

SUSTAINABLE HOUSING MICROFINANCE IN SUB-SAHARAN AFRICA: A REGIONAL SUPPORT INITIATIVE

DISCUSSION PAPER

Rooftops Canada, the Centre for Affordable Housing Finance in Africa (a division of the FinMark Trust), and Habitat for Humanity International have been partners in the development of a sub-Saharan housing microfinance sector since 2008, following two housing microfinance workshops, held in Dar es Salaam in 2008 and Nairobi in 2010. Over 200 people from more than 15 African countries and ten other countries participated in these workshops. The workshop reports are available at [insert website address – could be Rooftops or CAHFA]. A key concern raised by participants has been how to build on the momentum of these and ensure that a strong housing microfinance sector emerges to support good housing outcomes for the vast unserved population of the region. Our three organizations are pursuing the mandate placed upon us by the second workshop participants to respond to this concern.

This discussion paper is the next step in the process to strengthen the emerging housing microfinance industry. It is intended for review and comment by interested stakeholders as part of a wider consultation process to develop the housing microfinance sector. Stakeholders will be invited to consultation workshops in at least seven countries – Angola, Kenya, South Africa, Tanzania, Uganda, Zambia and Zimbabwe. The results will be gathered together into a document for discussion for a small representative two-day workshop to be held in Nairobi in early 2012, to finalize a regional initiative program document.

Comments, questions, and expressions of interest to participate are invited from housing microfinance practitioners and housing support services providers. **For more information, please contact:**

Kecia Rust, Housing Finance Theme Champion, FinMark Trust Kecia@iafrica.com

Barry Pinsky, Executive Director, Rooftops Canada barry@rooftops.ca

Ezekiel Esipisu, Housing Finance Director, HFHI AME eesipisu@habitat.org

Rooftops Canada – Abri International is the international development program of co-operative and social housing organizations in Canada. Rooftops Canada works with partner organizations to improve housing conditions, build sustainable communities and develop a shared vision of equitable global development. Rooftops Canada's focus is on disadvantaged communities in Africa, Asia and Latin America. www.rooftops.ca

FinMark Trust was established in March 2002 with funding from the UK's Department for International Development (DFID). Our mission is summarised in our slogan: "[Making Financial Markets Work for the Poor](#)". FinMark Trust aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked in Africa. www.finmark.org.za

Habitat for Humanity International is a nonprofit, ecumenical Christian housing ministry. HFHI seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Habitat partners with people of all backgrounds, races and religions throughout Africa to find innovative ways to address shelter needs for poor and marginalized people. www.habitat.org/ame

CONTENTS

I.	CONTEXT	3
	The challenge of poverty housing in sub-Saharan Africa	3
	A Response - Housing Microfinance	3
II.	IDENTIFIED CONSTRAINTS TO EFFECTIVE HOUSING MICROFINANCE	4
	1. Housing microfinance faces capacity constraints.....	5
	2. The emerging housing microfinance sector faces capital constraints.....	5
	3. The wider housing process is an integral part of HMF.....	6
	4. An enabling environment is missing	6
III.	MOVING FORWARD: ENVISIONING A REGIONAL SUPPORT INITIATIVE	7
	Who should be the targeted stakeholders?	7
	What should the general approach be?	7
	How might a regional initiative be structured to best meet these objectives?.....	8
IV.	ROADMAP AND TIMELINE.....	9
	GLOSSARY.....	9
	ANNEX 1: HHS KEY ISSUES	10

I. CONTEXT

The challenge of poverty housing in sub-Saharan Africa

Access to housing and housing finance by low income earners is a critical development issue facing most countries around the globe. UN Habitat notes the predominance of “two extreme outcomes of current shelter systems that are being witnessed today: affordable shelter that is inadequate, and adequate shelter that is unaffordable.”¹ It further notes that within the next 20 years it is unlikely that conventional sources of finance will be available in many developing countries for investment on the scale needed to meet projected demand for infrastructure and housing. With deficits in public budgets and the persistence of weak financial sectors, the situation seems untenable.

In sub-Saharan Africa, this reality is especially dramatic. Income levels are such that the majority of households cannot afford to buy the least expensive house, even if mortgage finance were available. Research by the FinMark Trust in four countries found that at best, 3% of households in Zambia, Botswana, Namibia and Kenya might be eligible for mortgage finance; but even so, the cost of housing makes such solutions unrealistic².

The great majority of the urban poor in African cities have irregular incomes, no social safety net and limited options. Acquiring land and building a home requires incredible determination. The first home is usually a shack, which may be expanded and improved over many years. People depend on savings and costly loans from informal money-lenders. Housing competes with pressing demands for school fees, health care and basic survival.

A key limiting factor for improving housing and human settlements is the lack of appropriate finance options to complement the incremental self-building practices of the urban poor. While microcredit for economic development is an increasingly mature sector, micro-finance for housing is in its infancy, especially in sub-Saharan Africa. What has emerged in this region is a dual housing finance sector. On the one hand, there is a small but energetic cadre of grassroots NGOs and lenders seeking to deliver housing finance solutions to very low income and disadvantaged target markets. On the other hand, commercial lenders, international capital and others in the established financial sector seek to deliver mortgage finance in the emerging African markets. However, in the few countries where mortgages are offered (with the exception of South Africa), it appears that less than 1000 loans are delivered nationally, per annum. To date, there have only been limited efforts to build a cohesive housing microfinance sector in sub-Saharan Africa that among other things, brings together experiences from both two sides of the dual housing finance sector.

A Response - Housing Microfinance

It is within this environment that housing micro lenders have emerged in the region. These have grown from NGO movements supporting housing delivery for the poor, savings and credit co-operatives and micro enterprise lenders seeking to diversify their product range, as well as other institutional models. Practitioners have been operating in relative isolation, with limited technical and

¹ UN-Habitat, Financing Urban Shelter: Global Report on Human Settlements 2005

² Walley, S (2010) Housing Finance in Africa: Are we Post Crisis Yet? Presentation to the African Union for Housing Finance Annual Conference, 22 September 2010. Datasource: PovCalNet database, World Bank, IFS National Income data, own calculations, cited in 2011 Yearbook, CAHF, (2011)

financial management capacity and with only some regional sharing of experiences and methodologies, supported by external partners such as Rooftops Canada, FinMark Trust and Habitat for Humanity.

Among many other actors, these organisations and their African housing partners have been developing new housing microfinance models. These often start with savings and group loans to secure land and install basic infrastructure. When these loans are re-paid, individual households then borrow to build one or two rooms, and/or gradually improve existing housing. Small, short-term affordable loans match the step-by-step housing and land consolidation process. Technical support helps maximize people’s investment and provide the best possible housing. In many cases, people also build rooms for rent or for their own small businesses enhancing their livelihoods.

Such initiatives have generally operated in relative isolation from each other, with limited opportunity for learning and exchange. There is no active group currently promoting the concept and relevance of housing microfinance in sub-Saharan Africa on a sector-wide basis. Such a central point of reference (or a network of such reference points) is especially important to investors seeking to understand the opportunities that housing microfinance provides. Such an initiative could coordinate the information, research and capacity exchanges necessary for sector growth and consolidation.

II. IDENTIFIED CONSTRAINTS TO EFFECTIVE HOUSING MICROFINANCE

During the two regional housing microfinance workshops held in Dar es Salaam in 2008 and Nairobi in 2010, a number of challenges to the successful development of the HMF sector were identified. These are detailed in the table below.

<p>Overall environment</p> <ul style="list-style-type: none"> • Inappropriate government policies • Political & regulatory barriers • Lack of replicable, scalable models • Poor understanding of HMF and HSS
<p>Land & Services</p> <ul style="list-style-type: none"> • Inability of the poor to access serviced land and secure tenure • In situ land servicing • Bulk and connector infrastructure
<p>Affordability</p> <ul style="list-style-type: none"> • Rising cost of building materials • Cost of providing housing support services on a sustainable basis
<p>Finance</p> <ul style="list-style-type: none"> • Lack of affordable capital • Bridge between investors wishing to make scale investments and small MFIs • Need for appropriate guarantee mechanisms: to extend access, deal with currency risk, facilitate wholesale lending, etc. • Term mismatch
<p>HMFI and HSS Capacity</p> <ul style="list-style-type: none"> • Technical assistance required in wide array of areas <ul style="list-style-type: none"> ○ Development and cost of appropriate, effective technology ○ Data collection, management and analysis mechanisms, MIS systems ○ Organisational architecture ○ How to articulate and support the finance / housing link • Chicken-and-egg challenge of scale: operational systems, capital, human resources • Need to develop partnerships and networks

This paper has grouped these challenges into four key constraint areas. Through this regional consultation process, stakeholder responses to these issues will form the basis of a regional strategy.

1. Housing microfinance faces capacity constraints

Housing microfinance experiences have grown organically from a variety of originating circumstances and in relative isolation. The small number of dedicated housing microfinance institutions, the low number of microfinance or finance institutions that explicitly lend for incremental housing, and the paucity of housing support organizations has meant that there have been limited HMF sector-wide learning initiatives. Existing actors have had to grow capacity in this specialised and costly operating model and to manage impending scale without either undermining organizational sustainability or missing the opportunity for growth. Some of the complexities facing institutions that provide HMF include: High operating costs, above norm portfolio risk compared to enterprise micro-lending, and changing staff skills requirements. Where housing finance has become a focus of organisations that initially provided savings and credit or technical housing support services, this learning curve is even steeper as these organisations realign to their new mission.

In sub-Saharan Africa, these lessons are learned with varying success on an organisation-by-organisation level. Participants in the two regional workshops suggested that new institutions and new partnerships are required to facilitate the flow of information and learning between organisations and to provide access to sources of technical capacity building. This can potentially include a range of services from focused, institutional-level technical support services to the promotion of sound housing development using affordable and green technologies while maximizing opportunities for improvement of local livelihoods. Additionally, lenders and investors would benefit from a greater dissemination of experience and practice – good and bad – which speaks to the challenge of growth and scale. Partnerships between technical support organizations (both local and international) and HMF lenders can also lead to local level successes whose stories can be disseminated widely.

2. The emerging housing microfinance sector faces capital constraints

A significant impact of a fragmented HMF sector is a lack of presence on the investor landscape. If HMF is to grow to scale, affordable wholesale finance needs to be available. But large scale capital (including institutional investors and commercial banks) struggles with the concept, as do some governments. Housing microfinance is perceived as being insignificant. Existing loan portfolios are small, the product is not clearly understood and the target market is perceived as being inherently risky, demanding more intensive origination and servicing methodologies that are expensive and eat into returns.

The commercialisation of microfinance over the past few years has altered the funding landscape for developmental finance. An increasing focus on financial sustainability as the major benchmark for a MFI's ability to attract financing, without a concurrent rigorous analysis of the on-going role that subsidies may play in a MFI's ability to reach (and indeed maintain) breakeven and profitability, has negatively impacted young institutions seeking funding.

At the same time, a variety of opportunities exist. Some donors, wholesale lenders and investors are interested in investing in housing for the poor and exploring models for a commercial response to the challenges. The microfinance sector is growing and a number of micro lenders are exploring the development of explicit housing microfinance loan products. The potential in pension fund assets is also being considered in some countries. It is important to prioritize housing microfinance as a target for investors and other funders (including donors), as well as the public sector. The potential for

partnerships between public and private sector institutions in the provision of capital and its targeting towards housing can also be explored.

3. The wider housing process is an integral part of HMF

The major differentiating factor in HMF is the complexity of the physical housing process. Where microenterprise finance injects otherwise unavailable capital into economic activities with which borrowers are familiar, housing finance provides capital for a complex process that is not well understood by most existing MFIs. A range of community issues become relevant to the use of this capital in the housing journey. These can range from access to land; securing tenure; access to municipal services and infrastructure; negotiating local and national regulation; managing technical aspects of building such as water and sanitation, planning and construction processes; borrower financial education; and ensuring the maintenance of housing quality over the long-term. The two workshops referred to this range of services and needs as Housing Support Services (HSS). Please see Annex 1 for more detail.

The role of HSS often situates housing delivery within wider community and development issues. While not able to serve the wide-ranging needs of communities, HSS initiatives need to be mindful to ensure that the activities they support and the opportunities they help create also respond to key related concerns such as:

- Promoting gender equality and respect for human rights, particularly the right to adequate housing;
- Reducing poverty and exclusion and improving livelihoods for urban poor households with special emphasis on disadvantaged youth;
- Responding to the HIV/AIDS crisis in the region by improving housing and services, and developing micro-finance options that do not undermine household security; AND
- Contributing to environmental sustainability in housing and human settlements projects.

Some HMF actors have opted to concentrate on the provision of finance alone, generally where there is existing capacity elsewhere in the housing landscape to meet wider housing support needs. The majority recognise that if finance is to be meaningfully used, then a minimum of HSS need to be provided to borrowers. The 2010 workshop showcased a range of options for doing this, from state subsidy, to commercial enterprise involvement, to specialised NGOs. Building on this is a need to increase the depth of knowledge of these and other solutions as a key response to the “missing link” in successful HMF intervention.

4. An enabling environment is missing

A common thread through the constraints above is the role of an enabling environment. A network or series of networks at the national and regional level that interlink to provide a coherent HMF policy is critical in the development of the sector. This would serve to:

- Share learning experiences between HMFIs and HSS organisations;
- Liaise with local and national governments to improve HMF/HSS-related policies and regulation;
- Increase knowledge and benchmarking information for the investor community (which often mistakenly applies non-housing microfinance standards to HMF, to the latter’s detriment);

- Provide recognised fora for discussing sector-wide issues and framing responses to regulatory and other issues affecting HMF; and
- Generally promote HMF and the development of appropriate housing delivery in the region.

Such an enabling environment has been of immense benefit to the traditional microfinance sector, where a number of initiatives have created sector-wide reference points, such as the MixMarket (providing sector-wide financial and social performance data), CGAP (providing news, analysis and technical leadership) and networks such as Accion and SEEP, that create strong regional networks that act as portals. A wide range of microfinance players can be accessed through these services. Creating a similar network with a focus on housing microfinance would improve the visibility of the sector.

III. MOVING FORWARD: ENVISIONING A REGIONAL SUPPORT INITIATIVE

The next step in building on the impetus created from the 2010 workshop in Nairobi is to formalise a stakeholder-agreed strategy for addressing these (and other) constraints. A number of questions will be discussed in consultation sessions, including:

Who should be the targeted stakeholders?

The table summarises some of the players already identified in the workshops, who could be expected to play a role:

National and local governments and public agencies
Donors and development finance institutions
Existing HMF providers: <ul style="list-style-type: none"> ○ Specialised Housing Microfinance Providers (cooperatives, non-profit institutions, or credit companies) which focus on HMF as their primary activity, ○ Non-bank financial institutions (cooperatives, non-profit institutions, or credit companies) which have developed an HMF offering as an addition to their primary activity, ○ Banks that have developed a housing offering for the low income segments.
- Potential Housing Microfinance providers: <ul style="list-style-type: none"> ○ New entrants, start-up/greenfield institutions, ○ Non-bank financial institutions, ○ Banks.
Housing Support Services providers

What should the general approach be?

How best can the constraints identified be overcome and what kind of structure would best achieve these goals?

The potential roles of a regional initiative as envisioned in the 2010 workshop could include:

Promoting the concept of HMF by: <ul style="list-style-type: none"> • Emphasising regional stability to facilitate investment & development, • Developing industry standards and benchmarks, • Increasing targeted research, information, data: country scoping studies, best practice, and experience, • Maintaining on-going consultation with interested stakeholders.
Conducting sector-level initiatives to relieve three key constraints in the areas of technical capacity, financing and policy & regulation by: <ul style="list-style-type: none"> • Building regional HMF networks, communities of practice and working groups, • Identifying & developing strategic partnerships, • Facilitating knowledge exchange and peer to peer learning, • Developing financing mechanisms.
Facilitating interventions at HMF and HSS provider-level in technical capacity and financing by: <ul style="list-style-type: none"> • Facilitating technical assistance and institutional capacity building, • Creating/managing/coordinating training of trainers and training delivery, • Advising on pricing for HMF and HSS, • Promoting innovation.
Building an enabling environment through: <ul style="list-style-type: none"> • Lobbying governments to relevant issues such as tenure and infrastructure • Contributing to the development of appropriate policy relating to incremental housing and developer-led affordable housing • Raising awareness of the need for a suitable regulatory framework for HMF operations

How might a regional initiative be structured to best meet these objectives?

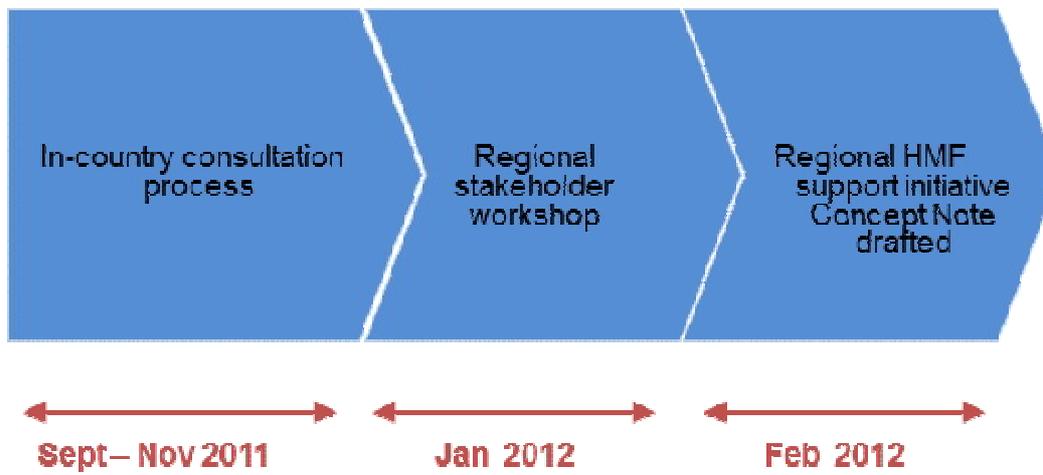
The stakeholder sessions will discuss what structures will best suit the needs identified by the various HMF players. These might be local, national or regional in scope or a blend of all three. These could include a combination of the following, as well as other possibilities:

A network or networks comprising several nominated national players
A national working group
An electronic resource (website with research, benchmarking, analysis, sector news and regulatory developments, tools and manuals developed for Technical Assistance)
A national or regional training centre with core staff performing various training, analysis and knowledge management functions – this could be physical or virtual, in one or more places
A database of interested parties including HMFIs/donors/investors/development agencies
A database of technical assistance providers
A partnership with various wholesale funds
A series of regional exchanges and workshops
A source of wholesale financing
A source of grant financing
A partnership with rating agencies

These topics will be discussed in detail during the stakeholder consultations and the results will be gathered together into a document for discussion at a two-day workshop to be held in Nairobi in January 2012, to finalize a regional initiative program document and establish a process for moving forward. The three organizations sponsoring this consultation process are committed to carrying the results ahead.

IV. ROADMAP AND TIMELINE

The proposed timeline below highlights the main phases of the process:



GLOSSARY

DFI	Development Finance Institution
HMF	Housing Microfinance
HMFI	Housing Microfinance Institution
HSS	Housing Support Services
KM	Knowledge Management
MF	Microfinance
MFI	Microfinance Institution
NBFI	Non-Bank Financial Institution
SACCO	Savings and Credit Cooperative

ANNEX 1: HHS KEY ISSUES

The presentations and discussions held throughout the three days of the 2010 Nairobi workshop raised a number of key points on the role, shape and form of housing support services in the housing microfinance lending process. The following table sets out some of the takeaway points.

QUESTION	ANSWER	EXAMPLE
Are HSS necessary to viable HMF lending?	All organisations were in consensus that some form of HSS is necessary as part of the lending process.	The Central American examples were the most emphatic regarding the importance and prominence of HSS in the HMF lending process. African cases also demonstrated the need for the HMF lender to at least “make a market” for their loans through the provision of HSS.
What is the scope of HSS?	The scope varies from one provider to the next, and relates to different stages in the incremental housing process.	NACHU (Kenya) and Development Workshop (Angola) include land and secure title as one of the core intents of HSS provision, given that this is a particular issue in their contexts. Select Africa and Patrimonia Hoy, on the other hand, expect tenure security to be a given and focus rather on the building and construction phase of the housing value chain. Habitat for Humanity emphasizes construction technical assistance. Homeless International provides support that builds community-based housing organisations towards long-term sustainability and financial viability.
	HSS can be provided externally or internally.	Many HfH offices in Africa seek partnerships with lenders, so they can focus on the HSS and the lender can focus on lending. Kixicredito in Angola relies on external HSS providers, so that it can focus on its core business of lending. Organisations such as NACHU, on the other hand, provide HSS internally, including more upstream services such as land and tenure security acquisition.
	HSS provision can be very extensive, to minimal. It can cover various stages in the housing supply chain, or can be confined to single aspects of this, often predominantly the building and construction phase.	Select Africa’s support is limited to the provision of approved plans for building, and the recommendation of a cost-effective building technology. HfH Kenya on the other hand offers fairly comprehensive support, including the design of the house and municipal approvals in the construction phase.
	Context is key.	In Nicaragua, earthquakes and hurricanes make HSS critical to building strong housing structures. In Angola the post war context make land tenure issues especially important. Rural areas suffer with the cost of building materials transported over long distances. The Mwanza Rural Housing Organisation therefore promotes the use of alternative and locally available materials in the building process.

How do you price HSS?	Loan beneficiaries are willing to pay for HSS, like any other service.	The PRODEL model for lending is premised on this willingness. Borrowers are willing to pay for a quality service. That HSS is not free also holds the lender accountable to providing value for money in the delivery of the service. Over time, PRODEL not only achieved financial sustainability in the provision of HSS, but also become profitable.
	Subsidies can often be important as incentives for certain behaviour in housing delivery – especially in the adoption of environmentally sustainable practices.	The Micro Energy Alliance (MEA) in South Africa uses a government subsidy to incentivise sustainable building techniques and the use of solar technology.
What is the viability of using innovative and green technologies in HMF and what are the implications for provision of HSS?	Across the board, there is little use of green and sustainable technologies in HMF housing delivery processes.	The Micro Energy Alliance, operating in Cape Town, South Africa, in conjunction with Kuyasa Fund is an exception. I-Brick’s brick technology is also environmentally sustainable – generating consumer acceptance of the product may however prove to be a challenge.
	Community buy-in is critical to the success of new and innovative ways of housing production.	MEA uses local community promoters through micro-franchising to promote solar water heaters. Select Africa has recognised the need for community buy-in into its innovative i-brick technology for it to succeed. Patrimonio Hoy makes full use of the local community to sell its products. APROSA Guatemala uses community promoters to sell its products.
What is the role of partnerships in HSS provision?	Partnerships are key to HSS provisions all along the value chain, as different players will have strengths and roles	HfH Egypt has established partnerships with over 25 CBOs. Partnerships are evident in virtually all the examples provided.
	Traditional MFIs can serve as important partners in rolling out HMF and HSS products.	MEA leverages off the infrastructure and existing MFIs and HMFs networks to promote its sustainable building technology.
	Partnerships are necessary to deliver the entire package of HSS for the whole value chain.	Centenary Bank in Uganda has entered into a well-defined partnership with Jomayi Properties to deliver HSS services relating to land title acquisition and serviced land.
	Government is an essential partner.	Homeless International promotes the development of partnerships between community housing organisations and local government. The Presidential Trust Fund in Tanzania relies on government involvement for the realisation of their objectives. Land and infrastructure issues often make the role of government key.
	Partnerships need to be clearly defined.	In Uganda, the partnership between Centenary Bank and Jomayi Properties clearly states the roles of each player through an MoU.