

# Housing Finance in Africa: The state of practice and opportunities for engagement

SIDA Workshop:  
**Building Assets for the Poor:  
Going Beyond Financial Inclusion to Wealth Creation**  
15-16 January 2008 , Museum of Modern Art, Stockholm, Sweden

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15 January 2008





# Background

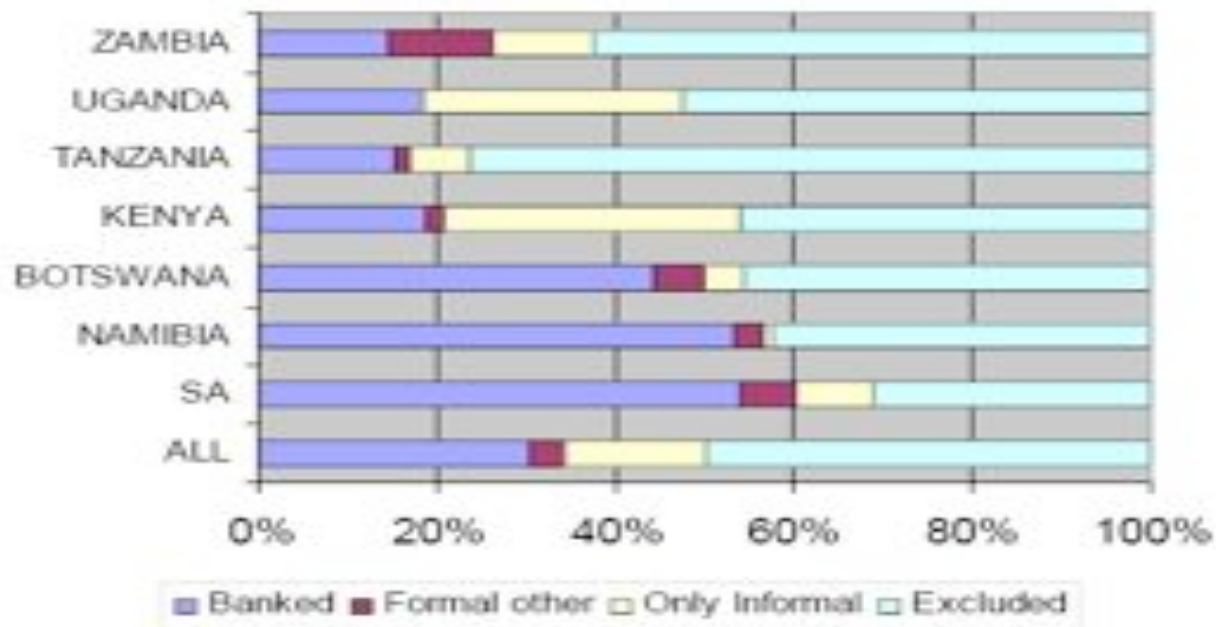
	Level of urbanisation %		Improved water %		Improved sanitation %		House connections %		Poverty	
	2000	2030	1990	2002	1990	2002	1990	2002	% < \$1	% < \$2
Africa	37.1	53.5	78.7	83.4	55.3	57.8	42.5	43.3	40.3	75.7

- 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

# Background

- Access to bank finance is limited



So therefore:

- 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
- The poor live in growing slums

- Financial sector reform programmes have a new housing focus as key to economic growth:
  - Role of housing in national economy
  - De Soto-esq. approach
  - Declining T-Bill rates make mortgage investment more attractive
- Move to revive, extend or introduce **mortgage** lending in a handful of countries (Botswana, Ghana, Tanzania, Zambia, Nigeria, Uganda, Kenya, now also Rwanda)
- SA and other international banks keen to invest

## BUT

- Significant supply side constraints
  - Narrow product design undermined by legal constraints
  - Poor information: little history & few credit bureaus
  - Low scale = high risk: insufficient transactions to support securitisation
  - No resale markets = unrealisable asset
- Significant demand side constraints
  - Affordability for loans
  - Informal incomes
  - Tenure insecurity

Delivery is not at scale and only reaches the highest income earners

## For example:

- Lilayi development in Zambia
  - 5000 unit development north of Lusaka meets demands for scale
  - Heralded in Wall Street Journal “In Africa, Mortgages Boost an Emerging Middle Class” July 2007
  - End-to-end development process overcomes limitations of land and infrastructure steps
  - Funding from various sources including USAID, OPIC, DFID
- BUT:
  - To address affordability, complex financing arrangement involved 47 legal agreements
  - Units originally US\$25 000 - US\$45 000 ; now double
  - Target market no longer first time homebuyers - limited to elite few
  - Model unsustainable
  - And it hasn't even been tested yet...
  
  - Hope that 'next time' it'll be easier

- Increasing attention on housing microfinance
  - Largely NGO and/or donor driven
  - Emphasis on shelter provision
  - Locally based, informal savings schemes persist
- Kenya: Nachu, Kenya Affordable Shelter Project, Jamii Bora
- Tanzania: WAT Human Settlement Trust & WAT SACCOs
- South Africa: Kuyasa Fund and Lendcor
- Ghana: HFC Bank
- Zambia: very limited
- Botswana: very limited
- Namibia: SDI

## BUT STRUGGLE WITH

- Insufficient **capital** to lend
  - Savings not enough
  - Donor capital has been decreasing
- Insufficient **capacity** to borrow
  - Technical capacity limited and few local models
  - Investors insecure with client profiles
  - HMFI books too small
- Insufficient **linkages with housing process**: land and servicing
  - Local government often actively obstructive - political resistance to 'incremental'

## For example:

### ■ NACHU in Kenya

- Established in the early 1980's to provide technical services and small housing loans for trade union members
- Savings based methodology: in 2006, members' deposits = US\$276 000
- Revolving fund capitalised with donations stands at US\$563 000
- Includes 212 primary coop housing societies of which 122 are active

### ■ BUT:

- Since 2003, facilitated the construction of 265 units and acquisition of almost 1000 plots
  - Only housing SACCO in Kenya
  - Overall loan recovery rate around 86%
  - Unmet demand estimated at \$373 000 - \$448 000 (65% of members seeking loans who currently don't have)
- 
- KASP: 192 active loans - 52% of 400 clients since 2001 dropped out
  - Jamii Bora: plans for 2000 units
  - WAT HST & SACCO: current project 1260 houses over next 3 years
  - Kuyasa Fund: 4400 loans since 2000, 1255 in 2005/06
  - Lendcor: insufficient capital to grow - just sold 51% stake to Mettle



- Commercial banks, local and national governments:
  - Are actively seeking new markets
  - Persist with mortgage model
- BUT
  - Inherent constraints make this a long term option
  - Affordability constraints limit the extent of demand possible

CAPACITY, NO DEMAND

- NGOs, donors, aid agencies, people at the grassroots:
  - Understand that mortgage is not the answer
  - Perceive a potentially unlimited market
- BUT
  - Focus narrowly on micro finance for housing
  - Have limited capital to grow their loan books
  - Have limited operational capacity and scale to access capital
  - Have limited technical capacity to support access into the housing market

DEMAND, NO CAPACITY

## Way forward

1. Forge linkages
  1. Access capital
  2. Build operational capacity
  
2. Better targeted products
  1. Address affordability challenge
  2. Ensure housing focus
  
3. More information

## Potential partners

- Growing HMFIs and new investors
  
- Entrepreneurial banks
  
- Local, national, and regional bodies

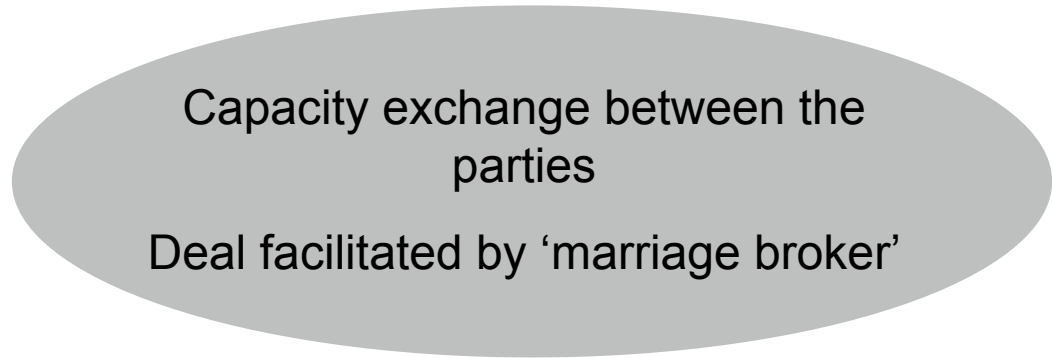
# 1. Forge linkages

- Love and marriage

Commercial lender



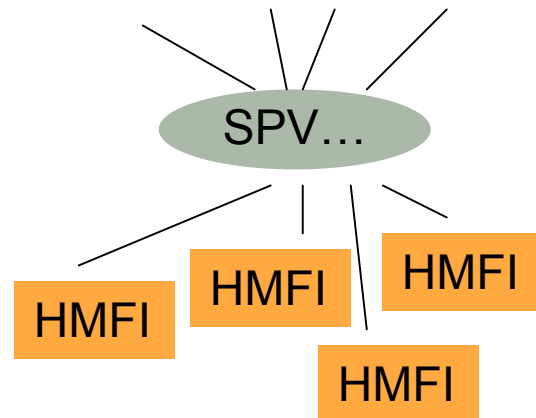
HMFI



# 1. Forge linkages

- Intermediary model

Wholesale lenders / donors / investors / developers



Technical capacity: book keeping, account management

Development capacity: access to land and services

Financial capacity: debt arbitrage, packaging loan books of multiple HMFIs to suit capital

## 2. Better targeted products

- Pension-backed
  - South Africa, Namibia
  - Potential in Zambia, Botswana, Kenya
- Shared equity
  - Modification of cooperative model
  - Union or employer based
- Micro mortgages
  - Shorter terms being explored in SA
  - Land without improvements
- Home based enterprise
  - Linked to future income stream
  - Provision of rental housing
- Distribution channels
  - Building material suppliers
  - Developers
  - Integrated developments

## 3. More information

- State of HMF in Africa
  - Formal and informal models
  - Regional variation
  - Local specialties
- Needs of investors
  - SA-based commercial banks
  - International CSI bodies
  - Performance benchmarks
- Potential of life offices, pension industries funding
  - Opportunity in Namibia, Botswana, Zambia
- Country-specific data
  - Role of housing in national economy
  - Loan performance: credit bureau data - must start collecting now
  - Property market data

## FinMark Trust's approach

- Non-mortgage housing finance is fundamental
  - Is microfinance the only option?
- Attention to the housing asset requires a trans-generational vision
  - Housing asset triangle
  - Life cycle approach to understanding the demand for housing finance
- Insufficient information on what is happening throughout Africa
  - Critical that we understand the nuance

**So:**



- Housing finance sector country studies:
  - Zambia, Botswana, Kenya, Namibia
  - Uganda, Rwanda, Ethiopia, Nigeria, Tanzania, Ghana, etc.
- Follow-up with country- or region-specific studies or initiatives
- Housing microfinance workshop
  - 7-11 April 2008, Nairobi, Kenya
  - Platform for networking and engagement
  - Special emphasis on linkages: building scale and relevance
- Housing Finance in Africa web page
  - Open source, hosted and moderated by FinMark Trust
- Executive African Housing Finance Programme
  - March 2008
  - In partnership with the Wharton School at the University of Pennsylvania

FinMark Trust :: Making Financial Markets Work For The Poor - Windows Internet Explorer

http://www.finmarktrust.org.za/index.asp

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FinMark Trust was established in March 2002 with funding from the UK's Department for International Development (DFID). FinMark Trust is an independent trust whose business is controlled by five trustees from countries in Southern Africa.

Our mission is summarised in our slogan: "Making Financial Markets Work for the Poor".

In pursuit of this objective, 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. A case study on FinMark Trust is available at: <http://www.springfieldcentre.com/publications/sp0604.pdf>

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finScope was initiated to achieve a measure and understanding of consumer demand across transactions, savings, credit and insurance categories.

*Thank you!*

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