EXECUTIVE SUMMARY

The FinMark Trust has recently been awarded a three year extension of its funding from DFID to consolidate its experience in South Africa and expand its operation into the rest of Africa. Housing has been defined as one of the key themes and the FinMark Trust intends developing a strategy in this regard. It therefore commissioned a literature review of the current research and experience on housing finance development in Africa.

The paper is a desk-top study which has reviewed ‘recent’ (post –1999) relevant articles, documents and reports that have looked at developments around housing finance, both mortgage and micro, taking place, in particular, in Sub-Saharan Africa (SSA).

SSA is made up of over 40 countries, making it impossible to examine all of them through a ‘rapid assessment’ information gathering exercise. In considering mortgage lending first, the author has focused on countries where there appears to be a birth or re-birth of mortgage lending as these countries’ experiences are now being documented by development agencies, donors, researchers, consultants and so on. Probably less well documented are the views of academics, as they tend not to focus on housing finance per se, but rather write on topics such as urbanisation, unplanned settlement upgrading, the lack of residential land for formal housing and so on. Housing finance is therefore discussed as one of a number of constraints, rather than as the focus of their research.

Nevertheless, the study has tried to maintain a tight focus on the issues that are limiting/preventing access to mortgage finance by low-income earners while at the same time not being drawn into these broader issues of e.g. urbanization, upgrading of informal settlements and so on.

With respect to microfinance, there is a vast amount of literature that has documented the growth of Microfinance Institutions (MFIs), including in Africa. However, it is far outside the scope of this exercise to report on all that has been published in this field. Moreover, the focus of this report is on housing finance, which is defined as the delivery of a larger loan for strictly housing purposes, rather than on traditional microfinance, which often finds its way into housing construction. While microfinance for housing purposes has been documented outside of Africa, it is a newer field of study within the continent.

In sum, the review of the literature and experience covers the following themes with respect to the development of housing finance development:

- Macroeconomic conditions and how they affect the financial sector and the housing finance environment in SSA
- Land issues in SSA and how they affect housing delivery and the ability to collateralise credit
- Mortgage finance delivery in SSA
- Microfinance for housing delivery in SSA
- Conclusions and recommendations

MACROECONOMIC CONDITIONS AND HOW THEY AFFECT THE FINANCIAL SECTOR AND HOUSING FINANCE ENVIRONMENT IN SUB-SAHARAN AFRICA

In the past, macroeconomic instability has been a key determinant with respect to why the banking sector in SSA has performed poorly. More recently, as macroeconomic conditions have improved and financial stability increased in a number of countries, governments have become concerned that their banking systems are not providing enough support to the private sector, a situation that impacts on whether or not formal housing finance is available to their population.

The common view has been that high reserve requirements that oblige banks to hold a significant percentage of their deposit liabilities in government securities, along with
favourable returns on government paper, has skewed banks lending decisions away from the private sector towards these relatively safer investments.

While this has certainly been the case, at the same time recent research on developments in bank lending have found that banks are more liquid and domestic government debt as a share of GDP is also more modest than previously thought.

Rather, the expansion of credit to the private sector remains modest in most countries and the ratio of credit to the private sector to GDP limited because the institutional framework is not supportive to lending. Governments such as Tanzania and Ghana, are therefore moving towards taking actions to ensure that they have properly functioning institutions and regulatory systems in place as a means of integrating themselves into the global economy as well as encouraging more lending by the private sector. Moreover as a consequence of taking steps to improve and liberalize markets the volume of funds available will rise, which should have a positive impact on the ability to access formal housing finance.

Nevertheless, it is clear that the majority of people in SSA will not be able to partake of this expansion in formal finance. For them, microfinance is being viewed as an alternative better suited to the needs of poor households. Microfinance has been available in many countries for a number of years and has been used to fund agricultural activities, small enterprise and so on, including some of the funds being used for housing construction. However, microfinance for housing is a new loan product and will also depend on access to a greater scale of funds than Micro Finance Institutions have previously had access to.

LAND ISSUES IN SUB-SAHARAN AFRICA

All African cities are experiencing high rates of urbanization, which has resulted in expanding informal or unplanned settlements in their urban areas. These unplanned settlements provide a home for both the poor and the middle-class, as affordable housing is severely limited.

Increasing the supply of land is one of the first challenges governments have to tackle to increase the supply of housing. However, the nature of the problem of assembling land in African cities is unique in that it is based on the fact that much land is held on a tribal basis (to a varying degree depending on the country). Moreover, depending on the form of colonialism that the particular country experienced, the land laws that apply will be based on the country that brought them to their shores.

Where land is not owned tribally, then in most cases, governments have taken over ownership as this approach was viewed as more closely in line with the traditional form of ownership. In fact, often land is owned via over-lapping systems of ownership and administration. Unable to access and own formal land, the majority of the SSA urban population has ended up living in unplanned settlements, which generally lack basic infrastructure.

The regularization of overlapping land ownership and land administration systems has therefore become a high priority for most SSA governments, with assistance from the donor community, as they attempt to address the issue of land supply for housing development. Moreover, until secure land titling systems are put in place, banks are unable to provide collateralised mortgage finance.

MORTGAGE FINANCE DELIVERY IN SUB-SAHARAN AFRICA

Because only the rich have been able to formally house themselves in most SSA countries, a number of development agencies, academics, researchers and consultants have begun documenting the evolution of mortgage finance in SSA to determine what steps need to be taken to extend it to the middle-class, to enable them to address their housing needs to the extent of their affordability.
The literature review has revealed that there is a consensus amongst the authors of reports and papers, published since 1999, that there have been a number of problems when it came to the delivery of formal housing finance amongst most, if not all the countries, namely:

- a record of macroeconomic instability
- an adverse institutional, legal and regulatory environment which has resulted in inefficient collateralisation of housing assets;
- a poor record of public sector housing banks, building societies and other specialist housing lenders in that most have been destroyed due to poor management and a lack of funds; and
- a limited availability of long-term funding sources to carry out intermediation that would spread the cost of a house over a relatively long period of time.

Arising out of this dismal history is a move to revive and/or introduce mortgage lending into a number of countries. Moreover, as part of the move to straighten out financial markets, a number of consultants have been sent into SSA countries to begin documenting the specific problems of each country as well as to make recommendations on how to address them.

Development agents, in particular, are also putting forth recommendations on what is required to ensure financial market development and capital market investment necessary to entice the private sector into the delivery of housing finance. Experts’ recommendations about how to stimulate mortgage lending tend to be quite similar in that they all focus on promoting stable macroeconomic conditions, developing a legal framework for property rights, establishing a property market and a housing chain, building mortgage market infrastructure and encouraging funding sources to promote financial intermediation. The mortgage is therefore viewed as an essential ingredient to a healthy economy.

**MICROFINANCE FOR HOUSING DELIVERY IN SUB-SAHARAN AFRICA**

The experience throughout SSA demonstrates that the majority of urban poor households can only afford to house themselves incrementally, meaning that construction of a house usually lasts many years.

The growth of MFIs that provide small loans for a variety of purposes, e.g. micro enterprise creation, has grown considerably over the past decades in developing countries. More recently microfinance, which has traditionally been used for agricultural purposes, is being considered for housing purposes through the development of a longer-term loan product.

Microfinance for housing has a variety of origins, including existing MFIs looking for new business opportunities, NGOs working in the housing field looking to provide a way for households that have accessed land to construct a house and community-based groups demanding that housing finance be built into upgrading schemes.

In SSA, the market for microfinance includes much of the middle-classes, as mortgage lending is so far limited to the wealthiest segment of the population and formal housing is unaffordable. Moreover, slum upgrading programmes being established in, e.g. Tanzania and Ghana, are expected to have microfinance initiatives built into them. However, while microfinance programmes abound in SSA, and are well documented, microfinance as a specific housing product is in its infancy and therefore only starting to be documented.

Informal systems built around group-based savings collection methodologies are becoming the focus of formal MFIs looking to promote their own sustainability. MFIs benefit from piggy-backing on savings mobilization methods developed by informal savings collectors. The informal savings groups place their deposits with MFIs, which results in their becoming part of the savings mobilization effort of the latter. The formal MFIs then look to the commercial banks to provide them with a variety of services, e.g. managing the MFIs deposit accounts and providing liquidity and management services. Funding is often sought from a variety of sources, including commercial banks at market-related rates and state-owned development banks, donors and NGOs at commercial and/or concessionary rates. Hence, informal MFIs
and formal deposit-taking MFIs are beginning to look at each other with a view to developing increasingly closer ties with commercial banks.

In several SSA countries, governments have relied on state-owned banks to extend rural credit and microfinance services. In most cases, however, the banks have sustained huge losses and have had to be restructured in countries such as Ghana, Tanzania, Guinea and Uganda. Selecting the appropriate legal and regulatory structure will therefore be important to their success. Moreover, regulators need to be realistic as to how much supervision and prudential regulation they are able to carry out.

From the perspective of the MFIs, they find they need to balance a number of factors when it comes to determining at what level they wish to operate and how large they want to grow. These factors include, e.g. the cost of capital requirements, the desirability of taking on deposit-taking authority, the degree of formality of the structure, their ability to maintain relations with the community and so on.

Where there is a gap in the literature is around the issues of regulation and the struggles and choices that MFIs face as they attempt to evolve from informal to semi-formal to formal lenders and/or extend into delivering microfinance for housing.

RECOMMENDATIONS

Africa receives the attention of the multilateral development banks, multilateral development programmes, the multilateral investment promotion agencies and the bilateral donor agencies. Both the Financial Sector Reform Programmes and the Millennium Development Goals are providing a lightening rod around which a certain degree of alignment around aims and objectives is occurring.

Currently there are a large number of initiatives going on around ‘access to housing finance’ in SSA. Flowing out of the recommendations arising from a number of country assessments, technical assistance is being provided to both the public and private sector to help them develop. More specifically technical assistance is provided to commercial banks to develop mortgage lending systems and to governments to develop policies, legislation and regulatory frameworks, e.g. to restructure their land titling systems. In countries where the financial sector is relatively more advanced, then the development of a secondary market may be considered and guarantees can be made available to lenders to expand housing finance.

The review has, however, identified gaps that exist in the literature, e.g.:

- limited publishing by locals on mortgage finance developments
- assessments that locate countries according to the challenges they are addressing and then tracking their progress in developing a mortgage finance sector
- assessments of how locals respond to outside influences when it comes to developing/restructuring their housing finance operations
- tracking the development of microfinance for housing
- documenting how MFIs manage microfinance regulatory issues, such as the struggles and choices they face as they attempt to evolve from informal to semi-formal to formal lenders and/or extend into housing microfinance
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MACROECONOMIC CONDITIONS AND HOW THEY AFFECT THE FINANCIAL SECTOR AND HOUSING FINANCE SECTOR IN SUB-SAHARAN AFRICA

Macroeconomic Conditions in Sub-Saharan Africa

At a recent international investment conference focusing on the housing sector in Africa, Coovadia (2006) painted a particularly bright picture of increasing financial market stability in South Africa with, for example, GDP growing, inflation reducing and the country’s reserve bank’s lending rate stabilizing.

In contrast, a recent report co-authored by a number of development agencies¹, and which highlighted key issues affecting SSA’s development, revealed that SSA was the only global region where per capita GDP is lower in the late 1990s than it was 30 years ago with nearly 40% of its population living below the international poverty threshold of USD1/day (World Bank, 2000; UN-Habitat, 2005).

In response to this situation, World Bank-supported “Poverty Reduction Strategies” are being adopted in many SSA countries. Their aim is to lessen poverty and promote economic growth. Such efforts have begun to result in improved macroeconomic stability, a reining in of inflation, a lowering of interest rates and a lessening of fiscal deficits. Moreover, SSA’s financial markets are starting to be developed and liberalized (d’Cruz and Satterthwaite, 2004; DFID website, 2004; Senbet and Otchere, 2005).

Senbet and Otchere (2005) have noted the importance of increasing the development of capital markets and accelerating financial sector reforms as a means of integrating Africa into the global financial economy in order to attract international capital. SSA countries must therefore continue to pursue interest rate liberalizations, the removal of credit ceilings, the restructuring and privatisation of state-owned banks, the introduction of a variety of measures to promote development of financial markets, including money and stock markets and private banking systems, along with improving banking supervisory and regulatory schemes.

¹ These included the African Development Bank, the African Economic Research Consortium, the Global Coalition for Africa, the United Nations Economic Commission for Africa and the World Bank.
Barriers to Bank Credit in Sub-Saharan Africa

In the UN-Habitat’s report, *Financing Urban Shelter: Global Report on Human Settlements* 2005, it states that within the next 20 years there is little likelihood that in many developing countries conventional sources of finance will be available for investment on the scale needed to meet projected demand for infrastructure and housing. Many countries around the world continue to face deficits in public budgets and weak financial sectors.

The report states that this is the case in Sub-Saharan Africa, with at best uneven growth in a few countries. In the countries that are seeing improvements in their macroeconomic situation, these SSA governments are concerned that their banking systems are not providing enough support to the private sector, which in turn affects whether or not formal housing finance is available. For example, in Ghana and Tanzania, only about 5 – 6% of the population has access to the banking sector.

In an IMF Working Paper, Sacerdoti (2005) examined developments in bank credit to the private sector in SSA and highlighted the barriers seen to accessing credit. Contrary to conventional wisdom, he found that banks in SSA are more liquid than expected, but are reluctant to expand credit to other than their most credit-worthy borrowers.

The assumption has been that the scale of government deficits has been the main determinant in constraining private sector credit. That is, the amount of financing that a government is seeking from the banking system to service its debts ends up providing a relatively safe investment for a bank’s deposit base. The result is an increase in lending rates and a decrease in the amount of funding channelled to the private sector.

Sacerdoti found, however, that for a large number of Heavily Indebted Poor Countries (HIPC) the domestic government debt as a share of GDP is more modest than previously thought, as these countries tend to use external grants and borrowing to fund their public investment requirements. There are, however, a few countries, including Gambia, Malawi, Ghana and Zambia, in which the pressure of government

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2 HIPCs are countries with the highest level of poverty in the world and are the subject of relief assistance provided their national governments meet a range of economic and performance targets. The programme was started by the IMF and World Bank in 1996.
domestic financing requirements has contributed to a decline in the ratio of private sector credit.

In Ghana, lending to the government at end-2003 represented more than half of the total domestic assets of the banking system, reflecting large fiscal deficits in the past and high reserve requirements that obliged banks to hold at least 35% of their deposit liabilities in government securities. This situation began easing in 2004.

In contrast, in Uganda, the move of the commercial banks to allocate a large ratio of their deposit base to government finance is a recent phenomenon. In Kenya, this ratio also increased significantly in 2000-03 as the government’s fiscal deficit doubled over this period.

Notwithstanding the above, Sacerdoti argues that credit expansion remains modest in most countries and the ratio of credit to the private sector to GDP limited because the institutional framework is not supportive to lending. The legal framework for establishing property rights is limited, mortgage market infrastructure is limited, risk assessment of borrowers is limited and so on.

Sacerdoti states that while a number of countries have efforts underway to correct these problems, it is important to recognize that certain corrective actions are more readily feasible than others – for example, a credit bureau is relatively easy (albeit expensive) to establish. Other corrective measures require much more substantial efforts involving fundamental institutional restructuring such as correcting deficiencies in the judicial system, revamping the title system and carrying out registration of land.

Today most SSA countries have moved in the direction of broad financial stability and their respective banking sectors have to a large degree restructured themselves after the problems they encountered in the 1990s. Banks, therefore, in the countries performing better economically, have the resources to support an expansion of bank credit to the private sector, including housing credit. Chapter 3 will more closely focus on countries where recent developments are resulting in corrective actions being taken to address some of the problems that have impeded bank lending.

3 In South Africa, the situation is just the opposite, with a highly secure land registration system, a functioning legal and judicial system and a very sophisticated banking system, including credit bureaus, rating agents and so on. Even so, access to housing finance by low income earners has been a challenge. It is only now receiving special attention as a result of the Financial Sector Charter.
LAND ISSUES IN SUB-SAHARAN AFRICA

Urbanisation Challenges

In addition to the macroeconomic issues described in Chapter 1, the urbanization that is taking place in SSA also provides a context for the provision of housing. An overview of housing challenges in SSA reveals that all of its countries, similar to many developing countries, face overwhelming backlogs (Arimah, 2000; Cities Alliance website, 2000; Gulyani and Connors website, 2002; Mitlin and Satterthwaite (eds), 2004; Buckley and Kalarickal, 2004 and 2005).

African cities are experiencing some of the fastest rates of urbanization in the world. The most striking aspect of these urbanizing cities is the extent of informal development, which is occurring. In many cities, the informal sector has outgrown the formal sector. Further analysis reveals that it is not just the urban poor that live in informal settlements, but also modest and middle-income households that are unable to access affordable housing. The UN-Habitat therefore identified the concept of ‘housing poverty’ (UN-Habitat, 2005).

The UN-Habitat’s report, Financing Urban Shelter: Global Report on Human Settlements 2005, describes current shelter systems as either providing “affordable shelter that is inadequate or adequate shelter that is unaffordable” (XXIII). This situation has arisen due to the limited and/or weak land and housing policy responses.

Land Supply

An issue on which there is a consensus view in the literature, amongst development agencies, academics and researchers, is that a lack of an adequate supply of formal land is one of the most pressing challenges associated with a lack of housing provision. This theme is injected into almost every document one reads, whether it be on urbanisation, housing policy, unplanned settlement upgrading, affordable housing, housing finance and so on.

Land that has been surveyed and registered in a government’s deeds registry is the basis for making mortgage finance available by commercial banks. It is because most SSA countries’ formal land systems are so undeveloped that this issue is so
crucial to the topic at hand. To provide a more in-depth understanding of the challenges surrounding land, Groves (2004) has written about the issue of ownership and the complexities it involves.

Groves notes that the nature of the problem in African cities is unique as it is based on the fact that traditional or ‘customary’ land is held on a tribal basis. Where this situation occurs, decisions about the use of land are made according to the customs of the tribe. Such decisions are rarely recorded in writing, resulting in no evidential basis for the use of rights. In fact, the concept of ownership may be entirely alien to a particular tribe.

Groves describes how colonialism has only added to the complication in that different forms of law were laid down depending on who was doing the colonizing. England brought its common law to central and East Africa, i.e. Kenya, Tanzania, Uganda, Malawi, Zambia and Zimbabwe. Southern countries such as Botswana, Lesotho, Swaziland, South Africa and Namibia were handed Roman-Dutch law. Countries in West Africa, such as Cote d’ Ivoire, Cameroon and Benin were given Napoleonic law. In Angola and Mozambique, Portuguese law applies.

Colonial land law was meant to bring the notion of exclusive property ownership with proof of title as exercised through formal land registration. The imposition of colonial law was, however, carried out differently depending on who the colonizer was. For example, the French and Portuguese were intent on replacing the indigenous customary land law with their own. The British imposed their own land laws alongside customary law.

Groves notes that between 1969 and 1981, approximately 20 of the 42 governments in SSA opted for state ownership of land since it was deemed to be more closely identifiable with the extensive and traditional communal ownership of land associated with tribal societies. Other governments tried to forge a legal basis for land ownership, which emulated western-style property owning democracies by integrating the two systems of land use. The former approach was adopted in Tanzania and Zambia. The latter approach was adopted in Ghana.

Groves argues that both systems have been problematic. Countries that have nationalized development rights have generally registered applications and issued Certificates of Occupancy for a limited period, say 99 years or less. Difficulties have arisen around the expeditiousness with which such certificates are issued.
Adopting a more market-oriented approach without the bureaucratic capacity to carry it out has also turned out to be less than successful. For example, Kombe (2000) notes the difficulties that manifest in moving towards a market-led supply system. He questions the applicability of Western-tailored housing land management concepts in resource-starved situations such as Tanzania, where capacity constraints are a major issue.

In effect, Groves states that land has continued to be primarily state held or traditionally held. Unable to access and own formal land, the majority of the urban population end up residing in informal settlements. At the same time, this situation encourages the growth of an informal land market, whereby the informal land supply greatly exceeds the formal supply.

Moreover, due to a lack of urban planning, areas settled outside the formal system are generally lacking in basic infrastructure. The housing constructed is without reference to housing codes, but can range from quite a high standard to a very poor standard. Most important, Groves states, is the fact that the residents of informal areas, and hence lacking legal title, are unable to access formal housing finance.

In Tanzania the question of land supply is crucial to the production of shelter. Between 1990 and 2001, Dar es Salaam received 243,473 applications for land but only 8,209 plots were surveyed and allocated. Moreover, the output of serviced plots has been falling over the years and at the same time applications have decreased as people feel that the chance of receiving an allocation is remote (GT & UN-Habitat, 2002).

In an attempt to curb informal housing land development and boost the supply of planned and surveyed plots, a programme for planning and surveying 20,000 residential plots in ‘unplanned’ areas of Dar es Salaam has been initiated. It is a project being undertaken by the Ministry of Lands and Human Settlements Development, which was started in the 2002/2003 financial year. This programme provides a less secure form of title, ‘junior’ title (initially for 2 years but to be extended to 5 years) for owners of land in certain areas of the city, then say, freehold (MLHSD,

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4 The overwhelming bulk of land is still traditionally held.
2002). While the step forward is to be commended, banks will more than likely feel that such limited title is too insecure to lend against.

In Ghana, Grant (2005) makes a number of general observations about the land system, beginning with noting the coexistence of overlapping systems, namely traditional, state and private. Land struggles in each of these systems entail distinct political geographies with different stakeholders.

More specifically, the formal (modern) system operates alongside a system in which the chiefs allocate land. Within this system, a rightful owner can include a stool- or skin- head\(^5\), a clan head, a family member, and so on. It is therefore not uncommon that land, particularly in Accra, has been litigated over on more than one occasion.

In addition to the overlap in ownership, there is also an overlapping system of administrative arrangements. For example, there are a variety of institutional arrangements responsible for the mapping of land, land management, titling, conveyancing, deed registering (World Bank, 2002a).

The various systems of land ownership and administration in SSA act as a major impediment to efficient planning and the functioning of a land and housing market. Finding ways to overcome the various land systems and regularize them so that they may act as collateral for lending has therefore become a high priority for most governments and for the international donor agencies assisting them.

\(^5\) The chiefs in the north sat on the skins, and the chiefs in the south sat on stools.
MORTGAGE FINANCE DELIVERY IN SUB-SAHARAN AFRICA

A Brief History of Mortgage Lending in Sub-Saharan Africa Countries

Ferguson states (in Porteous, 2006) “only a quarter to a third of households in most emerging markets can afford a mortgage to purchase the least expensive developer built unit”. However, in low-income countries, where most SSA countries are located, the percentage is far lower. In Zambia for example, the maximum percentage with access based on having formal tenure alone, is around 8% (Porteous, 2006).

The review of post-1999 housing finance literature found that the UN-Habitat (2005), World Bank and IMF, as well as other researchers and consultants (Ansah, 2002; Shelter Afrique, 2002) have documented the development of mortgage finance in SSA countries over the past twenty years. This work is fairly similar in the constraints it has revealed, namely:

- a record of macroeconomic instability across the countries;
- an ineffectiveness by the state when it came to running state-owned housing construction companies, state-owned public housing and state-owned housing banks in that most failed over time due to poor management and a lack of funds;
- an adverse institutional, legal and regulatory environment, which resulted in inefficient collateralisation of housing assets;
- a poor record of building societies and other specialist housing lenders in that most were destroyed due to poor management and a lack of funds; and
- a limited availability of long-term funding sources to carry out intermediation that would spread the cost of a house over a relatively long period of time.

A revival and/or introduction of mortgage lending in Sub-Saharan Africa countries

As described in Chapter 1, much of the what is currently being written presents an improving situation in that a number of SSA countries are addressing their macroeconomic fundamentals, including increasing their GDP and lowering both their inflation and interest rates. Practically all governments note in their recent policy documents that they have shifted away from the direct construction and management of public housing and are attempting to reduce the proportion of state-owned housing
stock. Moreover, state banks are being dissolved or restructured and building societies are privatising. All these moves reflect a shift away from state provision of housing towards more market-based mechanisms.

At the same time there is a move in some SSA countries to establish mortgage lending. In particular, consultants are documenting the ways in which local banks are lending to their high net worth/upper-income clients. Assessments are also being carried out on what the potential is for them to start engaging in mortgage lending.

Measures are therefore being considered to extend mortgage markets down the income scale, i.e. to the middle-class, as homeownership is viewed by governments as being beneficial to the country, economically, politically and socially. The development of mortgage markets is therefore viewed as a stimulant to economic growth.

Financial Market Development and Capital Market Investment

One of the most concise assessments of the conditions necessary for financial market development around housing finance is by Hassler (2005). At a BNA\textsuperscript{6} Housing Finance Workshop on Developing Housing Finance, on behalf of the World Bank, he set out his views.

He, along with numerous others writing on the subject, are of the view that there are a number of requirements that SSA countries must embrace if they are going to move forward in terms of delivering housing finance, including promoting:

- stable macroeconomic conditions
  - stabilizing the macroeconomic climate which promotes confidence in the value of a country’s money; and
  - lowering interest rates

- a legal framework for property rights
  - developing sound property rights, including the need for a clearly defined right to sell land;
  - developing clear procedures for regularizing informal tenure;

\textsuperscript{6} Banco Nacional de Angola (BNA – the central bank)
- developing property development law (e.g. condominium law) and developer finance; and
- developing judicial processes to litigate and resolve disputes

- a property market
  - establishing an efficient housing supply chain which focuses on removing obstacles to the release of land by government; providing infrastructure; and clearing construction bottlenecks

- mortgage market infrastructure
  - developing title and collateral registration systems; enforcing rights; encouraging formal tenure; minimizing corruption;
  - developing flexible underwriting approaches with respect to assessing incomes;
  - developing foreclosure procedures which will ensure lender’s security, including out-of-court processes;
  - developing risk assessment and management tools, borrower credit information, income verification; and
  - developing adequate payment systems, e.g. payroll deduction

- funding sources to promote financial intermediation\(^7\)
  - encouraging savings mobilization in order to fund lending via bank deposits
  - encouraging primary market development (as a first choice), which requires:
    - simple mortgage-backed debt instruments; mortgage quality standardization; mortgage laws;
    - financial risk management, e.g. not using fixed interest rates, developing liquidity management tools, accessing capital markets when necessary; and
    - increased competition amongst lenders
  - encouraging capital market funding (as a second choice) by using capital market instruments, e.g. securitisation, government pension funds, etc.; and
  - avoiding state lending due to it being costly, inefficient and prone to low recovery.

\(^7\) A major problem in funding long-term lending is the mismatch between assets and liabilities.
While the review shows that the requirements being written about by a range of authors appear to be consistent, an approach to addressing them has not yet been put forward in the literature. This situation makes it difficult for lenders coming from outside these countries, and wishing to engage local banks in mortgage lending, as they are bringing a model, the mortgage instrument, which has been tried and tested, but in their own countries where the above requirements are a given.

**Some Experience in Sub-Saharan Africa Countries**

The UN-Habitat’s report, *Financing Urban Shelter: Global Report on Human Settlements 2005*, states that the conventional mortgage market situation in SSA falls into two distinct types, i.e. South Africa\(^8\), where the commercial banking sector is significantly developed and involved in the provision of mortgage loans\(^9\), and the rest of the region.

The remainder of this chapter will attempt to give a sense as to the mortgage-lending situation in a range of SSA countries, not including South Africa, to understand how far they have to go in developing their sectors. Their challenges are very similar and therefore they provide further insight into the development of mortgage finance on the continent.

**Ghana, Tanzania, Uganda, Zambia**

As will be described more fully in Annexure 1: The Role of the Development Agencies in the Development of Housing Finance, SSA has been receiving the attention of development agents, which focus on financial sector reform and in some cases the promotion of housing finance. Flowing from this attention are a variety of initiatives which focus on assessing a country’s potential for delivering housing finance and then go on to develop recommendations and provide technical assistance to address specific problems. Ghana, Tanzania, Uganda and Zambia are examples where this is occurring, resulting in more current written material than found elsewhere. The reporting generally is based on interviews carried out within the countries and the use of background material, such as central bank reports, a

\(^8\) Until recently Zimbabwe, and to a lesser extent Namibia, also provided a fair degree of mortgage finance for upper-income households.

\(^9\) In South Africa the mortgage market is approximately USD 30 billion, however, access is limited in terms of affordability and regularity of income, meaning lower-income households are excluded.
country’s housing policy/x-year plans, development agent’s country assessments and so on.

**Macroeconomic problems**

In Ghana, Merrill and Tomlinson (2006b) in a report for USAID and the African Union for Housing Finance (AUHF), note that in the past high and volatile interest rates, high inflation rates, the crowding out effect of government debt issuance, and so on limited the ability of banks to engage in mortgage finance delivery. More recently the mortgage lending rate has begun falling and as it falls further housing finance will become more affordable. However, for this to happen numerous other risk elements in the system need to be addressed\(^{10}\).

In a similar study on Tanzania\(^{11}\), Merrill and Tomlinson (2006c) note that Tanzania has made significant progress in the past decade in terms of economic and financial sector reforms, which can in part be put down to it participating in a Financial Sector Adjustment Programme\(^{12}\) to restructure and deregulate the sector. Tanzania has also reduced its high inflation rate and interest rates have stabilized, however, they are still somewhat volatile and quite high relative to inflation. In particular, the mortgage lending rate is still fairly high which signifies very high spreads, again due to risk management problems.

A report prepared by Merrill, et al (2005) for USAID and the United States Treasury notes that Uganda\(^{13}\) is also recovering from very high inflation and poor economic mismanagement, leading to recent annual increases in GDP. Interest rates are also stabilizing but remain volatile to inflation. Again, similar to the previous countries, the mortgage rate remains high, mainly due to the inability of banks to manage a variety of risk factors around lending.

Zambia\(^{14}\) has recently been examined in depth, by Gardner (2007), as part of another FinMark Trust project. Zambia, similar to many other SSA countries, has been through a long period of economic deterioration following its independence.

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\(^{10}\) See also CHF International, 2004; TASC, 2005; Royal Institute of Chartered Surveyors, Asare and Whitehead, 2006

\(^{11}\) See Mutagwaba, 2002

\(^{12}\) In 1986 the Government of Tanzania embarked on a World Bank/IMP, Financial Sector Adjustment Programme to dismantle socialist economic controls and encourage more active participation of the private sector in the economy.

\(^{13}\) See also Okwir, 2002

\(^{14}\) See also NHAZ, 2002
More recently due to political, regulatory and financial reforms, the economic situation has begun improving, which is reflected in its economic fundamentals, improving but which still need to stabilize.

**Inadequate legal system and land ownership and titling environment**

Ghana has an inadequate legal system for collateralised lending and an extremely difficult land ownership and titling environment, which banks consistently raise as a major problem when it comes to mortgage lending. Hence, only a limited number of banks will extend mortgage bonds to borrowers (Merrill and Tomlinson, 2006b).

Tanzania’s inadequate legal and administrative frameworks, primarily around the legal treatment of land values, foreclosure and land registration problems has also meant that most banks are extremely reticent about entering into housing finance (Merrill and Tomlinson, 2006c).

Uganda has made progress in addressing its legal and administrative infrastructure problems (Merrill, et al, 2005). Zambia, however, suffers from an inadequate legal system, which is reflected in land titling and transfer problems that arise from its registry system (Gardner, 2007).

**State institutions crowding out private sector**

In Ghana state institutions are still involved in some degree of housing provision for state employees with the result that public sector competes with the private sector, particularly around access to land (Merrill and Tomlinson, 2006b).

In Tanzania, similar, to many countries on the African continent, the government - sponsored bank, the Tanzanian Housing Bank, was closed in 1995 due to insolvency forcing households to fend for themselves. Today, the public sector simply manages publicly-owned rental stock (Merrill and Tomlinson, 2006c).

Uganda also had its building societies and other specialised housing lenders all but destroyed by high inflation, poor management and a lack of funding (Merrill et al, 2005).

The Zambian government, similar to the other countries examined, once acted as a public-sector developer. High levels of subsidization made this form of delivery
unsustainable and for a number of years no new housing has been developed (Gardner, 2007).

**Housing Delivery Problems: land, affordability, etc.**

Affordability issues are one of the major factors influencing both whether people can afford to buy a formal house and whether banks will lend to them. While the actual affordability levels will be specific to each country, comparing across countries reveals that formal housing is only affordable to the higher-income and/or high net worth clients. This is because housing construction costs are extremely high due to a reliance on imported materials, which may be for reasons of status or because a particular material is unavailable in the country.

Past government programmes in countries, such as Ghana, while proclaiming to develop so-called lower-income housing have in fact constructed houses far above the affordability levels of most households. Consistent across the literature is the fact that local populations can only afford a very modest house. Unplanned settlements therefore provide a substantial amount of urban dwelling for both the poor and the middle-class. Local Ghanaians building formal sector houses tend to build incrementally over many years without the benefit of a mortgage loan (Merrill and Tomlinson, 2006b).

In Tanzania, when the public sector ceased housing construction, households were left with little choice but to move into unplanned settlements and undertake their own house construction. Nearly 98% of houses countrywide and 90% of houses in the urban areas are constructed incrementally. This situation remains today and is exacerbated by a 6% annual growth in the urban population. Nevertheless, the provision of infrastructure and access to land and the titling of land remains insignificant compared to the need (Merrill and Tomlinson, 2006c).

In Kampala, Uganda findings for the City Council revealed that many people construct their own house using their own resources in comparison to those that access finance to have houses constructed for them

As in the other countries, Zambia has seen its housing need escalate as its population rapidly urbanizes. However, with extremely low levels of employment,
coupled with very low incomes, there is a lack of affordability for everyone outside of the public sector (Gardner, 2007).

**The banking/housing finance sector**

In describing the banking sector in various countries, Merrill (2006a) breaks it down into the following categories: Pan African lenders, local lenders and potential lenders. Ghana’s banking sector, once largely state-owned has been strengthened via restructuring, liquidations and privatization. Much more attention is being given to regulatory policies and the overall soundness of the sector. In Ghana there is essentially only one major lender at present – HFC Bank. Only 85 new loans were made in 2004 and the total portfolio stood at only US$21.9 million. Outstanding mortgage debt is a mere 0.3% of GDP. However, HFC’s lending is starting to pick up and other lenders are now coming into the market (Merrill and Tomlinson, 2006b).

Tanzania’s banking sector has been undergoing restructuring and deregulation, which has resulted in increased privatisation of its financial services. The government has also focused on improving regulation of the sector. At present, housing finance is extremely limited in Tanzania. Most housing construction is financed mainly by cash or incrementally (which can stretch over years, or generations). Very recently a few banks have begun mortgage lending and others are beginning to consider it. Azanian Bankorp Ltd has approximately 200 loans, while a foreign bank has 20 to 30 loans. Recently one of the major foreign banks has begun offering mortgage finance for its staff (Merrill and Tomlinson, 2006c).

Uganda’s mortgage lending is very limited. The country has two financial institutions with mortgage books, the Housing Finance Company of Uganda (HFCU) and the Development Finance Company of Uganda (DFCU). The former has had difficulty managing its book, while the latter is seeking lines of credit to that it can increase its long-term lending. Barclays and Standard Chartered intend commencing mortgage lending to high-net worth clients (Merrill et al, 2005).

With improvements to its financial sector one commercial bank in Zambia started providing mortgage finance in 2005. This was in addition to two building societies that were lending but were experiencing problems with their portfolios. With the continued downward movement of the interest rate, and the capping of the rate of
government paper, three additional banks are establishing housing finance portfolios (Gardner, 2006).

In addition to the above, all of the countries need to move towards a situation where they can link whatever long-term funds are potentially available to them, generally those held by institutional investors such as pension funds, to their long-term funding requirements. Without a better matching of their assets, the ability to lend over the long-term is significantly constrained. But again, this requires much better risk management than has been in place to date.

*Additional Country Insights*

Some additional countries have been added to this section because they provided interesting examples.

The *Sustainability Banking in Africa* report (De Cleene and Wood, 2004) notes that Botswana has gone from one of the twenty-five poorest countries in the world in 1966, the year of its independence, to a middle-income country due to its vast mineral wealth, political stability and sound macroeconomic policies, including well managed inflation rates. Nevertheless, 40% of Botswana’s population remains in poverty.

Botswana’s financial sector remains relatively small, reflecting the small size of its market and its rigorous approach to licensing and supervision. The financial sector is dominated by a handful of commercial banks, all of which are highly profitable. There are five commercial banking institutions, two investment banks, two state-owned development finance organizations and one building society. All of these institutions are operating at the upper-end of the income scale where they make mortgage finance available. There has, however, been little incentive to extend credit into new, less well-off middle-income market segments.

In the same report (DeClene and Wood, 2004), a number of insights into the Kenyan banking sector were highlighted. For example, in contrast to Botswana, the Kenyan banking sector is emerging from severe financial and reputational damage resulting from corruption (e.g. insider lending) and expansionist monetary policies, which led to economic recession and severe government debt during the late 1980s – 1990s. During this period banks stopped lending to the private sector, mainly because of an
increasingly high level of non-performing loans. Both a lack of corporate governance and political interference contributed to this situation.

Beginning in 2003, the newly elected government put an anti-corruption strategy at the top of its agenda, which has focused on strengthening the banking regulatory framework. Currently there are forty-three registered commercial banks in Kenya. Merrill, et al (2006d), in a report prepared for Overseas Private Investment Corporation (OPIC) noted a number of positive developments in the housing market over the past few years. The report describes the ‘new’ residential mortgage portfolio as presently being very small – about USD 55 million, the portfolio, however, is untainted from the same events that affected the old portfolio. Moreover, competition and innovation are being introduced into the mortgage market. Nevertheless, Kenyan bank margins are exceptionally high, making it prohibitive for the majority of the population to access funds from the commercial banks.

While the housing market for upper- and upper-middle income households in Kenya is becoming more active, there is a large and growing gap – estimated at approximately 150 000 units per year – between the current supply and the aggregate need for housing in Kenya. The rapid growth of the population, combined with very low incomes, has led to massive slums in Kenya’s urban areas, as well as a shortage of affordable land, infrastructure and housing.

There are still a number of problems that the Kenyan Government needs to address. First is the legal framework. One of the most serious impediments is a confusing multiplicity of land laws, which affects property registration and titling. Government is working to consolidate title, a process that is going to be slow and costly.

Second are the excessive privacy laws that prohibit the formation of a credit bureau. Third, while Kenya has relatively strong foreclosure and enforcement laws, the ability to foreclose and/or evict to recover collateral on a home loan in the event of default can be made difficult due to excessive debtor rights. Fourth, is a longer-term concern, in that mortgages are funded largely from customer deposits. Asset-liability mismatches will at some point impair primary lenders’ ability to met growing mortgage demand as there is no secondary market through which to raise funds in the capital market.
Due to years of upheaval, Angola’s financial system is small and underdeveloped, but through the World Bank’s Financial Institutions Modernization Project, the banking and insurance sectors have started to develop. Total assets of the banking sector reached USD 3.5 billion, up from USD 2.1 billion in 2002. The World Bank is carrying out a project to enhance the supervisory capacity and enhance the payment system of the Banco Nacional de Angola (BNA), the central bank.

Banks are intending to offer a more diverse array of financial products. However, mortgages, in particular, remain risky due to confusion over land tenure and property rights (www.firstinitiative.org).

In Mozambique, the Ministry of Housing and Public Works, in collaboration with the Lurdes Mutola Foundation, the Community Development Foundation, and with the support and assistance of International Centre for Science and High Technology (ICS) and the United Nations Industrial Development Organisation (UNIDO), is formulating a Mozambique Housing Development Initiative. This new approach to low-cost housing development is to be based on collaboration between the public and private sector. The intention is to create a national entity for housing development that would introduce an integrated materials approach, focusing on alternative building materials based on natural renewable resources available in Mozambique. One of the expected outputs is to identify solutions for acquiring low-cost housing by low- and middle-income households and strategies for implementing housing finance initiatives (ICS-UNIDO, 2004).

Conclusion

This section has attempted to provide the reader with a sense of recent developments in a handful of SSA countries around the development of formal housing finance. On the whole, most countries are putting behind them a long period of economic mismanagement that limited the ability of the private sector to lend in such an environment. In some cases, this has required addressing not just macroeconomic issues and infrastructure requirements but also reputational issues in their financial sector.

Most countries have had a bit of formal housing finance available, but it has been limited to their high-net worth clients. The rest of their populations have been faced
with not simply a lack of housing finance, but no formal land on which to construct a house. Hence, the enormous growth in unplanned settlements in all the countries examined, which both the middle and lower classes have found as the only place where they can live.

Countries are moving beyond addressing their economic fundamentals and are now focusing on their institutional, legal and regulatory systems so that mortgages can be safely collateralised. A focus on their severe land problems is part of this process.

In the meantime while these issues are being addressed there is increasingly being seen activity around the development of integrated housing initiatives\textsuperscript{15} whereby private sector developers build so-called housing estates. These developers manage the entire housing delivery process themselves in that they acquire land, plan and subdivide it, carry out titling and transfer, ensure the bulk infrastructure is put in and then manage housing construction. Because of the risks involved in these types of initiatives, and the long timeframes necessary to carry them out, they are extremely costly and therefore again, address only the needs of high-wealth and/or upper-income clients.

\textsuperscript{15} Initiatives include: Regimanuel Gray in Ghana; Afritrack in Angola; Houses for Africa in Zambia
MICROFINANCE FOR HOUSING IN SUB-SAHARAN AFRICA

Background

The experience throughout SSA is that the majority of urban poor households can only afford to house themselves incrementally. This means that the various stages of construction will be carried out over many years as financial resources become available. For example, land purchase, service installation and construction and upgrading of shelters will all occur over time. This being the case, short-term, small-scale loans are more suitable for borrowers than long-term, large-value loans.

Small micro loans allow the householder to see efficiency gains: he or she is able to construct a better dwelling, avoid wasteful processes such as using temporary materials which eventually must be discarded, avoid high maintenance costs resulting from poor construction, and reduce the age of ownership, something not possible when own savings is relied on.

The UN-Habitat report (2005) describes how since their inception in the 1980s, the growth of MFIs has been considerable, describing how microfinance often finds its way to being used for housing construction.

Attention is therefore given to describing recent findings on microfinance in four countries in Africa because the lessons are clearly applicable to the provision of microfinance for housing, especially around regulatory issues. Moreover, the latest thinking on the potential for microfinance to be extended into microfinance for housing is also set out.

Only recently have MFIs begun diversifying into this new form of lending. As this occurs a new body of literature appears to be developing around it, however it tends to be focused on India and South America (CGAP, 2004; Ferguson, 2003; Mitlin, 2003; Ferguson, 2004; Daphnis and Ferguson (eds), 2004). Merrill (Daphnis and Ferguson (eds), 2004) has recently written about an example in Africa, namely the Kuyasa Fund in South Africa.

A Definition of Microfinance for Housing

Housing Microfinance: A Guide to Practice, edited by Daphnis and Ferguson (2004), is the first ever book written on the subject. The editors argue that housing
Literature review on housing finance development in Sub-Saharan Africa

microfinance is an emerging practice that applies key lessons that have been learned from traditional microfinance to conventional housing finance. This being the case, microfinance for housing intersects both housing finance and microfinance and incorporates elements of both.

Daphnis (Daphnis & Ferguson (eds), 2004) attempts to define microfinance for housing. His definition suggests that there is a microfinance product-centred definition and a provider-centred definition.

From a microfinance product perspective, housing microfinance encompasses financial services that allow poor and low-income clients to finance their housing needs with methodologies adapted from the microfinance revolution. These methodologies rest, in the main, on the following principles:

- loans are for relatively small amounts and are based on capacity to repay;
- repayment periods are relatively short (especially when compared to mortgage lending);
- loan pricing is expected to cover the real costs, both operational and financial, of providing the service;
- loans are not heavily collateralised, if at all;
- loans tend to finance housing needs incrementally, a function of the purchasing power of the loan; and
- if the lender is an MFI, loans for housing can be linked to prior participation in savings or other more traditional, e.g. micro enterprise, loan services.

The alternative definition focuses on a provider-based perspective. According to this definition, microfinance for housing would include all explicitly recognized housing-focused financial services that MFIs offer – even when the conditions under which these services are offered appear to deviate from microfinance orthodoxy, and therefore deviate from their traditional product offerings.
**The Origins of Microfinance for Housing**

Microfinance for housing has several different origins. In some cases operating MFIs are looking for ways to diversify their lending portfolio beyond providing, for example, small enterprise finance and take advantage of opportunities for additional growth. Moreover, offering a new housing product can be a way of not losing the clients they already have to other emerging MFIs that may also be offering a different loan product.

In some cases NGOs that work with housing issues, e.g. Habitat for Humanity, have taken on microfinance for housing as a means of scaling up their activities and/or to provide assistance to residents who have been successful in acquiring land and are keen to build houses.

In addition, the UN-Habitat report (2005) describes how some governments are recognizing the reality of the incremental building process and are starting to take steps to ensure that suitable financial institutions are established that specialize in small micro loans.

**The Potential for Microfinance for Housing Purposes in Sub-Saharan Africa Countries**

The UN-Habitat report (2005) describes a significant potential for growth in the market for housing microfinance in SSA. Affordability is different in every country, but by-and-large only high income/net-worth clients can afford to purchase formal housing using a mortgage bond, with the middle class finding the cost of housing well beyond their reach. Hence, the market for housing microfinance includes much of the middle-class that has, to date, been unable to access formal bank credit.

Moreover, there is a growing interest in using shelter microfinance within comprehensive slum upgrading programmes that are beginning to be carried out in SSA, e.g. in Tanzania and Ghana. This development strategy seeks to link the development agency, the central government and the municipality, where the slum is located, into a holistic upgrading project. The project then links with an organization, usually an NGO, which is able to offer small-scale loans for housing purposes.

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16 Although up to now most slum upgrading initiatives have been led by the state, an alternative approach is being developed, primarily by Slum Dwellers International (SDI). This
Forms of Providing Microfinance Services

Escobar and Merrill (Daphnis and Ferguson (eds), 2004) state that some authors suggest that housing microfinance services can be classified as either stand-alone programmes or linked-programmes (Daphnis and Tilock, 2001 in Daphnis and Ferguson (eds), 2004).

Stand-alone housing microfinance does not rely on a prior loan history with the provider, in order to demonstrate the borrower’s capacity to pay. Rather the terms and conditions of the loan are meant to qualify borrowers based on the merits of their current financial profile and shelter needs. These loans are extended to individuals rather than groups, are for small amounts and have short repayment periods.

Linked-programmes, on the other hand, rely on prior participation in micro enterprise or savings services, which are most often managed by groups of individuals.

Voluntary Groups, e.g. Cooperatives and Credit Unions

Historically MFIs operating outside the formal banking sector have looked to communities to mobilize funding by forming voluntary groups. These savings groups17 include village banks, cooperatives, credit unions, savings and loans and so on. Moreover, there is a body of literature, mainly in the way of briefing papers and reports that have been written up on the organizations in operation, each with their own specific way of doing things, such as Chijoriga’s 2000 study on The Performance and Sustainability of Micro Financing Institutions in Tanzania.

Cooperatives and credit unions can also provide credit to their members, including, in some cases, small loans for housing purposes, particularly if a potential borrower has access to land. Generally these loans are only marginally larger than the other loans on offer as the lenders have to manage quite carefully the relationship between their short-term and longer-term funds.

strategy focuses on developing the capacity of local communities to manage a comprehensive upgrading process that is financed mainly by state subsidies, with additional funds made available through loans taken out by communities and repaid by individual members.

17 Rotating Savings and Credit Associations (ROCAs) are less formal versions of cooperatives.
Community-based Shelter Funds

The UN-Habitat report (2005), McLeod (2002a and 2002b, 2005) and Hughes and Masimba (2004) also describe, what are characterized as, ‘community-based’ shelter funds or ‘community-led infrastructure finance facilities’. These funds offer small loans to households, but route them through community-based structures. The use of a collective group loan is meant so that investments in land and infrastructure can be supported by a group of individuals, as it would be nearly impossible to do this on an individual basis.

Members of the group are expected to work together, which gives the shelter project a stronger chance of success. Moreover, the fact that the loans are routed through the group means that households with very low incomes may participate, since possessing some form of asset-backed collateral is not a prerequisite for accessing a loan.

Pressure to set up community-based shelter funds has come, mainly from Slum Dwellers International as part of their holistic approach to slum upgrading. As part of their lobbying effort they press governments to allow community-based organizations to manage development finance to the benefit of large numbers of poor households. Again, there are a variety of briefing papers and reports how these funds work, for example Shack/Slum Dwellers International’s Report: 12, A Progress Report on Savings Schemes in Swaziland.

The distinction between housing microfinance and community-based shelter funds is not very clear-cut, as the differences are often in minor gradations. In essence, community funds seek to address the needs of poorer groups. Collective loans are used both to build the capacity of the poor to act together and to access secure tenure and infrastructure, which would be difficult, if not impossible to do individually. On the other hand, micro loans for shelter purposes respond to the needs of the poor who have reasonably secure tenure to upgrade their dwellings using strategies based on micro-enterprise lending.

The Need for Microfinance for Housing in Sub-Saharan Africa Countries

As described in earlier chapters, major financial sector reforms have occurred throughout SSA. State control of the financial sector has been loosened and
improved macro-economic policies have resulted in economic growth in various countries. At the same time, the growth of the urban populations in Africa has resulted in increased demand for housing.

As previously described the housing finance sector has recently started to be addressed, with a particular emphasis on the development of mortgage finance. These reforms, however, will most likely still leave the majority of the African population, often including the middle-class, without access to the longer-term finance required to construct and upgrade a house.

As a means of addressing this gap, governments, donors and MFIs are searching for creative ways to facilitate the delivery of housing finance and are therefore focusing on the delivery of microfinance for housing. Moreover, because it would appear that the literature discusses microfinance for housing in both South America and India, but very little about Africa, it presents researchers with a new field to write about.

**Trends in Four States in Sub-Saharan Africa Countries**

Basu, et al (2004) in a paper for the IMF, identifies trends in microfinance in four countries, Benin, Ghana, Guinea and Tanzania. Basu notes that while the data on micro lending is very scarce, the paper was able to make some ‘tentative’ conclusions. Basu’s paper, however, focuses on microfinance, *not microfinance for housing* ¹⁸. Nevertheless, the conclusions drawn in the paper, particularly around microfinance lenders engagement with formal lenders and regulatory issues, will apply in the development of microfinance for housing.

**Formalising Informal Methods of Financial Intermediation**

Traditional informal systems built around group-based savings collection are becoming the focus of formal MFIs looking to promote their own financial sustainability and deal with the various problems they face in dealing with the poor, e.g. difficult enforcement rights. They see the use of group peer pressure for loan recovery and repayment as being able to be substituted for asset-based collateral, which is difficult to recover.

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¹⁸ See also, Cities Alliance, 2002.
In particular, formal licensed MFIs, benefit from interacting with informal players in two ways: 1) the savings mobilization methods developed by informal savings collectors have been widely replicated; and 2) informal savings groups that place their deposits with MFIs, become part of the savings mobilization effort of the latter. In fact, by netting the resources of the poor, they are capturing money that would normally sit outside the formal financial system.

The MFIs then look to the commercial banks to provide a variety of services, such as managing the MFIs deposit accounts, providing MFIs with liquidity management services (e.g. emergency credit lines to cover cash shortfalls), and extending credit facilities to assist MFIs in expanding their services if they are of the view that the risk levels will not compromise their normal lending book.

Informal microfinance organizations, formal deposit-taking MFIs and credit-only MFIs, are beginning to develop increasingly close ties with commercial banks and other non-bank lenders.

**Do MFIs Achieve Financial Sustainability?**

The IMF paper (Basu et al, 2004) notes that there is little hard data available for African MFIs. However, there is some evidence that MFIs are able to improve their financial performance if they:

- have autonomy over management decisions and are allowed to set their lending and deposit rates to maintain a spread consistent with profitability;
- are vigilant in their efforts to avoid or reduce the incidence of non-performing loans; and
- focus on reducing their capacity and skills supply constraints.

**Role of Government in Promoting Microfinance Institutions**

In several African countries, Ghana, Tanzania, Guinea and Uganda, governments have relied on state-owned banks to extend rural credit and microfinance services. In most cases the banks have incurred huge losses and have had to be restructured.

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19 Ghana has its susu collectors and Tanzania has its UPATU savings model. Collections are made on a daily basis and linked to formal MFIs.
recapitalised, privatised or liquidated. Today the trend is for governments to provide a regulatory and supervisory framework that can support MFIs.

Escobar and Merrill (Daphnis and Ferguson (eds), 2004) state that selecting the appropriate legal and regulatory structure is a problem for many MFIs. Lenders need to balance factors such as the cost of capital requirements, the desirability of taking on deposit-taking authority, the degree of formality of the structure, and ability to maintain relations with the community. Regulators, on the other hand, need to be realistic as to how much supervision and prudential regulation they are able to provide.

An examination of the regulatory systems of MFIs in the four countries reveals that they have evolved through a cycle of easy entry, weak performance over time and finally a need to tighten up the regulatory environment. Hence, in developing the licensing and regulatory frameworks an attempt has been made to ensure that they are conducive to the development of the sector rather than detrimental to the institutions they are being imposed on.

For example, it is clearly the case that as financial institutions mature, their institutional and skills requirements (e.g. carrying out outreach, organizing savings associations, training new borrowers and servicing loans) may not be sufficient to meet the requirements necessary to carry out more formalized lending. More formalized lending, and longer term housing lending, will require skills that can address sustainability issues, for instance, the need to access longer-term funding and be able to balance this with the need to cover costs (Escobar and Merrill in Daphnis and Ferguson (eds), 2004).

**Examples of Regulatory Frameworks**

As previously described, the rationale for microfinance regulation is to create a healthy environment for microfinance activities, while not stifling the growth of the sector by imposing undue requirements.

The experience of the four countries, suggests that the frameworks for licensing, regulating and prudential supervision need to be well adapted and flexibly designed to reflect the specific characteristics and stage of evolution of the microfinance sector in a given country.
Some countries regulate their MFIs through a dedicated microfinance law (Benin). Others regulate their MFIs through their commercial banking law (Ghana’s rural credit banks (RCBs)). Moreover, there may be separate laws for cooperatives and non-bank financial institutions\(^{20}\). For example, Ghana’s S&Ls are regulated by its Non-bank Financial Institutions Law. Tanzania’s semi-formal institutions are subject to the Cooperative Societies Act and are regulated by the Ministry of Cooperatives.

Prudential regulation is usually addressed through a classification system:

- MFIs that collect deposits and lend only to members;
- MFIs that collect deposits and lend to non-members; and
- MFIs that undertake mainly donor-financed lending operations.

Ghana and Tanzania both have a three-tiered system of regulation and supervision.

Formal institutions are regulated as banks; semi-formal institutions are regulated as non-bank institutions; informal institutions are un-regulated. The size of the operation as well as its linkages with other MFIs or commercial banks, which may increase systemic risk, are key considerations in the design of prudential legislation and regulation.

Due to the high cost of supervising and monitoring MFIs, and the limited availability of supervisory resources, there is a clear need to prioritise the tasks at hand, with the larger institutions and/or more risk-prone MFIs receiving greater regulatory attention from government. In addition, the regulatory framework should provide clear guidelines for scaling up to the next tier of financial institution.

Very little is understood about regulating MFIs. Because of the importance of the regulatory issues when it comes to extending microfinance into microfinance for housing, it is important to begin documenting how the microfinance sectors in various SSA countries are structured. Moreover, how the regulatory issues impact on the ground also needs to be documented, as there is currently no literature that focuses

\(^{20}\) South Africa, a country with a highly developed financial sector, has chosen to go for functional regulation, i.e. deposit-taking institutions are prudentially regulated by the South African Reserve Bank, while all credit providers are to be regulated by the recently established National Credit Regulator.
on the struggles and choices that micro lenders face as they attempt to evolve from informal to semi-formal to formal MFIs.

**Highlights of Micro-Finance for Housing in Selected Countries in Sub-Saharan Africa**

Similar to the chapter on mortgage finance, it is not possible to focus on the over 40 countries in SSA, nor is there information but for a handful of them, as microfinance for housing is only starting to be thought about as a potential loan product by formal MFIs. The survey has therefore attempted to provide a few country insights into the potential for microfinance for housing to be delivered.

**Angola**

In 1995, Development Workshop (DW), a Canadian NGO, first piloted solidarity group-lending on a small scale, adapting the Grameen lending model. By 1999 this project had evolved into the Sustainable Livelihood Programme (SLP) as part of the Luanda Urban Poverty Programme.

With the arrival of peace in Angola in 2002, it became clear that there was a demand for more microfinance. The view was that it should be based on the ‘Kixikila’ spirit, which is an age-old form of community savings in Angola. In this model friends join together to contribute daily, weekly or monthly into a communal pot of money, with each member taking a turn withdrawing the entire sum to spend as they see fit.

KixiCredito is moving towards becoming Angola’s first self-sustaining non-bank microfinance institution. It has recently introduced KixiCasa to make housing loans available to clients who have a good repayment record in its existing loan programme for small entrepreneurs. These loans are particularly useful because of the insecure tenure rights in the country, whereby land cannot be used as collateral (www.habitatjam.com/viewIdea.php?iid=42&section=3).

KixiCredito borrows capital to finance its loans, on a commercial basis, from Banco de Fomento Angola (BFA), rather than depending solely on grants and aims to be fully sustainable within a year (www.habitatjam.com/viewIdea.php?iid=42&section=3).

**Ghana**
The evolution of Ghana’s formal microfinance sector goes back to recommendations made by the World Bank in 1999. At the time the view was that government in assessing what characteristics (e.g. size, deposit-taking, etc.) are necessary to trigger a regulatory response, should aim at ensuring that the likely benefits outweigh the costs of supervising relatively small financial intermediaries.

Adopting this approach has resulted in a wide range of MFIs. Formal, regulated institutions include rural banks, savings and loans companies and credit unions. Informal/unregulated include NGOs and the informal savings and moneylender systems (Steel and Andah, 2003; Al-Bagdadi, 2002). Ghana’s micro lenders, however, struggle to achieve scale and operate commercially. In order to increase their lending, the MFIs must look to the banks as a potential funding source. ProCredit, one of the country’s largest savings and loans, receives significant amounts of outside donor funding.

The Government is now moving to promote the microfinance sector and has established a Non-bank Financial Institutions Project (NBFIP) aimed at NBFIs that support the poor. Government has announced a USD 50 million Microfinance Fund to assist small business in rural areas.

Microfinance for housing currently barely exists in Ghana, however, the concept is increasingly being recognized. The credit unions have always encouraged their clients to borrow as a means of incrementally building their house. ProCredit plans to introduce a micro loan for housing. HFC intends developing wholesale lending to fund micro lenders (Merrill and Tomlinson, 2006b).

Namibia

There are a number of institutions that provide microfinance in Namibia such as commercial banks, non-bank financial institutions, public financial corporations, savings and credit cooperatives, NGOs and the informal sector. Aside from the savings and credit cooperatives, these institutions provide only credit services, as the law prevents NGO MFIs from taking deposits.
Besides the legal restriction on taking deposits, which has led to un-sustainability, there is no specific regulatory framework\footnote{21} for microfinance in Namibia. Hence their performance has been poor, reflecting in a high default rate.

A paper prepared for the Bank of Namibia asserts that MFIs are necessary to provide financial services to rural people and the poor who have no access to formal banking institutions. The paper advises that microfinance be developed further by allowing NGOs providing microfinance to mobilize savings.

Moreover, it recommends micro lenders be regulated to protect against abusive lending and to ensure that MFIs have enough capital to cover intermediation and ensure sustainability. There is also a recommendation that an apex body be established by the NGOs providing microfinance (Mushendami, et al, 2004). The literature, however, does not seem to report on MFIs providing microfinance for housing.

**Tanzania**

Tanzania\footnote{22} has a well-established micro lending sector, including both international and local micro lenders. It is characterized by a broad mix of lenders, including a large commercial bank, the National Microfinance Bank, international NGOs such as PRIDE and FINCA and local groups, such as local savings associations (Sacco’s). In addition, there are established relationships between the financial sector and the micro lenders, as evidenced in lines of credit obtained from the bank (Merrill and Tomlinson, 2006c).

Tanzania approved its first National Microfinance Policy\footnote{23} in 2001 (GT & UN-Habitat, 2002). In order to implement the policy, the legislative and regulatory framework that was in place for the formal financial sector was amended to include microfinance. This has made it possible for any (registered and regulated) SACCO or (registered but unregulated) financial NGO to transform into a prudentially regulated microfinance institution.

\footnote{21} Microfinance services are provided for in the Charter for Good Practice for Microfinance and in other banking and usury legislation.
\footnote{22} See also Chijoriga, 2000; Randhawa and Gallardo, 2003
\footnote{23} The policy sets out a vision and strategy for the development of a sustainable microfinance sector.
The reason for this is so that these institutions can diversify their lending products, mobilize savings through long-term (not demand) deposits and lessen their dependency on foreign donors. The new prudential requirements set down by the Bank of Tanzania include, new capital and reporting requirements and the need for maintaining a treasury function, as these new MFIs will need to, on a daily basis, balance their loans and deposits.

It would appear that until recently a “microfinance for housing” product has not been offered by semi-formal and formal micro lenders\(^{24}\). Nevertheless, some of the micro lenders have expressed interest in the product. Similar to micro lenders elsewhere, the current ones are of the view that a certain proportion of their loans are already being used for housing-related activities (Rooftops Canada, 2007).

**Zambia**

Zambia has approximately 30 formal MFIs operating in it. Many are NGOs, but more recently there has been a growth of commercial institutions. The first microfinance regulations were issued in 2006, which are aimed at giving credibility to the sector so that they can improve their chances of accessing finance (Gardner, 2007). The literature suggests that none of the MFIs offer microfinance explicitly for housing purposes.

\(^{24}\) Rooftops Canada is engaged in a collaborative project with the Women’s Advancement Trust (WAT) in facilitating access to housing finance for women (Rooftops Canada, 2007).
CONCLUSIONS AND RECOMMENDATIONS

This literature review exercise has revealed the efforts of countries to either establish and/or expand housing lending, whether secured or unsecured. As part of this effort to expand access to housing finance, thought is being given as to how to move housing finance downward from hi-net worth clients, the only market segment where it has been available to date, to the middle-class, who have been left to house themselves in unplanned settlements relying on their own resources.

The World Bank/IMF Financial Sector Support Projects occurring in many SSA countries are aimed at addressing the numerous constraints this review has identified and described. At the same time it is important to highlight the fact that SSA countries are in very different stages of reform and that interventions will need to be tailored to the specific case. For example, some countries are further along in improving their macroeconomic conditions and improving their regulatory systems. Almost all governments need to take actions around land titling and registration as well as making formal land and infrastructure available for housing purposes. Most countries need to focus on primary market development and improving risk management, as well as encouraging new lenders to enter the middle-income market. Where countries are further along they may be able to look at the development of a secondary market, which will require the standardization of their lending instruments, the provision of guarantees and so on.

Noteworthy is the fact that the literature reveals a number of similar recommendations around institutional development, e.g. restructuring legal systems, improving accounting and disclosure rules and putting in place more stringent regulatory and supervisory mechanisms require long lead times before real results are seen. In particular, land titling, so critical to the delivery of mortgage finance, will pose one of the most difficult challenges to overcome in many of the countries examined.

In contrast to mortgage finance, microfinance is more firmly embedded in SSA. Microfinance for housing, however, is a relatively new area of intervention. The literature describes microfinance as often growing out of traditional savings practices and NGOs attempting to enhance their development work in various countries. In describing microfinance in general, at one extreme on a continuum one finds institutions that operate based on criteria set by the financial markets, and at the
other end of the continuum are institutions that offer highly subsidized loan programmes, with an emphasis being placed on including the poorest of the poor.

Microfinance for housing, however, is a new variation with very little written about it at this time, except in South America and India. Rather, existing MFIs are only beginning to think about whether they want to extend their product range to include this new form of lending, as it will affect how they carry out and fund their business, whether they have to fall under government supervision and regulation to do so, how they handle the new technical requirements, whether they have the administrative capacity to carry out the new business, and so on.

Escobar and Merrill (in Daphnis and Ferguson (eds), 2004) note that even though microfinance methodologies and products have been replicated across regions and countries, when it comes to housing, a significantly larger set of issues and factors makes replication more challenging.

With both mortgage finance and microfinance, it appears to be the case that the donor agencies are keen to support both the extension of mortgage finance and the emergence of microfinance for housing. In a pre-publication draft of a World Bank Report, Making Finance Work in Africa (2006), the case is made that finance could be a leading sector reform in transforming African economies, as they have done in many other parts of the world. The report, however, advises that any reformer of African finance needs to be aware of two different dimensions. First, is the need to cater for the financing needs of sustained economic growth based on high productivity. Second, is the need to cater for the needs of poor households and micro enterprises. It characterizes these two different dimensions as, “finance for growth” and “finance for all”, which do not conflict but require different skill sets and policy emphasis.

In the World Bank report the two contrasting approaches to improving Africa’s financial system are commonly observed as the ‘modernist’ and the ‘activist’. The ‘modernist’ advocates transplanting ‘best practice’ from the advanced economies. The emphasis here, as described throughout this report, focuses on improving the legal system, releasing land so it can serve as collateral, improving credit information, strengthening prudential supervision and so on.
This view, however, tends to neglect the reality of what happens on the ground in SSA, including the enormous skills and capacity requirements, the up-front costs of implementing a new intervention (for example, a credit bureau can cost USD2 million to establish), and so on.

The ‘activist’ approach tends to more fully recognize the typical African environment, which includes low household incomes and poor infrastructure. Hence, the report suggests that the failures that are seen around the delivery of finance, whether it be agricultural, micro enterprise or long-term finance will only be overcome when new entrants, or restructured institutions adopt a dedicated mission to be patient, take risks and experiment with new technologies in the “fight for an inclusive financial system” (World Bank, 2006; 2).

**Recommendations**

In reviewing the literature on the development of housing finance in SSA one finds it to be an emerging, rather than an established field. *It is clearly the case that the most rigorous analysis of various countries housing sectors’ come from donor agents that use off-shore consultants to assess the local situation.* Generally the consultants base their assessments on interviews with relevant actors (central banks, mortgage finance providers, micro lenders, government departments, e.g. land, planning and housing, pension funds and so on) and whatever local data they can access. Moreover, national policy documents are often written with assistance from outsiders as well. Local academics do not often focus on housing finance *per se*, however, but rather write about broader issues around urbanization, planning, land, upgrading and so on.

In fact, in reviewing the literature, on mortgage finance in SSA, it is clearly the case that what is available is quite limited and that there is a lack of *locals writing on the issue in comparison to people from overseas*. Moreover, the most recent and thorough country assessments reside with the governments and the development agents that fund them and are generally not in the public domain. One of the reasons for this is that when it comes to, say, mortgage finance, banks view this as competitive space and are therefore unwilling to provide information on internal operations to researchers writing for public consumption.
There is, however, a much larger body of literature on microfinance, both local and international, but it is not yet focused on the microfinance for housing product, which is in its infancy\(^{25}\) and should begin to be tracked.

When it comes to the themes written about on MFIs, a major gap exists around regulatory issues and the struggles and choices that they face as they attempt to evolve from informal to semi-formal to formal lenders within their particular country’s regulatory and prudential regime.

While consultants attempt to give a voice to the local actors in establishing the challenges they face, it is not always the case that they are able to find out precisely how far the local actors are willing and able to go towards addressing the challenges that have been documented. Moreover, the capacity constraints are significant in terms of how far, e.g. a government department, commercial bank, microfinance institution can go towards mobilizing energy and resources to establish or restructure something.

Moreover, while development agents strive to limit the sense that ‘they know best’, it is often the case that the local actors do not have sufficient knowledge and information to make judgments about, and then debate, the recommendations being put before them. Locals need to feel as if they are able to develop a housing finance system that meets their country’s particular needs and not simply adopting something that is purely Western-tailored. This being the case there is scope for increased research and writing, particularly by locals, on housing finance developments in Africa. By viewing developments through the eyes of the locals, the various challenges they are facing will take on greater meaning.

\(^{25}\) The Daphnis and Ferguson (2004) book is the beginning of this type of literature.
ANNEXURE1: THE ROLE OF DEVELOPMENT AGENCIES IN HOUSING FINANCE SECTOR DEVELOPMENT IN SSA

Africa receives the attention of the multilateral development banks, e.g. the World Bank Group and the African Development Bank, the multilateral development programmes, e.g. the EU and UNDP, the multilateral investment promotion agencies, e.g. the IFC, the bilateral donor agencies, e.g. USAID and DFID, private foundations, development NGOs and so on.

The multilateral development banks focus on financial sector reforms that are aimed at alleviating poverty. The bilateral donor agencies use their assistance to advance their national interests while focusing on specific issues, e.g. HIV/AIDS, urban management, slum upgrading, micro and small and micro enterprise finance.

The multilateral donors operate at a much higher level than the bilateral agencies, in that they provide assessments of a specific country’s investment climate, investment funding (loans), guarantees and technical assistance. The bilateral agencies primarily provide technical assistance and loan guarantees, rather than investment funding.

Currently there are a large number of initiatives going on around ‘access to housing finance’, particularly in the way of technical assistance, whereby the agencies are funding consultants to assist local banks to develop their mortgage lending systems, assist governments to develop policies, legislation and regulatory frameworks, e.g. to restructure their judicial systems and develop land/title systems. Guarantees are also being made available to lenders, and potential lenders, from a variety of sources, including USAID, OPIC and the IFC, as a means of encouraging commercial banks to enter the middle-income market and to seek capital funding to fund the longer-term lending that mortgages require.

A few of the initiatives are highlighted below:

- President’s Mortgage Market Initiative for Africa, supported by the U.S. Treasury and USAID
Housing Finance, Infrastructure and Capacity Assessment: South Africa, Zambia, Tanzania and Uganda supported by USAID

African Union of Housing Finance and Banking Council, South Africa’s project on Facilitating the Development of Appropriate Housing Finance Products to Support Informal Settlement Upgrading Activities in Ghana, Tanzania, Swaziland and South Africa, funded by the World Bank’s Cities Alliance

Increasing attention from international investors such as OPIC, the Overseas Private Investment Corporation

UN-Habitat sponsored High-Level Peer Exchange on “Government Enablement of Private Sector Lending for Affordable Housing”, East African Conference in 2005; and West African Conference in 2006

Habitat for Humanity works in 27 countries in Africa where it makes interest-free loans to people and channels their repayments into a revolving Fund for Humanity, which funds more houses in the community

UN-Habitat’s Urban Management Programmes Feasibility Studies on the application of Community-led Infrastructure Finance Facilities

SADC Training Programme for NBFI Regulators: Angola, Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe, supported by FIRST Initiative

Insurance coverage for housing materials production in Angola, supported by OPIC

The World Bank’s, Africa: Regional Urban Upgrading Initiative Assessments for Ghana, Namibia, Swaziland, Tanzania, Zambia, Burkina Faso, Cameroon, Cote d’ Ivoire, Mali and Senegal

AMCHUD, under the auspices of the African Union held its inaugural conference in Durban, South Africa in February 2005

Cities Alliance Shelter Finance for the Poor Series

**Millennium Development Goals**

In 2000 the United Nations Millennium Assembly highlighted the need to improve the lives of the urban poor through the inclusion of a ‘slums target’, in the Millennium Declaration. The goal – ‘by 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers, as proposed by the Cities Without Slums Initiative’ – later became Target 11 of the Millennium Development Goal (MDG) 7, that of environmental sustainability. The MDG’s have become a lightening rod for aligning goals and aims across the development sector.
The task force charged with making recommendations on how to achieve the MDGs, came to the conclusion that the slum target not only means improving the lives of an existing slum dwellers, but is also meant to create alternatives to slums for future urban poor.

The task force’s report proposes an investment model for upgrading slums and planning alternatives that assumes the active participation and commitment of the urban poor, in partnership with the more usual actors, e.g. local and national governments and international organizations. Rather than focusing on foreign aid, the message is that already a diversity of activities are being undertaken by the urban poor themselves and what is needed is both acknowledgement and support for this work. The task force’s investment model includes five components: 1) land; 2) physical improvements in housing stock; 3) basic physical infrastructure; 4) basic community services; and 5) security of tenure, themes of great importance to the delivery of housing finance.

**The World Bank**

The World Bank is into its Second Generation of Financial Sector Reforms in most African countries, particularly those in SSA. The packages include interest rate liberalizations, removal of credit ceilings, restructuring and privatising of state-owned banks, introducing a variety of measures to promote financial markets and private banking schemes and restructuring regulatory and supervisory schemes.

The development of capital markets and carrying out of financial sector reforms is viewed as important means of integrating Africa into the global financial economy and attracting international capital, as well as promoting regional integration (Senbet, and Otchere, 2005)

The World Bank’s African Country priorities coincide with progress towards meeting the Millennium Development Goals, and are consistent with those outlined by African Heads of State in the New Partnership for Africa’s Development (NEPAD). Recently it has approved the Financial Support Project (FSP). Projects are aimed at deepening and broadening the provision of mortgage and microfinance. Projects are generally funded by a consortium of bilateral agencies, which is a continual moveable feast.
UN-HABITAT

UN-HABITAT combines technical assistance and seed funding to broker public-private-community partnerships and create innovative financial packages involving community savings, micro-finance, public expenditure and private investment for pro-poor slum upgrading and urban infrastructure development.

In 2005, UN-HABITAT started its Slum Upgrading Facility (SUF). The SUF is intended to work with governments, people living in slums and local financial institutions to mobilize investments for slum upgrading. Its objective is to develop, test and apply new and innovative means of financing pro-poor urban development, with a strong emphasis on the mobilization of domestic capital. The mission portfolio includes East Africa (Kenya, Tanzania and Uganda) and West Africa (Ghana and Senegal).

Initial projects include a pilot credit guarantee scheme for a women’s housing cooperative in Tanzania. In Ghana UN-Habitat carrying out assessments into the viability of a slum upgrading project, which could be replicated elsewhere (UN-HABITAT, 2006).

African Development Bank

The African Development Bank (AfDB), views the provision of adequate housing as an integral part of its sustainable development objective. It intends exploring, with other stakeholders, opportunities to minimize the costs of housing provision by:

- promoting labour-intensive technologies that enable the poor to manufacture cheaper and more affordable building materials that can be sourced locally; and
- eliminating legal and regulatory bottlenecks in order to bridge the gap between private construction companies and banking and mortgage finance institutions on the one hand, and the low-income groups that lack the requisite purchasing power to procure housing, on the other hand (Ganthso, 2006).

The AfDB plays a catalytic role by financing housing studies, providing technical assistance and logistic support to Regional Member Countries (RMCs) to develop the legal and regulatory frameworks conducive to the development of a free, reliable and dynamic real estate market. To this end it established Shelter-Afrique as a regional
institution to promote and directly engage in housing finance and development in Africa.

Currently the AfDB operates through two windows, the ADB window, which provides non-concessionary funding, including publicly guaranteed operations and non-sovereign guaranteed operations; and the African Development Fund (ADF) window\(^26\), which provides concessionary funding. The Bank is in the process of revising its existing Urban Development Policy, which will focus on slum restructuring and housing finance (Ganthso, 2006).

**African Ministerial Conference on Housing and Urban Development (AMCHUD)**

In recent years a number of meetings and consultations have taken place as a response to the issue of rapid urbanization taking place in African cities and towns. In 2002, the Executive Director of UN-HABITAT held consultations with the South African Minister of Housing, and a number of other African Housing Ministers, on the need for a coordinated approach by African countries on issues dealing with housing and human settlements.

In 2003, the African Union (AU), at its Second Summit meeting of African Heads of State, also recognized and adopted the challenges of rapid urbanization as part of its Vision, Mission and Strategic Framework for 2004 – 2007. In addition, it adopted Decision 29(1) that calls for a coordinated African response to urbanization with the response being aligned with the Millennium Development Goals calling for a significant improvement in the lives of 100 million slum dwellers by 2020. The AU also appealed to the Executive Director of UN-Habitat to continue rendering support to the Commission of the African Union to promote the development of sustainable cities and towns, in terms of the HABITAT Agenda.

In 2004 the first New Partnership for Africa’s Development (NEPAD) Cities Forum was organised, in collaboration with UN-HABITAT, at which time it endorsed the priorities set by seven African cities – Bamako, Douala, Durban, Lagos, Lusaka, Nairobi and Rabat – as the first targets of the NEPAD City Development Initiatives. In 2005, the Inaugural Conference of AMCHUD was held at which time the Durban Declaration was adopted to institutionalise AMCHUD within the auspices of the AU.

\(^{26}\) This window has provided small amounts of assistance for slum restructuring as an objective of the MDGs.
An Enhanced Framework for Housing and Urban Development in Africa was adopted to provide a basis for a concerted and coordinated programme of action focusing on:

- the poor and prioritisation of the vulnerable;
- the challenge of slums in Africa;
- a deepening of understanding of urban land markets;
- a reform of policy and law;
- a more effective urban management and governance;
- population trends, migration and urbanization;
- capacity-building; and
- financing urban development and housing.

Under financing urban development and housing the issues to be focused on include promoting:

- private sector and local authority revenue generation; social security and provident funds;
- cooperation with respect to development assistance, debt relief and market access;
- the establishment and strengthening of regulatory framework laws and codes
- financial institutions to provide housing and urban development finance;
- the building of the financial sector, in a form specific to each country, which will enable a range of appropriate, sustainable and effective financial options to be made more widely accessible to all sectors in society;
- the construction sector, including SMEs and the community sector to become involved in slum upgrading; and
- financial support from the international community to be targeted at capacity-building, technical expertise and funding.

AMCHUD’s vision is to serve as a consultative mechanism on the promotion of Sustainable Development and Human Settlements. South Africa’s Minister of Housing, Lindiwe Sisulu, hosted the first African Ministerial Conference on Housing and Urban Development in February 2005.
Do Development Initiatives Feed Into Each Other?

Whether or not the plethora of development initiatives feed into each other is a very important question to answer as part of understanding how the development of housing finance assistance is going to proceed in future. It is clearly the case that the MDGs are providing a lightening rod through which a certain degree of alignment around aims and objectives is occurring.

Moreover, at the recent High-Level Peer Exchange on “Government Enablement of Private Sector Lending for Affordable Housing”, held in Accra, Ghana, 27 November – 01 December 2006, the Executive Director of UN-Habitat held a closed Partners Meeting, with HUD, USAID, IFE, OPIC, World Bank, IFC, CMHC, IHC, Habitat for Humanity and Desjardins. However, to understand the scale and depth of synergy would require a more focused exercise, which was beyond the scope of this exercise.
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