The West African Economic and Monetary Union WAEMU (UEMOA)

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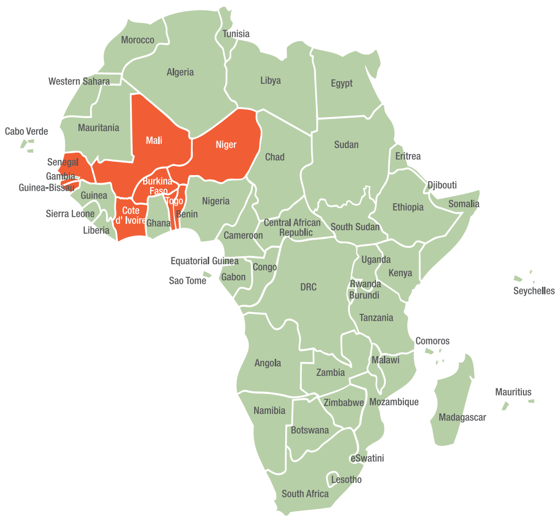

Overview

The West African region is made up of 15 economies structured into West African Economic and Monetary Union (WAEMU) and non-WAEMU countries. The WAEMU countries include Benin, Burkina Faso, Cote d' Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo. These countries share the same currency, the CFA franc and monetary policy, as well as French as the common language. Non-WAEMU countries include Cabo Verde, Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. The development stages of the economies and housing markets of all 15 countries vary. Income per capita ranges from $452 in Niger to $3 678 in Cabo Verde.[1] Agriculture and the service industry has largely been responsible for economic growth in the region. Gross Domestic Product growth in 2018 was 3.3 percent. West African growth has been restricted, especially by reduced oil production in Nigeria and the Ebola virus. Security concerns in northern Nigeria have dimmed the region's economic prospects.

Within the region, inflationary trends between WAEMU and non-WAEMU countries diverge. In 2017, inflation was as low as 0.9 percent in members of the WAEMU and was 11.0 percent in non-WAEMU countries.[2] Overall, inflation has contributed to constraining growth in the region. All currencies in the region have depreciated within the last decade, affecting the affordability of housing in most of the markets.

The external debt to GDP ratio is 23.7 percent and regional unemployment is 5.2 percent. As the region and continent become more integrated due to the endorsement of the African Continental Free Trade Area (ACFTA), it is believed that the development indicators will show progress. It is projected that investment of resources in agriculture in Benin will increase its contribution to foreign reserves from the current 34 percent to 50 percent.

Terrorist groups plague West African countries. For example, large territories within Burkina Faso and Nigeria are under terrorist control. This has reduced direct investment not only in housing but also in other sectors. A few of the other countries are also fragile. Gambia has just recently overcome political uncertainties and, struggling with a weak economy, is susceptible to external shocks.

Overall, across the West Africa region, there is housing problem that needs to be solved. This problem also provides the right investment opportunity for local and international investors.

Access to finance

Banking in West Africa is becoming largely inclusionary. Innovations range from mobile banking payments in in Sierra Leone to agent banking in Nigeria. For example, there are approximately 1.9 million customers using mobile cash-in cash-out transactions and a total of 94 000 mobile wallet customers.[3] However, access to credit is constrained, except in countries such as Nigeria, Togo and Ghana.[4] The major reason for limited credit to the private sector is that most governments in the region have a huge appetite for domestic borrowings.

In Nigeria, the government has a deliberate financial inclusion strategy embedded in the Economic Recovery Growth Plan (ERGP) strategy. The ERGP has led to the creation of a national microfinance bank called Nirsal Microfinance Bank (NIRSAL). NIRSAL is a N5 billion (US$ 136 276) licensed national microfinance bank with a strategic plan of having branches in all 774 local government areas in Nigeria. Another inclusionary strategy is the newly launched micro-pension initiatives aimed at catering for the 44.3 million self-employed and non-salaried workers who are currently excluded from the benefits of the pension industry.[5]

It is hoped that increased financial inclusion will deepen, mortgage penetration in the region. From Gambia to Guinea, the level of mortgages originated is low. In Gambia, Home Finance Company Limited (HFC) is the only housing finance institution that offers mortgages to customers. As at December 2018, HFC had only originated 49 mortgages with outstanding value of D25 355 289 (US$510 231).

Many governments in the region have launched initiatives to help with access to finance. In 2014, the Togolese government launched The Fond National de la Finance Inclusive (FNFI) focused on providing three core credit products targeted at economically active poor men and women, farmers and the youth. As at 2018, FNFI's total portfolio was CFA 80 million (US$278.18595 million)[6] with approximately 926 000 recipients.

The World Bank, International Finance Corporation (IFC) and the International Development Association (IDA) developed funding for the WAEMU region, valued at US$2.5 million in 2017, to help catalyse private sector investment.[7] Further, The World Bank is supporting Caisse Régionale de Refinancement Hypothécaire (CRRH) through an arranged on-lending to help grant affordable long-term loans to selected non-bank financial institutions (NFIs). These NFIs are expected to meet stringent eligibility criteria based on financial soundness and target client population. The focus is helping non-salaried workers through mortgages, housing microfinance (home improvement loans, incremental construction loans) and loans obtained through alternative forms of collateral. The overall goal of this program is inclusionary as it enables currently excluded borrowers to access formal housing finance.[8]

Most countries in the region are also deploying their pension funds in providing housing for their low income civil servants. The Social Security and National Insurance Trust (SSNIT) in Ghana partners with government and private sector organisations for the provision of housing finance to its populace.[9] In Gambia, the Social Security and Housing Finance Corporation (SSHFC) operates a Housing Finance Fund as part of its four mandatory funds.

Affordability

"The situation is particularly acute in the countries of the West African Economic and Monetary Union (WAEMU) – Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo – where demand for decent housing far outstrips supply".[10]

The above statement aptly describes the state of housing and housing finance in non-WAEMU countries as well. Nigeria has a 17-million-unit housing deficit and most Nigerians would not be able to afford a home without the deliberate, concerted and sustainable involvement of government. In Freetown, Sierra Leone, due to the low affordability levels, approximately 50 percent[11] of the total population of 1 107 569 live in slums.[12] In Gambia, 66.4 percent of people live in rented apartments in the capital city of Banjul due to the increasing unaffordability of home ownership. Other urban centres record an average of 46.5 percent of renters, while slums dwellers are 34 percent of urban population. The large of number of slum dwellers in the region is often a risk indicator of infectious diseases like tuberculosis.[13] In Sierra Leone, approximately 60 percent of households are renters.[14]

The reason for the spate of slum dwellers across the region is that many of the urban dwellers in the cities have been priced out of the formal real estate market. They are therefore left with no option other than to live on the outskirts of the cities or in typically overcrowded slums. In Freetown, Sierra Leone, houses are hugely overcrowded with an average of 10 people crammed into one house or apartment. Rental prices in the region are generally exorbitant for low and medium income citizens. A World Bank report reveals that households spend up to 33 percent of their household expenditure on rentals.[15]

Low levels of affordability in West Africa can also be attributed to weak administration of land titling and registration. Although not much data is available, it is recorded that only three percent of Nigeria's land mass is registered.[16] In Sierra Leone, 40 percent of the city's land has a title.[17] Although many cities in the region have improved in the World Bank Ease of Doing Business index for building permits and land registration, a lot still needs to be done about inefficient administrative processes and procedures.

The lack of adequate title limits the growth of mortgage penetration in the region. Although it is important to mention that refinancing organizations such as the Nigeria Mortgage Refinance Company (NMRC) and Caisse Régionale de Refinancement Hypothécaire (CRRH-UEMOA) have continued to help in deepening the market, the rate of mortgage growth remains poor. In Guinea-Bissau, the lack of adequate title is worsened by the unavailability of long-term funding.

To improve affordability, governments in both WAEMU and non-WAEMU countries have engaged in institutional interventions. For example, the Gambia Social Security and Housing Finance Corporation (SSHFC) is the major provider of affordable housing in The Gambia. SSHFC's mandate is supplying site-and-service schemes that come with or without construction loans for low and middle income earners. TAF Africa Homes, a leading real estate developer in the region with notable developments in Nigeria and The Gambia sells its starter homes (2-bedroom semi-detached bungalow) from approximately US$26 160.[18]

In some countries in the region, governments have tackled the issue of affordability with concessions and tax waivers. In Guinea, building costs, construction materials and administrative costs are prohibitive. These costs can make up 70 percent of the house price. To solve this problem, the Government of Guinea provided concessions and incentives in terms of land, tax holidays, and a duty-free tax rate on all building components.[19]

Housing supply

The shortage of housing supply in the West Africa region is due to the political, legal and bureaucratic variables that hamper delivery of affordable housing both by government and the private sector. Housing is overwhelmingly in short supply across the major cities. The deficits range from 280 000[20] in Freetown to approximately 3 000 000 in Lagos.[21]

As of 2018, the housing shortage in Ghana was reported to be 1.7 million units. Hence, the government has budgeted approximately US$185 million (GH¢1 billion) in 2019 to leverage mortgage and construction finance for low and middle income earners. The target by the government is to deliver 85 000 units of housing over the next 10 years. In Côte d'Ivoire, Abidjan's shortage of housing is estimated to be 200 000 units and government efforts are geared towards improving efficiency in land administration. A single land title has now been introduced to "clarify transactions, reduction [sic] of registration costs by 9.6 percent of the property value, regulate rents and minimise rental guarantees".[22] Further the government has embarked on construction of 60 000 units of housing to reduce the deficit.

Housing typologies across urban and rural areas of different countries in the region are similar. For example, the most popular house type in Nigeria is the detached house (either bungalow or duplex). However, in the city centres, the detached house type quickly disappears because of the scarcity of urban land. The same scenario plays out in Sierra Leone where detached houses represent 54 percent in urban and 68 percent in rural areas of house types. In many city centres within the region, flats and apartments have become a predominant feature of housing typology. In Freetown flats and apartments represent 33 percent of the housing value that has been secured.

Availability of data on housing finance

Gathering data on housing finance is West Africa is a difficult task. Except for a few countries, most governments do not respond to calls by sector practitioners to fund the cost of research. Difficulties in collecting data arise from outdated information on websites, lack of training, etc. Further, there is no existing verified database of real estate players in the sector. Central banks are unable to provide regular and updated mortgage banking data on their websites or platforms.

With a burgeoning young population and an increased rate of urbanisation, demand for affordable housing across the entire region is consistent. This has led several governments and private sector participants to accelerate policy reforms and create incentives that will boost housing. In Guinea, the government is fully committed to granting access to housing that is both decent and safe.[23]

The WAEMU region needs a total supply of 3.5 million housing units to cover its deficit.[24] The enormous task of ensuring this shortage is supplied rests with the Caisse Régionale de Refinancement Hypothécaire (CRRH-UEMOA) which is the refinancing facility of the West Africa Economic and Monetary Union (UEMOA). CRRH-UEMOA has refinanced a portfolio of approximately 8 000 mortgages across the WAEMU countries since its creation in 2012.[25]

Property market

Property markets in the region are split between the sale of land and buildings. Land sold is either divided into plots by communities/ families or developed into site-and-service schemes by private developers/government. The ratio of land sales to buildings across the region is on average 85 to 15. For example, in Benin, the property market is mostly plots of land, even in the capital city of Cotonou. The reason for this largely that most people cannot get finance for building on the land. Once people have secured their land, they tend to build incrementally over a period of eight to 12 years.[26]

Much informality in the region's property market is due to the high cost of registering property. Rather than going to the local government or municipality to register transactions, individuals are comfortable accepting receipts of purchase, endorsed agreements and unregistered deeds/titles. In Benin, registration cost is 3.4 percent of property value. In Guinea Bissau it costs 5.4 percent and in Togo, 5.9 percent. However, these figures are lower than average value of registering property, at 7.6 percent, in Sub-Saharan Africa.

Unregulated real estate agencies dominate the rental markets in the region. From Lagos to Burkina Faso, many transactions are carried out by unprofessional estate agents.[27] This makes the rental markets expensive.

Due to the nature of the property markets in the region, many of the countries in West Africa rank poorly in the World Bank Doing Business Report 2019. For example, Benin ranks 130 out of 190 countries on registering a property and 153 overall in the report.[28] Togo and Guinea rank 127 and 152 respectively.

Policy and regulation

All countries in West Africa have dedicated institutions focused on housing. They also have laws for the functioning of these institutions, although many of the laws are moribund and dysfunctional, especially the laws regulating the supply end of the market. Most governments in the region are still largely involved in the direct construction of housing. This, however, is not sustainable and despite the efforts by the various governments, the housing sector in the region is still underperforming.

To improve the performance of the markets, many countries in the region continue to undergo land administration and housing reforms. Across the region, land is largely vested in government. For example, In Nigeria, the Land Use Act No. 6 of 1978 (LUA) continues to dictate and hinder the land markets.[29] In Guinea Bissau, the 1998 Lei Da Terra literally "Land Law" establishes that land is the property of the State and common property of the people in its article 2°/1.[30] It is important to note that these laws have not achieved their desired outcome.

A rental price regime is legislated in some markets.[31] For example, in Benin government regulation caps the annual rent price at 8 percent of the total amount of real value of house, apartment or building. In Burkina Faso, the government has capped the rent price at 7 percent of the construction costs.

Opportunities

Opportunities across the region are visible, especially when the market development of the region is compared to that of Western and Asian countries. Many governments in the region also provide investment incentives to developers. Some of the incentives include tax holidays, duty-free and equipment, and free repatriation of investment proceeds.[32]

Opportunities exist across the region for the housing sector, although they may be difficult to access. Countries are fast transforming and reforming to meet the dictates and requirements of the UN Sustainable Development Goals.

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