

Housing Microfinance in South Africa: The state of practice and issues for Africa

Presentation to the African Union for Housing Finance AGM in Accra, Ghana

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20 September 2007



Outline

- The place of housing microfinance in South Africa
 - Housing policy intentions
 - Nature and scale of delivery
 - Current housing sector dynamics
- Housing micro finance in sub-Saharan Africa
 - What we know about housing finance in sub-Saharan Africa
 - Extent of housing microfinance
- Key challenges & opportunities facing housing microlending

Note: figures
quoted in
SA Rands

R1,00 = about
US\$7,00

The place of housing microfinance in South Africa

- Policy intentions
- Nature and scale of affordable housing delivery
- Current housing sector dynamics



SA Policy intentions

1994 Policy makers faced two problems:

- Low levels of income (1994 Housing White paper estimates)

Income category	Percentage	Number households
>R3501	13,9%	1,15m
R2500-R3500	5,6%	0,46m
R1500-R2500	11,8%	0,98m
R800-R1500	29,0%	2,42m
R0-R800	39,7%	3,30m
Total	100%	8,3m

- Lack of end-user finance
 - Lack of appropriate retail lending capacity
 - Reluctance of formal financial institutions to lend in certain areas and to certain groups

1994 Policy response

- Housing subsidy for hh < R3500 / month
- Strategy to mobilise credit involved establishment of NHFC and RHLF
 - NHFC and RHLF focused on supporting growth of housing lenders (among other goals)
- Other microlenders also lend for housing (about 10-30% of disbursements)



Subsidised core house

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Housing microloans

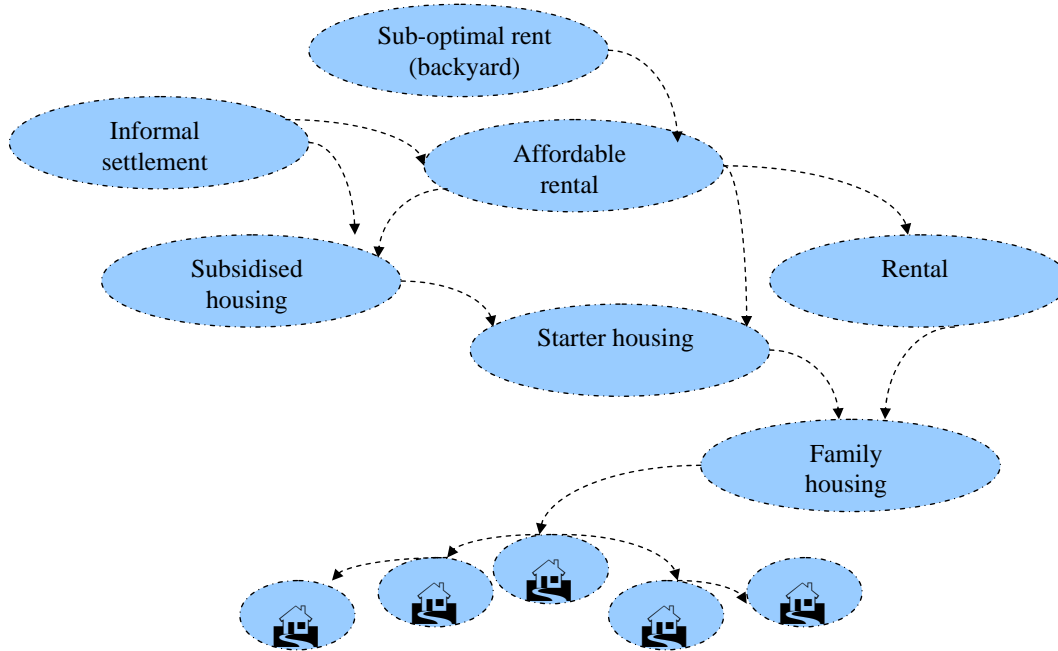
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Housing asset

SA Policy intentions

Pools and flows



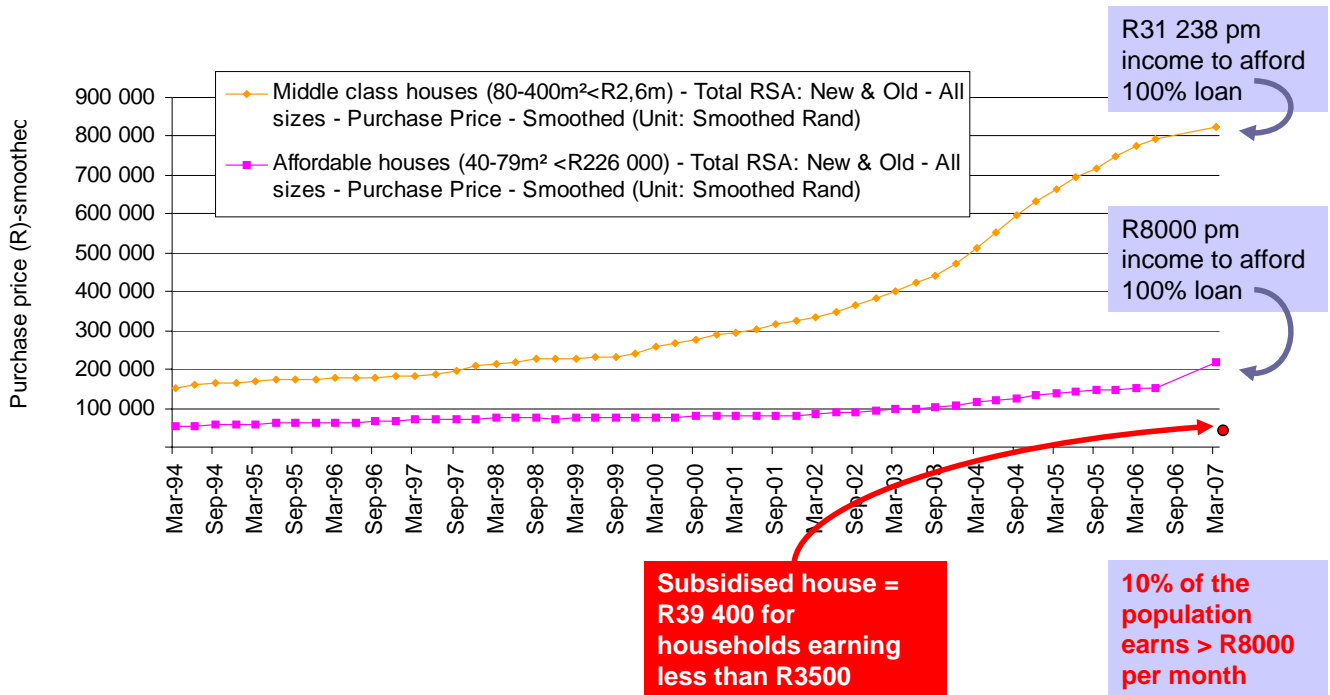
The right home, for rent or ownership

Nature and scale of delivery in SA

Income	House cost	% pop (LFS 2004)	Estimated backlog	Ownership	Rental
>R7500		10%	None specified	Focus of delivery, rapid price escalation	Limited delivery now growing
R7500 (+CPIX)	<R200 000	11%	± 650 000 units <R200 000, growing @ 132 000 pa	Average 20 000 units delivered annually	Social housing stock: 35 000 units total nationally
R3500		6%	About 2 million remaining: ± 2,3m subsidised units to date	No new housing delivered is affordable here	Some private sector rental: inner city & backyard
R2500	R39 000	10%		Only subsidised housing	Backyard rental; inf settl; overcrowding
R1500	R39 000	63%		271 000 subsidised houses delivered in 2006/07 year	BY rental; informal settlement; overcrowding
R0					

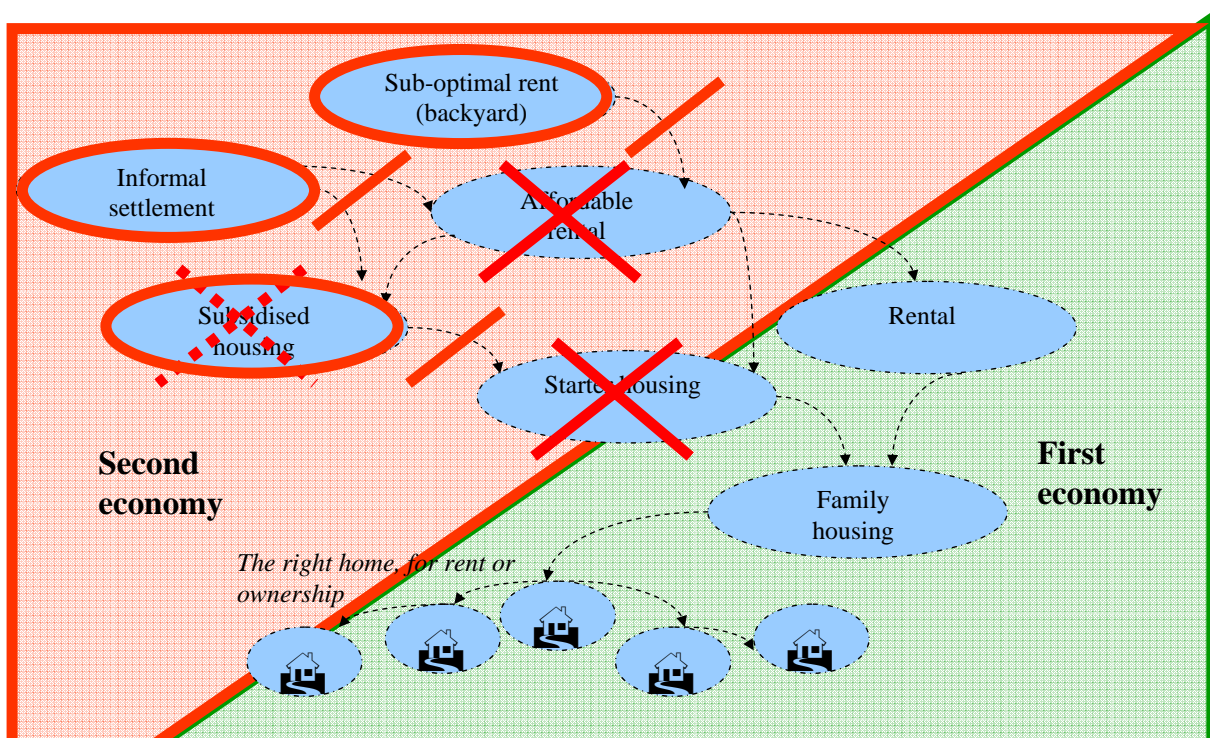
Nature and scale of delivery in SA

Affordability reality check



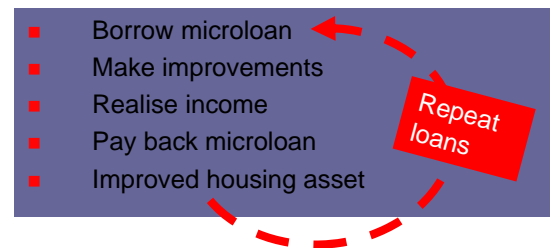
Current SA housing sector dynamics

Broken pools & flows



Current SA housing sector dynamics

- Two gaps in the housing ladder
 - Between the R39 400 subsidised house and the R216 000 “affordable” house
 - Between the R216 000 affordable house and the R848 000 “middle class” house
- Banks have signed a Financial Sector Charter committing to lend R42bn to moderate income households by December 2008
 - Only the highest earners in the FSC target market can afford an “affordable” house
 - Formal, private sector delivered housing is only affordable to about 10% of SA’s population
- State subsidised housing (2,3million units) is therefore “dead capital”
 - Other housing for low income earners also
- Opportunity for housing microfinance
 - To respond to affordability constraints (90% of the population earn less than R8000 per month)
 - To fill in the gaps and “revive” dead capital housing through an incremental housing process
 - To create a market of more “affordable” housing that FSC signatories can fund, reaching deeper into their target market
 - To encourage home improvements and gentrification towards sustainable human settlements



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Housing microfinance in sub-Saharan Africa

- What we know about housing finance in sub-Saharan Africa
- Extent of housing microfinance



What we know about housing finance in Africa

- High income earners formally house themselves (own resources)
- The middle class must finance own construction (over time, often in unplanned areas)
- Minimal amounts of finance (quasi-mortgage) available to high-net worth clients through a handful of banks
- Move to revive, extend or introduce mortgage lending in a handful of countries (Botswana, Ghana, Tanzania, Zambia, Uganda, Kenya)
- Financial Sector Reform Programmes have a new housing focus as key to economic growth

■ Key challenges facing mortgage lenders

- Access to capital (in part due to limited mortgage sector infrastructure – flexible underwriting, credit bureaus, secondary markets, etc.)
- Significant demand side constraints
 - Affordability for loans
 - Informal incomes
 - Tenure insecurity

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Source: Mary Tomlinson (2007) A literature review on housing finance developments in sub-Saharan Africa. Commissioned by the FinMark Trust.

What we know about housing finance in Africa

	Level of urbanisation %		Improved water %		Improved sanitation %		House connections %		Poverty	
	2000	2030	1990	2002	1990	2002	1990	2002	% < \$1	% < \$2
Africa	37.1	53.5	78.7	83.4	55.3	57.8	42.5	43.3	40.3	75.7
E Africa	24.4	41.0	85.2	84.5	51.1	53.8	42.9	42.3	37.5	74.5
Middle Africa	35.2	54.4	67.9	74.9	46.0	43.2	30.0	30.8	43.5	76.0
S Africa	52.4	67.0	94.0	94.2	68.8	69.6	62.0	63.6	30.7	54.7
W Africa	40.1	58.9	95.6	81.6	46.2	57.0	27.8	32.8	49.4	77.4

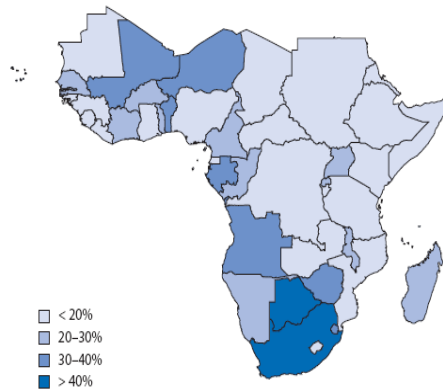
- By 2030, most countries will be more than 50% urbanised. Urban populations in Africa are growing by 3.5% per annum.
- Sanitation and electricity are the most significant urban services challenges
- Poverty is significant : 75% of the population earning less than \$2 per day
- Southern Africa leads in access to services and has lower poverty figures. It is already more than 50% urbanised.
- Demand for housing is clear
- Access to urban services and poverty levels suggest incremental housing processes will dominate
- Poverty levels suggest limited affordability for large scale loans
- **Wild card:** access to secure tenure

Source: Global Report on Human Settlements 2005: Financing Urban Shelter

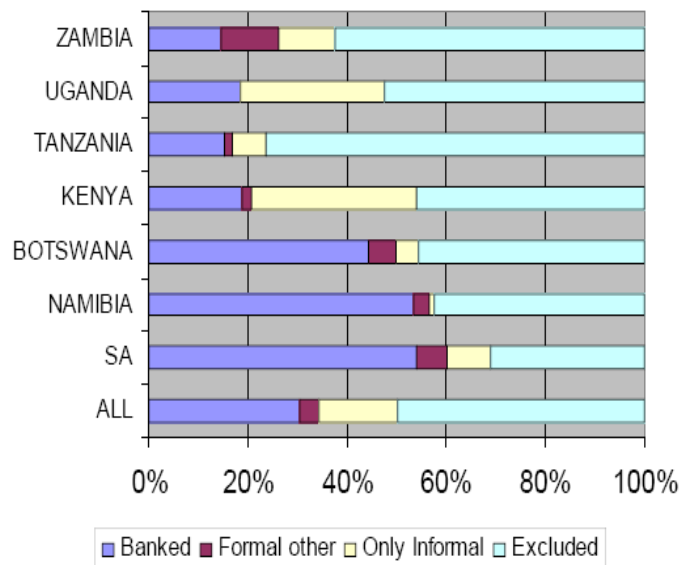
What we know about housing finance in Africa

MAP 2.4

Access to Finance by Households



Sources: Honohan 2006, with additional data obtained for Guinea Bissau from Banque Centrale des Etats de and World Bank staff estimates for Chad, Equatorial Guinea, and Somalia.



Sources:

Honohan (2007) Access to Finance in Africa

Bankable Frontier Associates (2007) Financial service access and usage in Southern and East Africa: What do Finscope™ surveys tell us?

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Extent of housing microfinance

- Less than 30% of households in most emerging countries can afford a mortgage to purchase the least expensive developer-built unit because of:
 - House prices are high
 - High real interest rates of 10%+ amortised over years creates high monthly repayments that low income earners often cannot afford
 - Unavailability of long-term funding, which creates interest-rate risk and limits the supply of mortgage credit
 - Costly formal-sector systems for property rights, land use development, property transfer taxes etc., push families into the informal sector, and contribute to limit the demand for mortgage money
 - Instability of household income makes long-term debt risky to lenders and unattractive for many families
- **So, most households build step-by-step, room-by-room**

As explained previously by Bruce Ferguson: IUHF Meeting in Brussels, June 2004.

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Category	Description / examples	County
Informal, locally established (susu, umpato)	Savings based, locally defined. Approach and use of funds defined by group: individual or collective loans	All countries – lessons?
Community based shelter funds	Usually donor supported (i.e. Slum Dwellers International) largely collective loans, targeted at most poor	Angola, Namibia, Tanzania, ?
Cooperatives and credit unions (Saccos)	Individual loans for housing often a coincidental focus	Namibia, Tanzania, Zambia, ?
Non-bank micro lenders (credit-only)	Origins in microcredit for SMMEs; housing the next progression. Individual loans for those with secure tenure	Angola, Ghana, Namibia, Tanzania, Zambia, ?
Microfinance banks (deposit taking and lending to members and sometimes non-members)		Ghana, Tanzania, Zambia, ?
State owned banks offering microloans		Ghana, Tanzania, Guinea, Uganda, ?
Commercial banks offering microloans		Namibia, Tanzania, ?

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Extent of housing microfinance in Africa

- Microfinance is extensive and growing
- Housing microfinance less so, but growing
 - Donor / NGO driven
 - Emphasis on shelter provision
- Risk that SA situation of broken pools and flows will be replicated
 - Clear split between the “housing rich” and the “housing poor”
 - Opportunity presented with housing microfinance not being maximised
- Key challenges facing housing micro lenders
 - Scaling up to meet challenges of potential client base
 - Informal incomes
 - Limited affordability
 - Tenure security and financing land and infrastructure
 - Securing capital
 - Savings can be insufficient
 - Donor capital has been decreasing
 - Greater demand for private capital – but this has affordability implications

Key challenges & opportunities facing housing microlending

- Scale
- Relevance



Key challenges: Scale



Problem:

- Scale of lending
 - Insufficient capital to lend at scale
 - Capital often linked to limited savings
- Scale of housing focus
 - Few MFIs offer housing-specific products
 - Those that do, are generally project (local)-based, or NGO-driven
 - Substantial donor engagement
- Viability of lenders
 - Collections
 - Servicing

Opportunity :

- Linkage between commercial bank and local MFI
 - MFIs can draw on bank:
 - Deposit accounts
 - Liquidity management services (emergency credit lines to cover cash shortfalls)
 - Credit facilities to support expansion
 - Technical assistance (account management)
 - Banks can draw on MFI:
 - Retail exposure
 - Neighbourhood level relationships & methods
 - Technical housing capacity

Problem:

- Reality of the housing process differs from traditional lending process
 - Incremental building
 - Insecure, or informally secure tenure
 - Limited affordability of end users

- Limited (no) focus on asset building
 - Sense of a 'market' for low income houses is undeveloped
 - Entry-level housing outside the affordability of the majority of borrowers

Opportunity :

- Housing-specific micro loan product
 - Size: larger than consumption loan
 - Target: 'good clients' with demonstrated track record
 - Use:
 - Land purchase
 - Infrastructure investment
 - Housing construction
 - Home improvements
 - Business development
 - Special features:
 - access to housing advice (link with technical housing NGO)
 - Life cycle loan products leading towards mortgage access

- Small scale mortgage products – introduce gradually

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Key opportunity

- Housing demand is significant
- Everyone invests something in their housing – a clear 'fortune at the bottom of the pyramid' opportunity.
 - Need to understand the borrower's housing process and match finance accordingly
- Housing investment a precursor to demand for other financial services:
 - **Savings** towards purchase
 - **Micro loan #1** for land
 - **Micro loan #2** for infrastructure
 - **Micro loan #3** for first two rooms and so on ...
 - **Business loan #1** for backyard rental accommodation
 - **Business loan #2** for spaza
 - **Transaction account** to manage new income and expenditure
 - **Insurance** – housing and stock
 - **Mortgage loan** for the purchase of next house and move up the housing ladder

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