are major obstacles in ensuring that the member states in themselves adhere to SADC tenets and objectives, namely to promote sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper co-operation and integration, good governance and durable peace and security.[15]

Although the SADC is intent on poverty alleviation and strong regional economic development, it has no strategic specification developing housing, or more particularly, the use of affordable housing as a mechanism for greater economic opportunity or local economic development. Housing could fall under the objective of infrastructure development, but if delivered this would be as a consequence of other development and not necessarily as a core SADC outcome.

Access to finance

Though regional financial integration is a core objective of the SADC, member states have independent financial systems. To regulate practices and policies, two bodies have been created under the auspices of the SADC. The first was the Committee of Central Bank Governors (CCBG) in 1995 and the second the SADC Banking Association (SADC BA), in 1998.[16]

The association set up a regional banking leadership platform to direct strategy and develop mechanisms to maximise cooperation of member banking associations. By enhancing the technical and regulatory capacity of member associations, the association aims to make financial markets more attractive to both regional and international investors.

The SADC BA is mandated by the CCBG to house and run the Payment Scheme Management Body for banks that settle transactions over the SADC Real Time Gross Settlements (RTGS) mechanism, called the SADC Integrated Regional Electronic Settlement System. The associated Payment Project is intended to develop regional payments instruments, regulatory parameters, and business procedures, and serve as a reporting mechanism for the SADC-RTGS context, including reporting to the Payments SADC Oversight Committee.

The banking sector within the SADC is highly concentrated, with South African banks dominating through subsidiaries across the SADC. Standard Bank operates in all SADC countries apart from Comoros, Madagascar and Seychelles. First National Bank (FNB) is found in Botswana, Lesotho, Namibia, eSwatini, Tanzania, Mozambique and Zambia. ABSA operates in Botswana, Mozambique, Zambia, Seychelles, Tanzania, Mauritius and Namibia. As of 2018, 68 percent of the SADC population was financially included as compared to 66 percent in 2015.[17]

Mobile money accounts in SADC countries have enabled rural populations to gain some access to financial services. However, there is concern around increasing costs for these services across the region.[18] The cost of banking tools, including cross-border remittances within the region, remain a critical barrier to financial access. Efforts to lessen the cost have been made in some countries such as Malawi in which legislation has been passed to remove monthly fees on entry-level accounts, or in Zimbabwe, where a financial inclusion forum has been established.[19]

Mauritius has the highest level of mortgage penetration in the SADC. With an estimated 13 percent of the population having a home loan, its housing market is characterised by a high degree of ownership. Further, an estimated 10 percent of the Botswanan population holds a home loan, ranking it second in SADC in mortgage penetration. In Namibia, 81 percent of those aged 15 and over hold bank accounts. Conversely in Mozambique only three percent of the population has access to credit.[20]

A critical barrier to the growth and development of the SADC region is the backlog of major bulk infrastructure – and poor maintenance of existing infrastructure – without which further housing development cannot happen. Overloaded infrastructure is coming under increasing pressure because of the steady influx into urban areas. To help tackle this, the SADC has endorsed the operationalisation of a Regional Development Fund (RDF) as of August 2017.[21] This fund could serve to bridge the financing gap in critical regional infrastructure projects. However, none of the member states is financially stable enough to inject the necessary capital into the fund.

Affordability

The persistent poverty and stark inequality mitigate against affordability of housing in the region. The Seychelles reports the highest GDP per capita at US$16 434, followed by Mauritius at US$11 283, and South Africa arguably the most developed country in the region at only US$6 340. At the other end of the scale, Malawi (US$389) and Mozambique (US$490) stand far below their regional neighbours.[22] Similar regional variance applies in inflation rates, with two member states having recorded double-digit inflation rates, Angola (23.8 percent) and DRC (51.9 percent), while Zambia registered the lowest inflation rate of -1.0 percent and regionally the average rate was 9.3 percent, in February 2018.[23]

The cheapest newly built houses by a private developer in the SADC region ranges from approximately US$73 918 (Zambia) to US$11 678.83 (Lesotho) with a further six countries exceeding US$50 000 a unit.[24] There is no evidence to suggest the SADC or affiliate financial structures will look to address affordable or gap financing models to bridge the affordability gap between the consumers and current supply at a regional level. No regional policy covers housing backlog supply and affordable stock production. These remain deliverables for individual member states and given the economic inequalities in many of these countries the focus is less on affordable housing, which is seen as something the market can supply, (although increased restrictions and regulations are required for this), and more on state delivery of social housing and rental stock.

In Mauritius the state supports delivery through encouraging self-built housing on land bought either outright, through a 'Right to Buy' policy. Squatters buy land for a nominal fee or through a case by case free land allocation, in which the cost of building the house can be supported through state grant programmes. In Mozambique, though the state-owned Fund for Housing Promotion provides access to funding to private developers and subsidises the final sale prices for properties, the units are still unaffordable for low income households. In South Africa a household earning a gross income of R10 000 (US$708) a month would qualify for a house valued at R285 917 (US$20 237), the repayment of which would be 30 percent of the monthly salary over 20 years. Despite this falling within the range of affordability, many fail to obtain such mortgages, and with an unemployment rate of 27.7 percent, entry into the South African housing market is unattainable for most of the population.[25]

Availability of data on housing finance

Availability of accurate data sources is limited for SADC member states. Many of the countries themselves have inconsistent or non-existent indicator data readily available. As housing is not a key deliverable of the SADC, research by the body does not cover the trends occurring within this sector in the region. Individual countries will have varying quality of data and access mechanisms to review and compile the information.

Housing supply

Housing stock is delivered nationally throughout the region. However, the common thread is massive demand exacerbated by consistent increases in urbanisation, resulting in a growing backlog of over 11.5 million houses. SADC countries are increasingly unable to meet the demands for affordable housing.

The supply of affordable housing stock should ideally be driven by the individual national governments through social development projects or partnerships. In Mauritius from 2017 to August 2019, 2 291 social housing units were built, with a further 2 788 set for completion at the end of 2019, and further incentives encourage private sector development of low income units. Within the DRC the housing backlog is estimated at just under four million houses with a need for 263 039 houses to be built annually. The Botswana Housing Corporation was established in response to rapid urbanisation and a backlog of an estimated 36 000 units, but high land cost serves as a barrier to supply of affordable housing, with private developers supplying predominantly middle to high income markets.

In South Africa, the availability of development finance for affordable housing development has helped supply both rental and sale stock. There is, however, a trend toward supplying rental stock, particularly within key economic urban and peri-urban centres.

In many of the countries in the SADC there are moves toward supporting urban housing supply which has supportive infrastructure and economic opportunities. This includes supporting densifying strategies along transit corridors. Further, a growing tendency is to support policies that give private sector developers incentives to build low income stock as a proportion of units developed for sale at market rates.

Property market

The SADC ranking in the Doing Business report was 121 out of 190 with a score of 57.25. The best performing country was Mauritius, ranked 20th with a score of 79.58, followed by South Africa ranked 82nd at 66.03. At the bottom of the spectrum was the DRC at 184th with a score of 36.85.[26]

Since 2011, Mauritius has made reforms to make business easier by linking the database of the business registry with the database of the social security office as well as removing some social inequality policies which discriminated based on gender. In general, reforms across the region apply to decreasing inefficiencies by reducing the time for approval, using technologies to improve offering or processing, amending costs or fees associated with business operations, registrations or permitting, making processes more equitable, or cutting red tape. The property markets are diverse across the region. Countries like South Africa host a large variety of local and international property developers, while in the DRC, despite increasing demand, particularly around urban centres, developers and funding mechanisms to support development are lacking. Affordability of both supply and demand obstructs housing development.[27] As a result, they end up catering to the high-end of the market, where margins are better, and most low income households self-build or rely on the informal sector to meet their housing needs. On the demand side, low income households with informal sources of income cannot obtain or afford a mortgage. Most SADC financial systems are either undeveloped or dominated by commercial banks, which do not cater for most of the population.

Policy and regulation

The SADC Member States have created a Regional Indicative Strategic Development Plan (RISDP) 2015 to 2020. The RISDP sets out the key priorities and specific objectives of the SADC and centres on industrial development, market integration, infrastructure in support of regional integration, and peace and security cooperation. This operates in conjunction with the SADC Industrialisation Strategy and Roadmap 2015 – 2065, approved in 2015, aimed at support for economic transformation through regional integration and economic and technological transformation through enhancing competitive and comparative advantages. The SADC infrastructure agenda is focused on energy (electric and hydropower), tourism, transport (roads, rail, aviation, ports and inland waterways), water and sanitation, meteorology (global telecommunications and climate monitoring) and communication technologies. Housing is not a key objective within the infrastructure goals, and housing developed through the SADC would be off the back of a socioeconomic stability plan as a direct product.

At the South Africa municipal level, policies include the implementation of a statutory supply of 30 percent of a total private development portfolio as affordable housing units in developments of 20 plus dwelling units. The Inclusionary Housing Policy is intended as a mechanism to encourage private sector development through incentives, including additional bulk allocation exceeding that already specified within the zoning specifications. In Lesotho the Maseru Master Plan seeks to increase development density around the urban core. This strategy addresses both the limitation of land access for development and ensures development occurs in locations with existing bulk infrastructure. This is also being explored in Johannesburg, South Africa through the Nodal Review Policy.

Opportunities

The region is severely affected by growing urban population demands and resource scarcity, either in housing stock or the lack of supporting structures to ensure development of housing stock. SADC countries predominantly rely on private sector-led development to cater to the affordable housing market. Through the SADC BA and associated bodies, the region has a great opportunity to strengthen strategic vision and use the mechanisms and bodies in place to leverage private sector development through innovative strategic intervention. Policies such as inclusionary housing show how the independent states could incentivise increased supply through private development.

The SADC as an organisation is, however, centred on regional economic and political stability, along with intergovernmental collaboration and support, fostering a positive environment for investment. The lack of a regional strategic framework on housing does not necessarily reflect poorly on the SADC structure as it is not intended as a housing delivery mechanism. The delivery of housing and supporting legislative, financial and investment mechanisms are negotiated and dictated at a national level. However, failure to invest in bulk infrastructure (linked to housing supply such as water and electricity) and support of mixed use and income development will be counterproductive for regional growth.

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