Promoting Financial Inclusion to Provide a Wide Range of Housing Options Accessible to the Under-Served markets

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So how do we promote housing when banking is so limited?

Access to formal financial products & services across SADC varies. Informal channels play an important role.

Financial inclusion in the SADC Region

Just over a third of adults in the SADC region are formally banked, and two thirds are financial included using both formal and informal products.

Among those who are financially included, only about half access credit

Source: FinScope Surveys; FinMark Trust (2015) FactSheet on Financial Inclusion in SADC
Mortgage loan penetration is very limited, even in relatively rich countries

And even Findex 2014 finds low levels of housing lending in Africa

Outstanding home loan (% age 15+), Findex 2014 (Mortgage and non-mortgage loans)

... albeit with pockets of activity

Is it a question of affordability?

According to the World Bank, only 3% of the population in Africa has an income sufficient to support a mortgage – though, in urban areas the market is much bigger.

36.5% of Africa’s population earn less than US$ 2,000 per day. This is the international poverty line.

24% earn US$2 - $4 per day

9% earn US$4 - $10 per day

10.8% earn US$10 - $20 per day

18.8% earn above US$20 per day

Source: Data from AfDB Report on the middle class, 2011

Served: able to access mortgage finance and buy a house on the market

Underserved: insufficient supply to meet demand.

Unserved: no finance nor housing products exist for this market

The challenge is less about access to credit than about shifting priorities towards asset building

<table>
<thead>
<tr>
<th>Credit Source</th>
<th>Value</th>
<th>Number</th>
<th>Average Size</th>
<th>Total Instl.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>R3.8 bn</td>
<td>11,400</td>
<td>R330,100, R3,464</td>
<td>R39m</td>
</tr>
<tr>
<td>Secured Credit</td>
<td>R12.7 bn</td>
<td>146,700</td>
<td>R88,700, R2,030</td>
<td>R298m</td>
</tr>
<tr>
<td>Unsecured Credit</td>
<td>R14.9 bn</td>
<td>895,000</td>
<td>R16,800, R897</td>
<td>R800m</td>
</tr>
<tr>
<td>Credit Facilities</td>
<td>R7.0 bn</td>
<td>1,240,000</td>
<td>R5,700, R542</td>
<td>R672m</td>
</tr>
</tbody>
</table>

**Where does the money go? It is hard to tell but... if there is no supply there cannot be consumption**

**DISTRIBUTION OF CONSUMPTION EXPENDITURE FOR ALL HOUSEHOLDS: 2011**
(By monthly household income)

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>Utilities and Home Maintenance</th>
<th>Rents</th>
<th>Mortgages</th>
<th>Purchase of Vehicles</th>
<th>Operations</th>
<th>Transport Services &amp; Operation</th>
<th>Food and Non-Alcoholic Beverages</th>
<th>Health</th>
<th>Insurance &amp; Other Financial Services</th>
<th>Clothing &amp; Footwear</th>
<th>Communication</th>
<th>Education</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>R25 000+</td>
<td>9%</td>
<td>3%</td>
<td>15%</td>
<td>8%</td>
<td>6%</td>
<td>10%</td>
<td>8%</td>
<td>8%</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
<td>4%</td>
<td>11%</td>
</tr>
<tr>
<td>R10 000 – R24 999</td>
<td>8%</td>
<td>6%</td>
<td>7%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>11%</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
<td>4%</td>
<td>3%</td>
<td>12%</td>
</tr>
<tr>
<td>R3 500 – R9 999</td>
<td>8%</td>
<td>7%</td>
<td>3%</td>
<td>14%</td>
<td>20%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>4%</td>
<td>4%</td>
<td>2%</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>&lt; R3 500</td>
<td>9%</td>
<td>5%</td>
<td>29%</td>
<td>12%</td>
<td>29%</td>
<td>4%</td>
<td>5%</td>
<td>7%</td>
<td>3%</td>
<td>3%</td>
<td>4%</td>
<td>3%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: IES 2010/11
Note: Health includes medical insurance and medical aid contributions; Education includes school uniforms and shoes. [www.eighty20.co.za](http://www.eighty20.co.za)

**Housing is more expensive than furniture, clothing, and DSTV**

Source: Email correspondence with local practitioners, annually

**Housing happens rarely at scale. Most housing is built by the owner, incrementally, step-by-step. Might smaller housing be cheaper?**
• Construction de 3 nouveaux immeubles
• Début des travaux le 01 mars 2013
• Première livraison au mois d’Août 2013
• Chaque Immeuble est constitué de 6 APPARTEMENTS de 150 m²
• 3 Chambre à coucher
• 1 Salon et 1 salle à manger
• 1 Cuisine équipée;
• 1 Parking

Prix : 195.000 USD, soit 1300 USD/m²

• MODALITE DE PAIEMENT :
• - 100.000 USD à la signature du protocole d’accord.
• - 95.000 USD échelonné sur 24 mensualités à dater de la livraison.

Weaknesses in the housing value chain undermine our expectations for an efficient housing financing sector: what is a good lender to do?

Land assembly / acquisition
Title / tenure
Bulk Infrastructure
House construction
Sales & transfer
Maintenance & ongoing improvements
Social and economic infrastructure

High cost of land & zoning pushes people out to the periphery: Kigali & Luanda… or onto hazardous land: Dakar

Tiny mortgage markets because land cannot be secured: across Sub-Saharan Africa. Without secure tenure, poor housing investment by households fearing eviction leads to slums In Nairobi, slum landlords use political clout to maintain rental stream

Municipal under-investment and failure to provide infrastructure leads to higher housing prices / Poor road networks increases the cost of cement, leads to housing constructed with informal materials: Malawi, South Sudan, DRC / New city “islands” with private services: Tatu City in Nairobi

End-user finance hugely dependent on macro-economic health: impact on loan term, size, and cost: Malawi, Mozambique, Nigeria, Rwanda, etc. Most housing paid with cash & savings: only the very wealthy afford formality: the Gambia Absence of non-mortgage (housing micro) finance systems can also perpetuate slums
1. Think creatively about affordability:
Market segmentation creates a diverse array of opportunities for private sector engagement.

### Potential housing finance demand calculation for Zambia

<table>
<thead>
<tr>
<th>Monthly household income</th>
<th>Effective demand</th>
<th>Likely HF product</th>
<th>Potential aggregated urban, effective demand for HF (annual)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,500</td>
<td>$4 - 10/day (per capita)</td>
<td>$700+ Conventional mortgage</td>
<td>$30,000 households = $252 million</td>
</tr>
<tr>
<td>$600</td>
<td>$300 - 600/mo./HH (= $4/day) 9%/ (90,000 HHs)</td>
<td>$315 Frontier of conventional mortgage</td>
<td>$90,000 households = $294 million</td>
</tr>
<tr>
<td>$500</td>
<td>$120 - $300/mo./HH (= up to $2/day/capita) 27%/ (270,000 HHs)</td>
<td>$135 Micro-mortgage/ Housing MF</td>
<td>$200,000 households = $324 million</td>
</tr>
<tr>
<td>$400</td>
<td>$60 - $120/mo./HH (= up to $0.80/day/capita) 20%/ (200,000 HHs)</td>
<td>$63 Housing Microfinance</td>
<td>$270,000 households = $204 million</td>
</tr>
<tr>
<td>$300</td>
<td>$1 - $60/mo./HH (= up to $0.40/day/capita) 21%/ (210,000 HHs)</td>
<td>$27 Housing microfinance</td>
<td>$200,000 households = $65 million</td>
</tr>
<tr>
<td>$100</td>
<td>Under $10 Limited – savings &amp; sweat equity. Some HMF and Rental</td>
<td>Under $10</td>
<td>$210,000 households = $23 million</td>
</tr>
</tbody>
</table>

Data source: FinScope Zambia 2009; analysis by Bankable Frontier Associates

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2. And play with the value chain, identifying niche markets with a long term vision

### Housing delivery value chain (formal & informal)

- **Land assembly / acquisition**
- **Title / tenure**
- **Bulk Infrastructure**
- **House construction**
- **Sales & transfer**
- **Maintenance & ongoing improvements**
- **Social and economic infrastructure**

### Construction / developer financing
- Municipal land and infrastructure financing
- Guarantees or insurance

### End-user financing (mortgage / non-mortgage) and savings
- Municipal or community financing
- Private sector financing

### Investors / creditors:
- Private equity, pension funds, insurance companies, development finance institutions, wholesale debt, etc.

### National or municipal tax base
- Capital Markets

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*Note: different market segments will engage in different housing processes involving different value chains and different finance moments – this diagram is purely illustrative.*
Incremental housing construction can offer asset investment opportunities to low income earners and create a new market for lenders & the housing sector.

### Housing microfinance: for home improvement...

**Upgrading:**
- Extensions or improvements
- Additional infrastructure
- For residential or business

**Individualised approach:**
- R500 - R10,000 per loan
- < 36 months
- Unsecured

### Incremental real estate: ... or for housing construction ...

**Project or individual approach:**
- R30 000 – R80 000 per loan
- Up to 5 years tenor
- Unsecured or partially secured

- Land
- Core house
- Major additions
Such investment is often linked to small business development: there is an income stream.

About 70% of small scale enterprises in Gauteng have a component of their business in the home.

Original house – built around 1995

Three backyard rooms with water-borne sewerage: rental income

Container in the front yard for spaza shop – small business with cash flow for credit

Building materials for the next project

Development happens, responding to the financial capacity of the borrower, while also creating repeat lending opportunities.

Before ....

... six years later, a mortgagable dwelling

Source: Presentation by Jamie Ritchie, Rooftops Canada
The potential of housing microfinance is in repeat lending

Housing microfinance:

- Gives low-income earners an opportunity to **improve their housing** circumstances
- Enables **lenders to extend lower down market**, creating new clients for possible future cross-selling.
- Offers **income generation** opportunities to support sustainable livelihoods.
- Encourages home improvements and **gentrification** towards sustainable human settlements

- Borrow microloan
- Make improvements
  - Accommodation for rent
  - Small business
- Realise income
- Pay back microloan
- Improved housing asset

While creating a new form of supply and mortgagable assets in the long term: a staged approach to asset wealth and poverty alleviation

Once homeless, now an investor, providing housing to other low income earners

Land and / or starter house

Borrow micro loan to improve

**2nd dwelling** for business...

Income for retirement...

Sell and buy...

**Mortgaged 5-room house with granny cottage**

**Mortgaged 2-room house with backyard dwelling**

**Improved house with backyard room (for rental)**

**Sell to buy...**
So... thinking about financial inclusion that makes sense for housing

- Mortgage lending is just developing in Africa – early days
- Ultimately, its success will depend on a functioning property market and a housing ladder with enough rungs
- Current new-build supply is too narrowly focused: maybe 2 or 3 distinct product bands, and insufficient scale
- Housing construction value chain is under-developed, in part because of a fixation on mortgages, for which there is limited affordability

Developing the value chain by re-configuring the finance moments creates new opportunities
- More rungs in the ladder
- Better targeting of wider demand side
- Time to build up a diverse property market

Example: Incremental housing in Angola

- KixiCredito (Angola’s first non-bank MFI) offers a housing microloan product: KixiCasa
  - 36 month sequential loans up to $2500 per phase per house: 97% repayment on initial pilot
  - Raising further capital to grow loan book

- Development Workshop as developer
  - Partnership with CLIFF to scale up: 3000 home, incremental housing project in Huambo. CLIFF provides infrastructure financing; KixiCasa end user finance

- HabiTec is a social enterprise supporting KixiCasa loans:
  - HabiTerra provides settlement planning, land registration and land allocation services – support to provincial government with participatory urban planning
  - AquaSan improves rural water supply, builds water systems
  - Wood factory produces furniture & other goods for homes and schools

Examples from Angola, Malawi, Kenya, Tanzania, Zimbabwe, Uganda and elsewhere show real progress
Select Africa / Habitat for Humanity International partnership

- Select (private sector MFI) provides HMF
- HfH provides construction technical assistance – **cost covered by Select**
- 3000+ households served in Blantyre & Lilongwe between June 2011 – April 2013: 28% of Select clients
- Plans to grow to other urban centres
- “site visits are an invaluable branding opportunity for both Select and HfH”
- Future plans
  - Refining overall cost model for CTA to increase capacity, offer more services
  - Getting to the client before they start construction
  - Increase volume of site visits and inspections

The need to link HMF with the housing supply sector (through construction technical assistance & other support) make this different from traditional microlending and supports a good housing outcome.

Off-site CTA

- Technical information, leaflets, sample plans
- Professional services & training: meeting with client regarding plans

On-site CTA

- 3 levels relating to complexity of project and level of TA required
- Different professionals for different tasks
- Multiple visits

Thank you!

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