FINMARK TRUST

MAKING FINANCIAL MARKETS WORK FOR THE POOR

ACCESS TO HOUSING FINANCE IN AFRICA: EXPLORING THE ISSUES

No. 6

RWANDA

Overview of the housing finance sector in Rwanda, commissioned by the FinMark Trust with support from

Habitat for Humanity®

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G:ENESIS

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BACKGROUND TO THE SERIES

Since 2002, the FinMark Trust has been pursuing its mission, "Making Financial Markets Work for the Poor", first in the Southern African Customs Union (SACU) countries and now throughout Africa. An independent trust with core funding from the UK Department for International Development (DFID), FinMark Trust aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked in Africa.

A key product developed by the FinMark Trust is FinScope™, a national-level survey of individual usage of financial services, now being undertaken in eleven African countries.[1] FinScope™ will provide baseline data to stimulate policy change and support innovation by commercial providers seeking to deliver products and services sustainably to consumers who are currently outside the formal financial system. FinMark Trust will build on the impact of FinScope™ by promoting and supporting change processes across the continent.[2]

FinMark Trust's Housing Finance theme area[3] conducts research and engages with sector stakeholders in the promotion of innovative housing finance mechanisms to enhance access to housing finance for the poor. Broadly, the housing finance theme's activities can be separated into the following categories:

- Understanding the housing asset
- Exploring housing finance innovation
- Understanding issues relating to housing finance in Africa

This report is the sixth of a series of studies which will explore access to housing finance in various African countries (earlier reports consider housing finance sectors in Zambia, Botswana, Kenya, Uganda, and Namibia). It is meant as an input into a larger debate about how to enhance access to housing poor by low and moderate income earners throughout Africa. Comments and contributions can be sent to the FinMark Trust's Housing Finance Theme Champion, Kecia Rust on Kecia@iafrica.com.

The FinMark Trust hopes that its research into access to housing finance in Africa will begin to shed some light on the key issues facing the poor as they seek to mobilise the finance necessary to access adequate and affordable housing.

Country Profile: Rwanda[4]

- **Population:** 10,186,063 Note: estimates for this country explicitly take into account the effects of excess mortality due to AIDS; this can result in lower life expectancy, higher infant mortality and death rates, lower population growth rates, and changes in the distribution of population by age and sex than would otherwise be expected (July 2008 est.)
- **Life expectancy**: 49.76 years (total population)
- **Capital:** Kigali / **Area:** 26 388 sq km (total)
- **Major language:** Kinyarwanda (official) universal Bantu vernacular, French (official), English (official), Kiswahili (Swahili) used in commercial centres / **Major religions:** Roman Catholic 56.5%, Protestant 26%, Adventist 11.1%, Muslim 4.6%, indigenous beliefs 0.1%, none 1.7% (2001)
- **Monetary unit:** Rwandan franc (RWF)
- **Main exports:** coffee, tea, hides, tin ore
- **GDP per capita:** USD 300 (2007 current prices)

[1] FinScope™ is a nationally representative study of consumers' perceptions on financial services and issues, which creates insight to how consumers source their income and manage their financial lives. The sample covers the entire adult population, rich and poor, urban and rural, in order to create a segmentation, or continuum, of the entire market and to lend perspective to the various market segments. FinScope™ explores consumers' usage of informal as well as formal products and builds a picture of the role that the informal sector can play in the financial markets of developing countries. Since FinScope™ is a perceptual study, it also encompasses attitudes, behaviours, quality of life factors and consumption patterns. See www.finscope.co.za

[2] By 2012 it is intended that some 20 countries in Africa will have the survey. Repeat studies will take place on 2-3 year cycles, enabling trends within countries to be monitored and providing the basis for cross-country comparison especially around access to finance. FinScope™ data will provide financial service providers and regional integration initiatives with comparable, standard and reliable data about demand for financial services across borders. (FinScope™ Africa Brochure)

[3] To go to the housing finance theme page, go to www.finmark.org.za, click on "themes" and then click on "housing finance".

[4] From FinScope™ website, drawing on the World Bank Fact Book and CIA.

Exploring housing finance in RWANDA

This report outlines key findings of a study into the retail housing sector in Rwanda that was conducted by Genesis Analytics. In compiling the report, Genesis Analytics held interviews and discussions with representatives of the National Bank of Rwanda (BNR), the Social Security Fund (CSR – Caisse Sociale du Rwanda), the National Institute of Statistics (NISR), Rwandan Judiciary, major banks and various participants in the housing and real estate sectors. The bulk of these information gathering sessions occurred during a country visit to Rwanda by Genesis team members.

The intent of this document is to provide a general overview of economic and housing finance conditions in Rwanda, and hence is neither definitive nor exhaustive. It also outlines key issues relating to the housing sector in Rwanda, and identifies related challenges and constraints. In late 2008, the findings of the first FinScope™ survey in Rwanda were released. This report also includes highlights from that survey, which are available in more detail on www.finscope.co.za.[5] Comments, challenges and perspectives are welcome. These should be directed to the FinMark Trust's Housing Finance Theme Champion, Kecia Rust, by email to Kecia@iafrica.com, or on +27-83-785-4964.

Key findings from the study

- Rwanda is still a predominantly rural economy with over 80% of the workforce employed in agriculture.
- At the same time Rwanda is experiencing a rapid growth in urbanisation which is fuelling the demand for housing in key urban areas and for housing finance
- The institutions that support the land & property market are poorly developed. Out of 7.7 million plots only around 80,000 have formal title
- The Government has embarked on a major reform of the institutions that manage the supply and ownership of land and this process should rapidly transform the number of units with formal title and make for the more efficient transfer of title
- The banking sector is small (assets of 17% of GDP) and with very limited long term funds that can be used to support the provision of mortgages.
- The state funded Rwanda Housing Bank provides mortgages, but competes in the same market as the commercial bank, and does not have the balance sheet to be a major player in the market.
- Our estimates suggest that the banks have provided a total of around Rwf17 billion ($30 million) of mortgages to the market. Estimates of the number of mortgages range between 2,000 and 4,000 based on varying loan sizes in the market.
- The mortgages that are provided are of short term (5-10 years) and are relatively expensive (above 16%). Banks do not consider funding properties of less than $10,000, thereby excluding anybody with an income of less than Rwf 2.7 ($5,000) per month
- Mortgages are currently provided to an estimate of only 3,000-4,000 people, whereas our estimates suggest that there are around 25,000 to 30,000 people who could afford the mortgages on offer from the banks
- The rest of the market is serviced informally. Although funding received from micro-finance institutions may be used informally for property improvements, there was no evidence of the MFI's providing home finance products. Currently banks do not offer microloans, and UBPR is the only provider of microloans. Generally, the purchase of local materials for housing improvements is financed by loans from family and friends.The outlook for the market is very much constrained by what the banks can finance, given their limited term funding. This could change if Government were to adopt a more integrated funding and planning framework that considered the impact of term funding from Government on the banks balance sheets and the CSR were reformed to play a more pro-active role in the promoting the mortgage market.
- Past government initiatives focussed on resettling a larger number of people in a short space of time and were thus hurried, resulting in low quality houses and poor planning. Many recent government initiatives have been better planned and managed, and have succeeded in providing suitable low cost housing. However, these

[5] FinScope Rwanda was hosted by the National Bank of Rwanda, which facilitated its implementation. The survey was funded by DFID Rwanda. Incisive Africa, a market research firm based in Kigali, was contracted to conduct the fieldwork during May/June 2008 and the FinScope Rwanda data was captured and analysed by South African based TNS Research Surveys (Pty) Ltd.

have been built at a slow rate and have not significantly improved the access to housing needs of the general population

- Private-public initiatives are not widespread. Where they have occurred, they have tended to provide high cost housing that is not affordable by the majority of the population. Thus, they have also not succeeded in significantly reducing the shortage of adequate affordable housing.

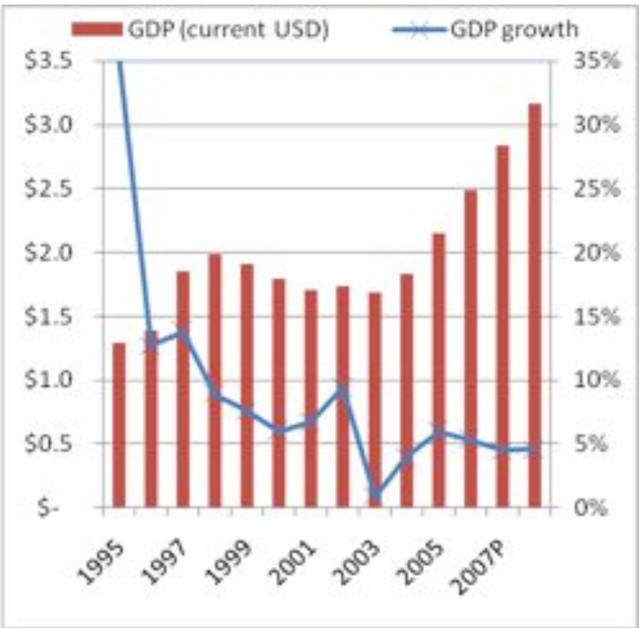
Acronyms and Abbreviations

BCR	Banque Commerciale du Rwanda
BHR	Banque de L'habitat du Rwanda
BK	Banque de Kigali
BNR	Banque National du Rwanda, National Bank of Rwanda
CSR	Caisse Socaile du Rwanda (the Social Security Fund)
FSDP	Financial Sector Development Programme
FSP	Financial Sector Assessment Program (World Bank)
GDP	Gross Domestic Product
HNP	Health, Nutrition & Population, United Nations
IFS	International Financial Statistics
IMF	International Monetary Fund
MFI	Micro Finance Institution
MSME	Micro, small and medium enterprises
NBFI	Non Bank Financial Institution
NGO	Non-Governmental Organisation
NISR	National Institute of Statistics
OPM	Oxford Policy Management
p/a	per annum
RwF	Rwandese Franc
USD	United States Dollar
UBPR	Union des Banque Populaire du Rwanda

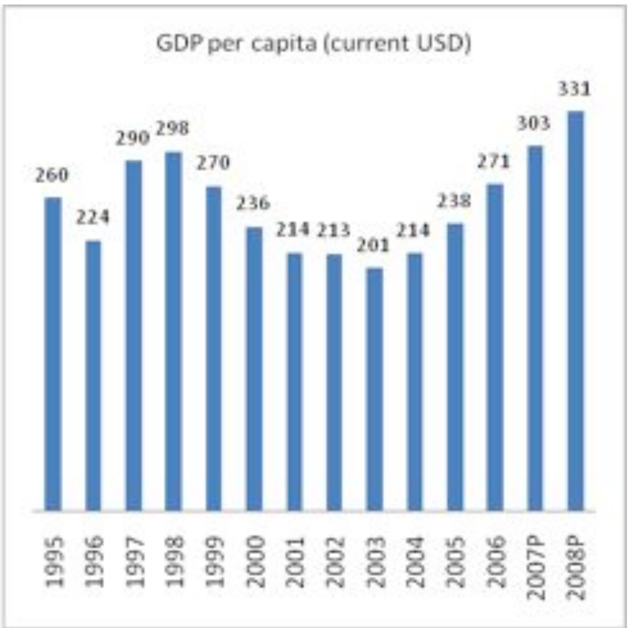
Overview of Rwanda's macro-economy

Selected Economic Indicators

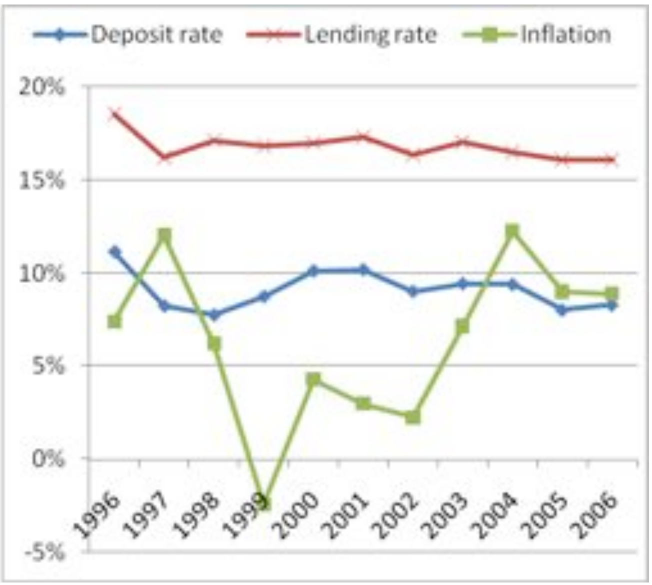
GDP and GDP growth



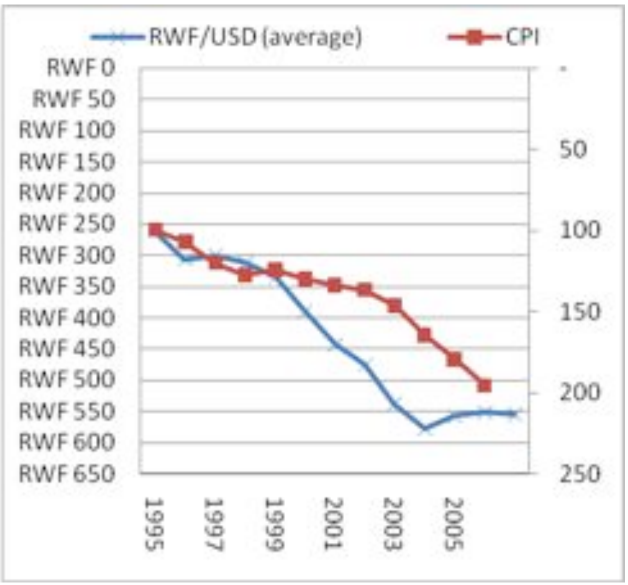
GDP per capita



Benchmark Interest rates



Exchange rate (RwF USD)



Source: IFS, IMF, World Economic Outlook Database, October 2007

Despite growing at an average real rate over 6% per year for the past ten years, the Rwandan economy remains small at just over $3bn. Equally, per capita income levels have risen, but at just over $350, Rwanda remains amongst the poorest countries in the world. The nominal GDP per capita reflects that the wealth levels in the economy have improved consistently since 1995.

In the immediate post-genocide period the Government rapidly introduced fiscal discipline and brought inflation to single digit levels. However inflation has gradually increased over the last two years and is currently above 10%. This is fuelled by a number of factors including increasing food and energy prices, the scaling up of aid and grants, increased government spending as well as improved private sector credit extension.

Lending rates have remained very stable over the last 8 years, reflecting increasing competition within the banking sector. While private sector credit has increased as loan affordability has improved, the spread between borrowing and lending rates has been kept relatively constant at about 8%; indicating that banks' overall perception of the risk associated with their borrowing clients has largely remained the same.

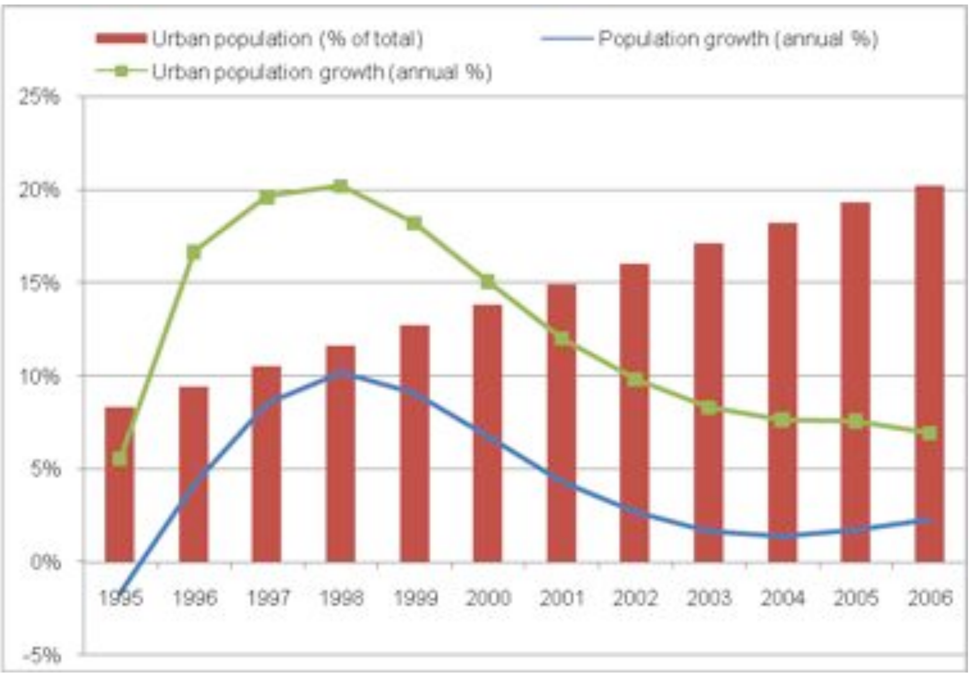
The nominal exchange rate has depreciated faster than the inflation differential suggesting an improvement in competitiveness over the last ten years. The currency has however been stable, and experienced a mild appreciation in the last two years.

While these monetary conditions could be described as stable and pro-growth from an economy wide perspective, they are not necessarily ideal for the take-off of a mortgage market. Rising inflation may limit the appetite of funders to provide term funding at current rates. At the same time with nominal interest rates at their current level, and banks providing only 5-7 year mortgages, most consumers will probably feel that mortgage financing is too expensive.

Population & Employment

The population of Rwanda is estimated at 9.2 million (World Bank, 2006), with the total labour force adding up to 4.3 million (participation rate of 83%). With almost 45% of the population below 15 years of age, it is expected that demand for housing will increase going forward as this section of the population grows into employment and moves to urban areas.

Urban population to total population (%), Growth of urban population

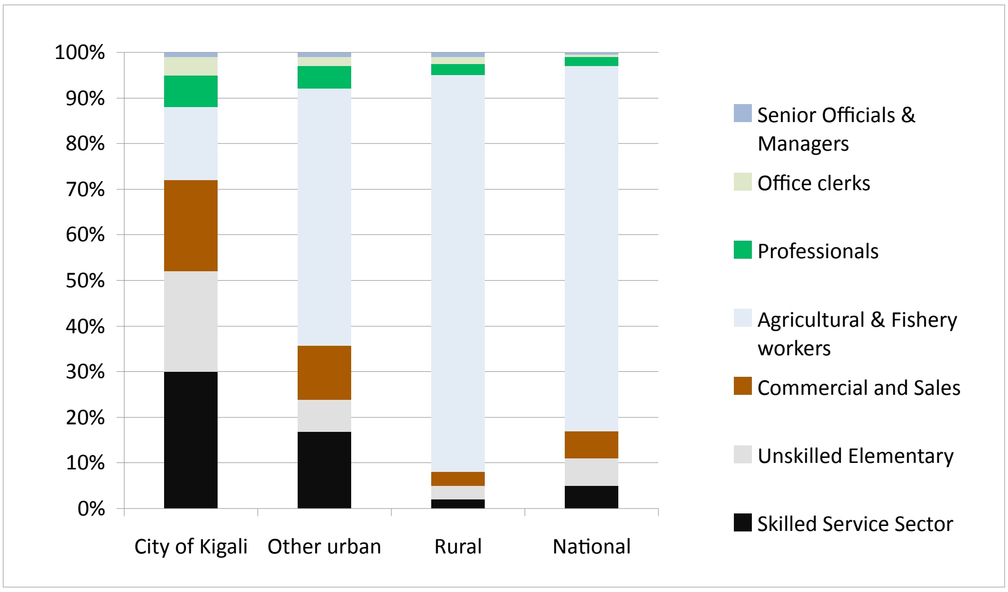


Source: HNP stats, 2008

Urban population growth rates (7% in 2006) are consistently above overall population growth rates (2% in 2006). Growth in the urban population averaged 129,000 per year between 1995 & 2006, a total of 1.85 million for the period. The currently low percentage of urban to total population means urban housing pressures should continue into the longer term. This suggests a growth in demand for housing units of over 30,000 per year, but few will be able to participate in the formal market given their income levels.

Most employment in Rwanda is informal and rural. Out of a workforce of 4.3 million, 3.5 million are employed informally in agriculture, a further 660,000 in informal non-agricultural employment and only 270,000 people are employed in the formal sector.

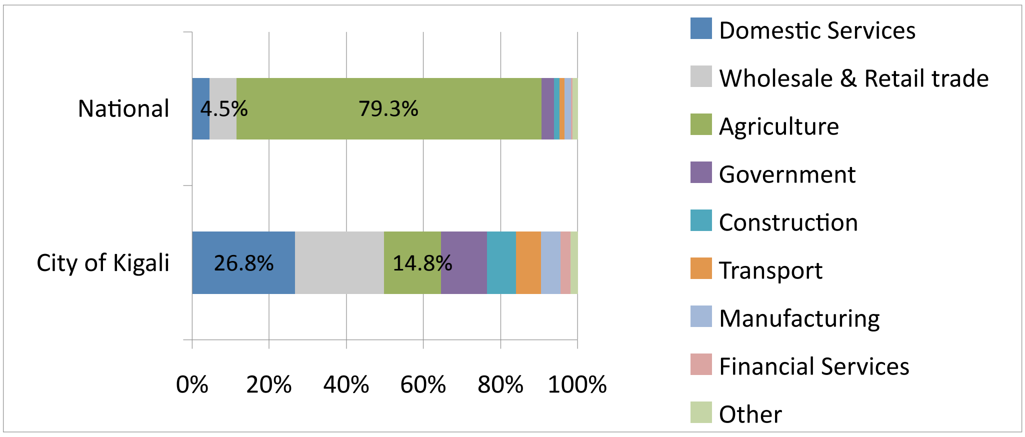
Main occupation of usually working persons aged 16 years and above (%)



Source: National Institute of Statistics, 2006

The skilled service sector is concentrated in the City of Kigali (30% of employment), while nationally the sector accounts for less than 10% of employment.

Industry of work for usually working persons aged 16 and above (%)



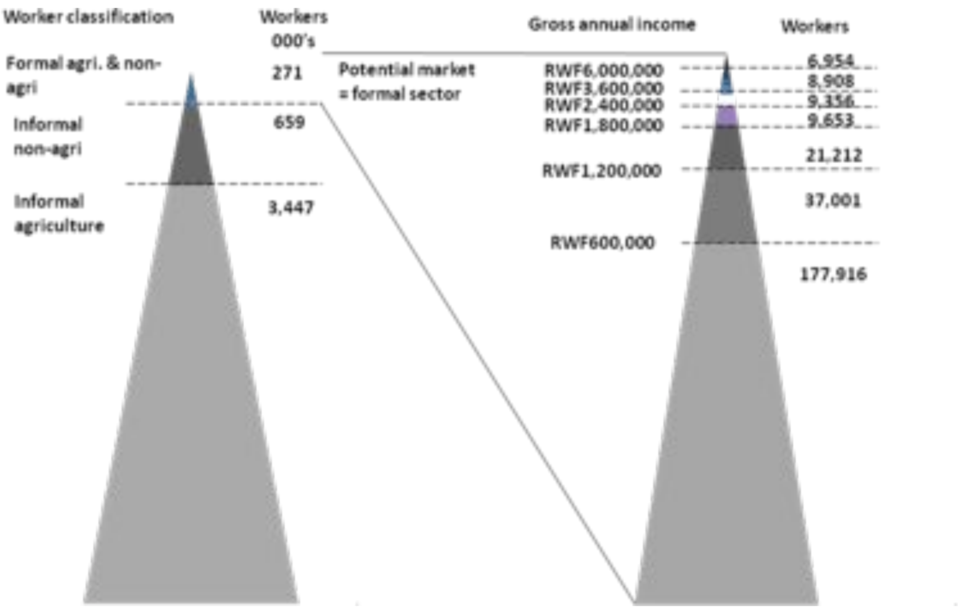
Source: National Institute of Statistics, 2006

The main industry of employment in the City of Kigali is domestic services and trade. It is likely that most people who work in these sectors have informal employment rather than formal salaried employment as is usually found in government sectors.

National/ Rural employment is heavily concentrated in the agriculture sector. These are mainly small scale informal farmers. Trade is a distant second in terms of employment, and is also mainly informal.

Amongst the formally employed, information on income levels is available from the CSR as all formally employed individuals are obliged to make statutory pension contributions and the CSR records their income.

Size of the formally employed population, vs. the total working population & its income distribution



Source: CSR

The CSR shows that of the 270,000 formally employed only around 50,000 people earn above RWF1.2 million (USD$2,000) per month. FinScope Rwanda 2008 reports that 71 per cent of the population are always or often unable to assist those who depending on them financially, and 59 per cent always or often go without cash income. As will be discussed later this means that the income of the bulk of the population will fall below the level where they can secure mortgage financing in the formal market. Three per cent of the population report always or often going without shelter.

The Housing Market

The history of land title systems in Rwanda has led to an estimated 7.7 million informal discrete plots, located mostly in rural areas. Much of the focus of the housing development is in the main urban area in and around Kigali, which comprises around 300,000 plots of which 80,000 have formal title[6]. The remainder of the plots have no formal title and hence no formal rights, leading to the threat of expropriation. There is no policy in place for those who occupy the plots in this way.

Legal ownership aside, FinScope Rwanda (2008) reports that 65% of homes are owned by someone in the household. A further 13% are inherited; 10% are occupied rent-free; 8% rented and 3% allocated by the local administration or a government representative. Over half the population has lived in their home for more than five years.

Housing structures are put up in an ad hoc manner and using inexpensive and easily available materials such as plastic sheeting. These structures have few or no amenities and are not properly planned, leading to the emergence of slums. Theoretically, the builders/ owners of such housing structures are supposed to get clearance from Kigali City in the form of an 'Authorisation to construct', but this seldom happens – partly because of the onerous requirements (including the drawing of a housing plan, and evidence of financial backing), and partly because unauthorised building is widespread and heavy penalties are uncommon.

Because of the simple structure of these dwellings, not much finance is required and money is often borrowed from family and friends. In some cases, people sell off their informal structures in one slum area and use the proceeds to set up an informal structure at another slum area.

Kigali City has embarked on a number of initiatives to address the issue of the building of housing structures in informal plots. These include the low cost housing pilot project in Batsinda, and are touched on in the last section of this report.

In terms of formalisation, Kigali has the highest proportion of formal plots, (but still less than 26% of the total). In comparison to Tanzania, Rwanda has better rates of formalisation (Urban Tanzania is 10% formalised), but in comparison to South Africa, which is 70% formalised in urban areas, it lags by a significant margin.
Historical preference for urban area land registration, especially in Kigali, means the majority of registered land is in Kigali. The majority of land is freehold title but this is expected to change going forward as Government has adopted a Leasehold title system for all new registrations.

There is little information on the quality of the housing stock, suffice to say that formally constructed units are predominantly confined to the 80,000 formally registered plots. FinScope Rwanda (2008) reports that the main materials used in housing are iron sheets and earth tiles for roofs, bricks and wood for walls and mud or clay for floors. The primary source of water is a protected spring. On average, households take eighteen minutes to travel to this water source to collect their water. The majority of households have their own toilets – primarily an ordinary pit latrine. Very few households have electricity (only 5% of the population is connected to the electricity grid). Lamps are used for lighting and firewood for cooking.

[6] Interview with Clive English, DFID Support in Ministry of Lands, Environment, Forestry, Water & Mines

Roof type	Iron sheets	47
	Earth tiles	46
	Grass / thatch	8
	Carton / plastic / sheet	2
	Banana fibres / banana leaves	1
	Wood	1
Type of floor	Mud / clay / earth / sand	83
	Concrete / cement	16
	Fired bricks	2
	Stones	1
Access to toilet facilities	Ordinary pit latrine	96
	Ventilated pit latrine	2
	Bush or field	1
	Flush toilet	1
Access to electricity	No electricity	94
	National grid electricity	5
	Other	1

Type of wall	Bricks	52
	Wood	48
	Concrete / cement / stones	5
	Sticks	1
Source of water	Protected spring	78
	Shared tap outside property	28
	River / stream / pond / lake / dam	15
	Unprotected spring	12
	Hand dug well	9
	Tap on property	3
	Drilled well	1
Lighting source	Agatodowa (traditional lamp)	70
	Lantern	17
	Electricity	5
	Candles	3
	Wood / fire	3
Cooking fuel	Firewood / sawdust	92
	Charcoal	7

Selected Housing Initiatives

The initiatives below represent the bigger initiatives for which information was readily available. It is likely that there are many more small scale housing initiatives, both government and privately funded, but information on these is scarce

Imidugudu Government Scheme

This government initiated low cost housing scheme was initiated at the end of 1996 to resettle the thousands of returning refugees by establishing specific residential areas across villages. By 2004, 300,000 simple mud-bricked houses had been constructed mainly in the rural areas to encourage development and make the provision of amenities and other services e.g. health easier. A survey conducted in 1999 by the UNDP showed that over 1 million people had been placed in Imidugudu settlements.

However, scepticism remains over the programme due to reports of coerced relocations and lack of community involvement in policy decision making and home design. There have also been disparities in access to social services e.g. health centres being too far away from the settlements, poor access to clean water and amenities. The houses under the scheme were built in haste due to the urgent need for resettlement, and as such building standards were not adhered to. Furthermore, there was a lack of agricultural land to cultivate close to the settlements. The government has put in place a draft law on the land and housing policy bill in an attempt to address many of these shortcomings.[7]

Habitat for Humanity and URWEGO Scheme

In 2004, Habitat for Humanity in partnership with URWEGO launched a pilot project to provide home improvement loans to families in the rural province of Kigali Ngali. The recipients of the loans were existing URWEGO clients who had shown good business performance and had good repayment records, and needed to make improvements to their current housing. Many of these homes were of poor structure and made of mud. The program is due to expand to the regions of Kibungu/ Umutara and Byumba and is projected to benefit a further 600 families over 2 years.

[7] More information is available at: http://www.kigalicity.gov.rw/ ; http://www.internal-displacement.org/idmc/website/countries.nsf/(httpEnvelopes)/E74BA67E9E6936B1802570B8005AADAD?OpenDocument; http://www.irinnews.org/report.aspx?reportid=51581; http://www.internal-displacement.org/8025708F004CE90B/(httpDocuments)/EC46816AB7C9656D802570B70059F504/$file/Rwanda+Settlements+Nov+01.pdf

Batsinda low cost housing scheme

The City of Kigali recently embarked on a pilot project to provide 1,000 low cost houses in Batsinda, Gasabo district[8]. The project is funded by the Rwandan government via the CSR and has adopted the building of a low cost house model worth $10,000. The low cost of the model was enabled by cutting down construction costs by using local building materials.

Other

Private-public partnerships have been involved in some of the various other initiatives. These include the development of high ended land plots (going for as much as $6,000) in Urugarama, Gisozi and Kibaganbaga involving the UN and the City of Kigali. These plots sold off very quickly but did not do much to address the broader challenge of access to housing for the majority of urban dwellers.

Some small local women associations e.g. Umurava, Ardec and Assoferwa have also emerged to pursue self help housing construction. These are small scale groups and follow a co-operative business model, funding members with relatively small amounts for house improvements.

Attitudes towards housing (FinScope Rwanda 2008)

FinScope Rwanda 2008 reports that 67 per cent of households view their home as an asset that they use to make money. Thirty five per cent say that the majority of their land is used for crops to sell. Thirty five per cent would use their home as security when borrowing money, but only 19 per cent would sell their home if they needed a large sum of money.

Question (n=2000)	Agree	Disagree	Don't know
Perception of property as an asset			
Your *house* is an asset that you can use to earn money	20	76	4
Your *land* is an asset you can use to earn money	67	31	3
You think of your home as an investment that will increase in value over time	58	24	17
Most of your land is used for crops that you will sell	35	62	2
You land/house was allocated by the government for free	4	95	1
You would use your home as security when borrowing money	35	59	6
Animals other than cattle should never be sold but allowed to multiply to increase wealth	50	38	12
Propensity to sell			
Your home is something to keep	77	19	4
You will never move and will probably spend your whole life in this home	57	35	9
You would sell your home in order to buy a bigger one	38	57	5
You would consider moving closer to amenities	63	32	5
If you needed a large sum of money you would sell your home	19	78	4
Your house and land is an important part of your history and you would never sell it	37	58	5
Investment in property or other assets			
You plan to buy another piece of land to add to your wealth	59	31	9
You have enlarged or plan to enlarge your house	55	37	8

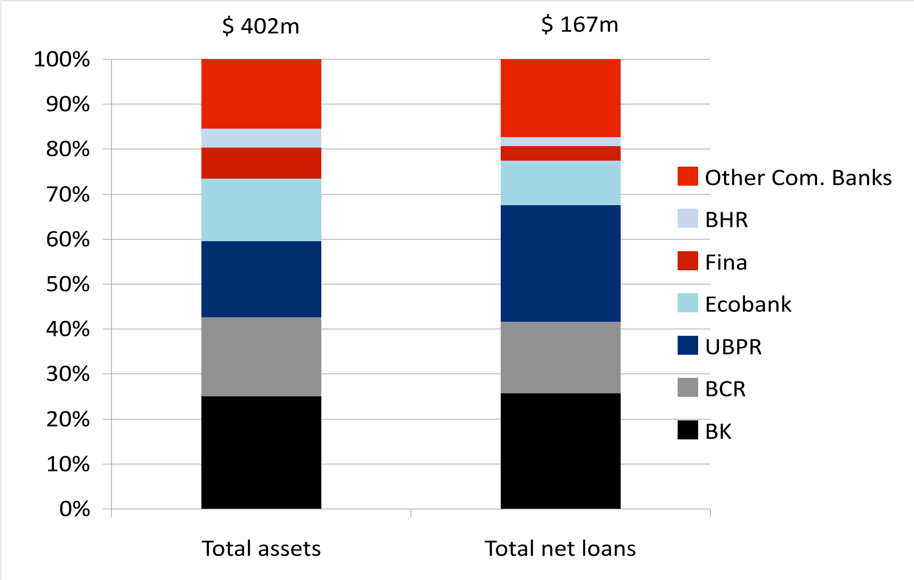
An interesting distinction is that between perceptions of land as an asset (67% agree) and housing as an asset (20% agree).

The banking industry

The banking sector dominates the financial sector in Rwanda, and accounts for 70% of the assets of the sector. The CSR and insurance companies comprise the bulk of the rest of the sector, and few microfinance or other type of lending institutions exist.

[8] Interview with Kigali City Planning Department

Selected Banking Industry indicators (2005)

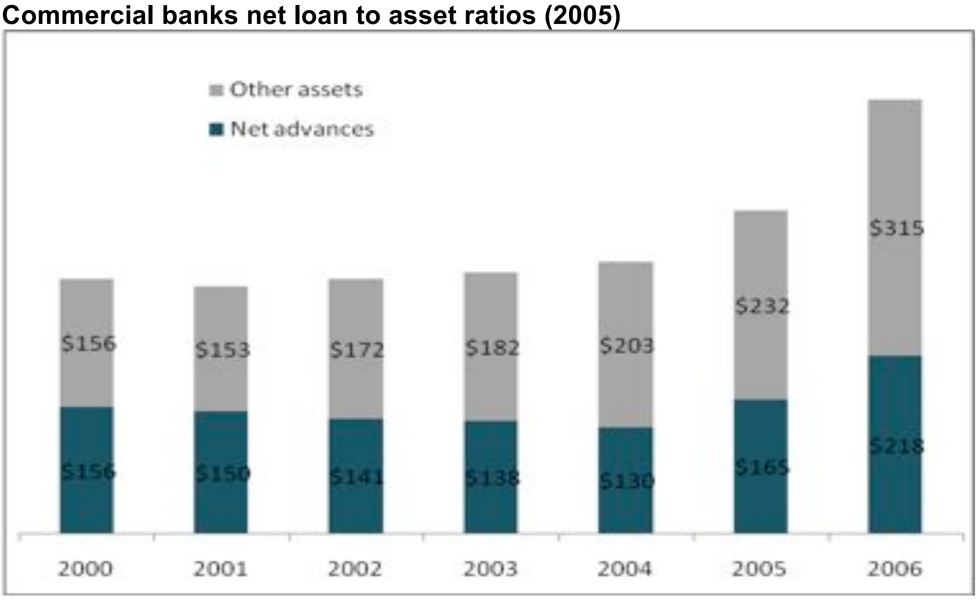


Source: BNR, Bankscope, 2007

The Banking industry in Rwanda is small and under-developed, with bank assets amounting to only 17% of GDP in 2005, and sector assets amounting to $402 million. The industry is also heavily concentrated with Banque de Kigali, UBPR and BCR accounting for more than 50% of total assets and net loans. However, in terms of profitability the industry shows mixed performance with total net income of $ 3.8m in 2005. This was largely driven by Banque de Kigali (Return on Equity – 40%) and Ecobank (Return on Equity – minus 103%). The Banque Housing Du Rwanda (BHR) is a state sponsored institution set up to promote the development of the housing market, however it comprises only a small share of the market for either loans or assets. UBPR is a state owned co-operative undertaking with a substantial rural branch network that makes small loans to borrowers to support farming and related activities.

Like many banks (and banking sectors) in Africa the banks are relatively underlent, with only loans of 40% of total assets, the rest of the banks balance sheets comprising mainly of liquid assets and government securities and treasury bills. Approximately a quarter of the bank's balance sheets are held in foreign reserves.

Commercial banks net loan to asset ratios (2005)



Source: BNR, Bankscope, 2007

Total assets almost doubled between 2000 and 2005. However, as a proportion of total loans, the lending performance of banks has marginally deteriorated from a loan to asset ratio of 44.9% in 2000 to 41.7% in 2005. Mortgages comprise only a small proportion of the banks balances sheets. Our estimates suggest the total retail mortgage holdings at the banks amount to Rwf 17 billion or less than 6% of the assets of the banking sector.

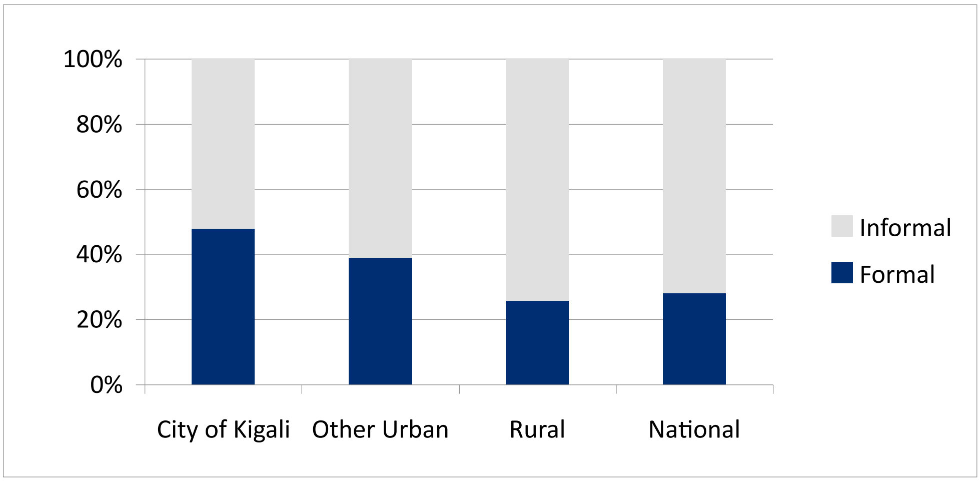
In Rwanda, competition for new mortgage business is limited in the short to medium term. Rwanda's banking sector is dominated by 4 banks limiting competition in almost all financial service markets. In the mortgage market, this is further constrained – only 3 banks (BHR, BK & BCR) provide mortgages to non-bank employees. BHR, while currently the second largest provider, is not expected to be able to compete effectively going forward due to funding constraints & high NPL's. This leaves BK & BCR as the major providers going forward. Fina & other small banks are constrained in competing by relatively small balance sheets while UBPR does not target urban customers. Ecobank is expected to compete directly with BCR & BK in the near future because of its comparatively large balance.

Additional lending in the mortgage market is also restricted by limited access to long-term funding. Even existing term deposits are too short-term to provide the required funding. Current term liabilities in excess of a year account for less than 5% of bank assets. Most term liabilities are short term (up to 1 year) fixed deposits, of which the CSR accounts for 16%. Most banks reported that large term mismatches would be unacceptable to shareholders - however, banks have at least Rwf27bn of assets (9% of total assets) with mismatches of at least 4 years, and Rwf8bn of assets (3% of total assets) with mismatches in excess of 5 years.[9]

Access to Financial Services

Access to financial services remains relatively limited in Rwanda and is closely related to the level of income. FinScope Rwanda 2008 found that 14% of adults are currently banked. Another 78% of adults have never been banked, and 8% were previously banked. A full 52% of the population is financially excluded, without access to any financial services, whether formal or informal. This compares favourably with countries such as Zambia, Uganda and Tanzania who have a higher percentage of financially excluded. To the extent that there is access to credit, the bulk of this (from the perspective of the number of people who receive credit) is provided informally.

Formal loans as a percentage of all credit (%)



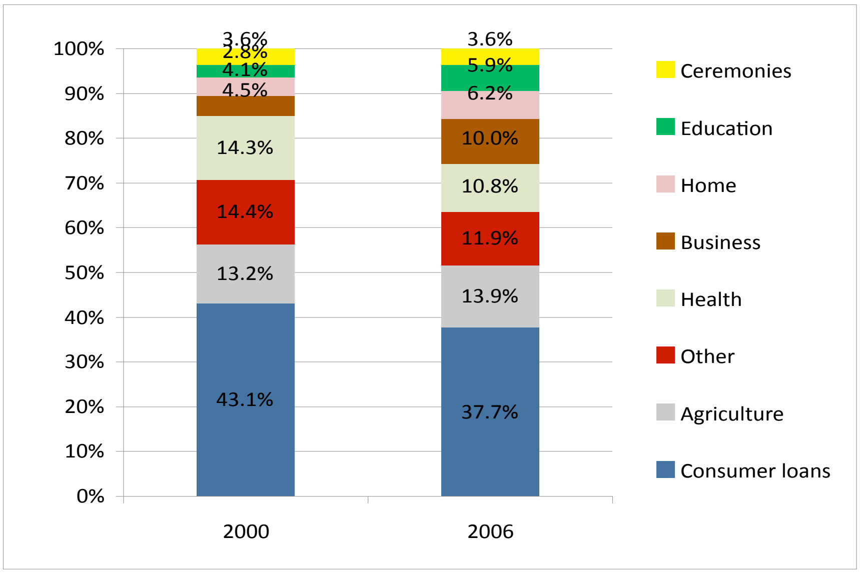
Source: National Institute of Statistics, 2006

According to FinScope Rwanda 2008, the most likely to be banked tend to be older (30+ years), married, urban dwellers not involved in farming, and living in Kigali. The City of Kigali has a relatively even split between formal and informal loans as a source of credit. In the rural areas, formal credit forms 25% of total credit, as a result of the limited access of formal institutions in these areas as well as the lower wealth levels and informal

[9] More information is available at the Bank of Rwanda website: http://www.bnr.rw/en/

employment of the clientele. For those that do obtain credit, most use the funds for short term purposes e.g. consumer goods, agricultural products.

Purpose of loan or credit (% of loans)



Source: National Institute of Statistics, 2006

Consumer loans have remained the main type of credit taken out by those with access to lending facilities. Only 6% of loans received were recorded as being used for the purchase of a home. However, it is likely that these loans are used as alternatives to other forms of credit that are not as accessible e.g. personal loans may be used for house improvements.

Housing Finance

The Mortgage Market

For banks to provide mortgages they need to be confident that they can profitably manage the main risks involved; namely, are there sufficient customers who can afford a house on the terms that the banks can provide, are macro conditions appropriate, are contracts enforceable and can mortgages be easily registered, and most importantly whether they have the balance sheet capacity to support 10-20 year assets.
In Rwanda pricing and affordability remains a key constraint to demand. The current macroeconomic environment is not strongly supportive of the development of the mortgage finance market as costs of funding remain high.

- The continued rise in inflation has led to further uncertainty regarding the trajectory of interest rates going forward
- The reference lending rate has maintained a constant level above 15% restricting affordability for potential customers,
- While banks have indicated an ability to provide 10 year loans, most are concentrated in the 5 year term. The impact of term on affordability is expanded on in the following section on the demand for formal mortgages.
- When combined, these factors make borrowing very expensive for all but a few.

The functioning of the mortgage market is compromised by the weakness of the institutional arrangements that govern the formalization and transfer of title. This is illustrated in the table below:

Institutional support for the primary mortgage market

1) Efficient, cost effective & uncontested land registry system	2) Strong legal rights of lenders to property as collateral, allowing perfection of lien	3) Efficient, fast default judgement & eviction process
•Increases certainty of ownership without raising costs of verification & transfer **•Impact on the mortgage market** •Decreases cost & time of transfer between buyer & seller (defaulted borrower & bank) •Increases liquidity in property markets •Improving price discovery, as property sale volumes are negatively affected by the high transaction costs •Higher returns due to higher liquidity	•Allows lenders preferential access to the secured property in case of default **•Impact on the mortgage market** •Clearly prioritises the lenders rights in default situation •Reduces time & cost of repossession •Eliminates opportunities to avoid repossession through incomplete contracting	•Allows for recognition & repossession of secured property in case of default **•Impact on the mortgage market** •Reduces time taken to realise the secured property's value •Reduces costs of repossession •Increases level of free funding in bank balance sheets for additional lending
Current status	**Current status**	**Current status**
•A relatively small number of plots are formally registered •No land registry •No transfers being made •High transfer fees & stamp duty	•Recent legal reforms provide preferential access to secured assets under all conditions •Lien is registered with land title •However, no registry is currently in operation	•12 month period ex-judice process using BNR rating system •Court process can take up to 3 years to complete, due to loopholes in older contracts •Banks use a new statute allowing ex-judice settlement & repossession, at lower cost •Banks did not report problems with eviction, although few evictions have taken place
Future outlook	**Future outlook**	**Future outlook**
•Land registry to be set up, using international best practices & low cost electronic storage •Access to the registry is at a district level, reducing costs for users **•Transfer costs & stamp duty are not expected to decline**	•The new land registry is expected to ameliorate issues relating to non-registration	•ICF is funding the set-up & training of a commercial court •Streamlining of sub-judice process expected to improve debt recovery •Ex-judice process not expected to speed up, potentially slowing debt recovery in comparison to other countries

The general lack of institutional support has hampered the development of formal financing methods for housing. Those at the upper end of the income scale have better access to land and formal financing channels. As illustrated above, many of the institutions that support the functioning of the market are currently under reform, and the success of these reforms will certainly improve the ease with which borrowers and lenders can function to support the housing market.

Demand for Formal mortgages

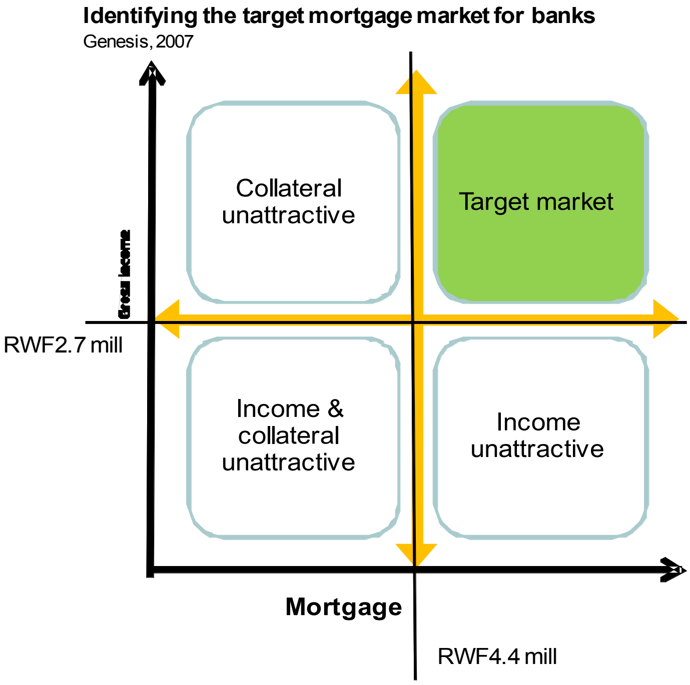
The banks in Rwanda will only consider providing mortgage finance to individuals with verifiable income (i.e. registered with the CSR), having access to high quality collateral, and who can afford the repayments. Banks reported that they provide mortgages where;

- monthly instalments do not equal more than 33% of gross verifiable income,
- the collateral is durable, meeting minimum building requirements acceptable to banks[10] and,
- individuals are able to provide a deposit of 20% of the value of the collateral

In Rwanda, the lowest cost of durable collateral is approximately $10,000 (Rwf5.5m) (City of Kigali) implying a mortgage of $8,000 (Rwf4.4m).

[10] These building requirements are not unreasonable but are unaffordable as the material is expensive

Target market for banks with respect to collateral and income

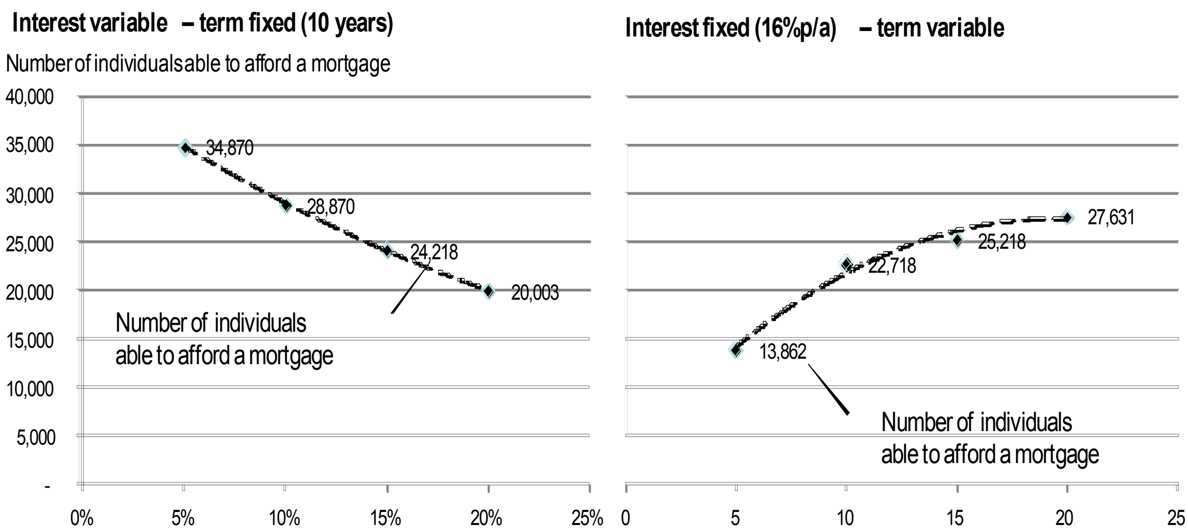


Source: Genesis calculations

Therefore the bottom of the serviceable mortgage market is where an individual is able to repay a loan of \$8,000 (Rwf4.4m) – the credit portion of the lowest cost durable house in Rwanda, over a term of 10 years (maximum term provided by banks) and at a rate of 16% (average reported interest rate charged for mortgage finance). Thus, individuals need a gross annual income of Rwf2.7m to be serviced by mortgage providers in Rwanda. We estimate the number of people with this level of income to be around 20,000-30,000. This compares with an estimated number of individuals currently with a mortgage loan of between 2,000 – 4,000. The more typical loan size on the banks books is however closer to around RWF16m, which would translate into an income level of around Rwf10m, which probably less than 10,000 people could afford.

The number of individuals able to access mortgage finance could be increased by providing longer term or lower rate mortgages.

Changes in the no. of individuals able to afford mortgage financing for changes in interest & loan terms



Source: OPM, 2007; CSR, 2005

Increasing terms from current levels has a significant impact on affordability for customers, increasing demand. Increasing the term from 10 to 15 years increases qualifying individuals by 10%. Decreasing interest rates from 15% to 10% increases qualifying individuals by 16%. The high level of sensitivity to changes in interest rates makes demand very sensitive to changes in the reference rate & therefore macroeconomic conditions. However, these sensitivities decrease as the interest rates are reduced and the terms lengthened e.g. the affordability sensitivity of a change in loan term from 5 to 10 years is higher than that of a change in loan term from 15 to 20 years.

The supply of quality collateral is limited to formalised property located mainly in Kigali – however at 80,000 units, this is still 3 times more than the potential mortgage customer base of banks. In comparison to total estimated demand for mortgage finance, this represents 3.2 times more formalised plots than individuals who could possibly afford to own quality collateral. The 80,000 formally registered plots are already built on using various funding methods, and are occupied by those in higher income bands due to the expensive nature of the plots; this also makes the plots unaffordable to the potential mortgage customer base, thus further mooting any possible mismatch of demand and supply (in addition to the fact that they are occupied). In addition to the current stock of formalised land, new registrations of land in Rwanda are expected to increase the stock of land & quality buildings available for collateralisation. The proposed Land bill and Mortgage Bill (see Section 8) improve the security of land tenure and certainty around jurisdictional processes, hence aiding in further increasing the potential for collateralisation.

Supply of mortgages

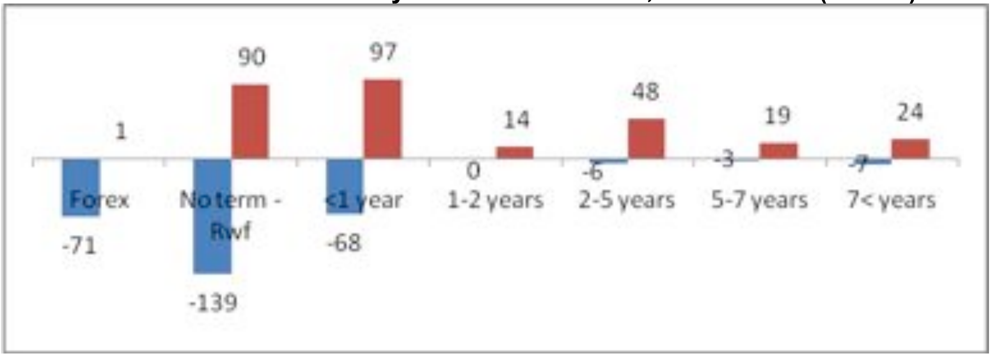
Supply of funding to the mortgage market needs to fulfil a set of minimum criteria as indicated in the table below.

Supply of funding	Comment
Are risk adjusted returns of lending better than competing investment opportunities?	If net-rates (the interest rate charged to the customer net costs & default losses) on mortgages result in lower returns than risk-free investments, banks will invest risk-free assets to maximise returns. Similarly if alternative credit products (such as loans to businesses) yield higher net returns, banks will first service this market at the expense of mortgages
Are banks able to provide long-term funding to mortgage borrowers?	Banks need to be able to provide credit over a long period (10+ years) to mortgage borrowers - banks need sufficient term liabilities (either actual or “virtual”) to lend without jeopardising the financial stability of the bank
Do banks have internal processes to manage the risks associated with mortgage lending?	Long-term lending is risky as the probability that the customer defaults over the period of the loan is the sum of the probabilities of default for every year, making the risks higher than short-term loans. Banks need to manage this risk by: evaluating the riskiness of potential customers effectively; managing collateralisation of the property; managing effective collection & repossession processes; understanding trends within the property market so as not to over extend credit

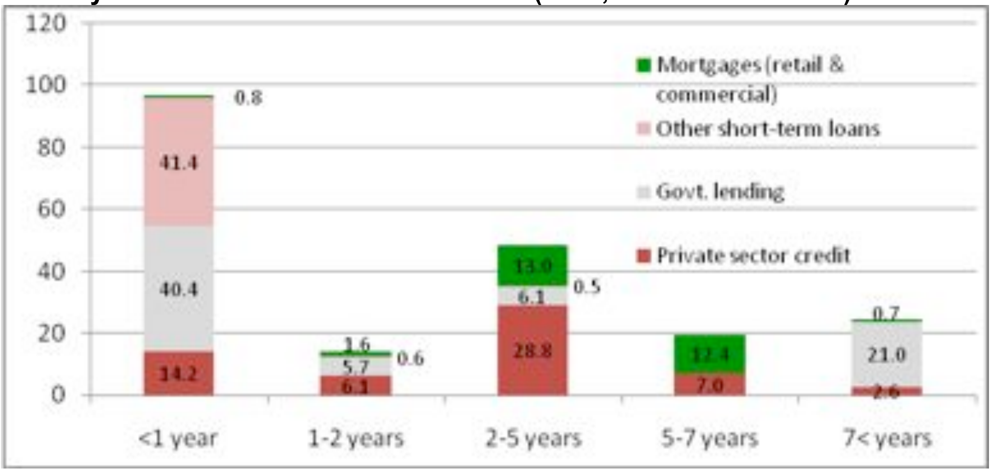
Source: Genesis Interviews

As mentioned earlier, the mortgage lending market is constrained by the limited number of banks who lend to non-bank employees (only BHR, BK & BCR). The absence of adequate long term funding also restricts mortgage lending.

Term assets & liabilities held by commercial banks, RwF million (2006/7)



Maturity term of Commercial Bank assets (2006, excl. BHR &UBPR)



Source: BNR

Lending to government accounts for 36% of total term funding, & accounts for 86% of 7< year lending. Mortgages are currently concentrated in the 5-7 year band, & are unlikely to grow in the 7< year band due to crowding out by government paper.

Supply of Housing Finance beyond the Banking Sector

Given income levels, the level of formalisation of title and the degree of informal construction, the bulk of housing requirements for most of the people in Rwanda will be financed outside the banking sector. Survey data however indicates that very little finance provided by MFI's or UBPR is used explicitly to purchase a home – what is more likely is that people may use general business or consumer loans to contribute to home improvements. None of the MFIs explicitly provide housing loans as an ongoing product, although undoubtedly funds may be used for these purposes.

The Role of the Microfinance sector in Rwanda

Despite the current relative peace and stability in Rwanda, and the clear need for financing, microfinance activity is not widespread. The Rwandan government has placed little restriction on the operations of microfinance institutions (MFI's) but only 0.3% of the population have access to NGO microfinance services[11]. Two main reasons are identified for the lack of development of this industry. Firstly, Rwanda has very low skill and education levels leading to the absence of an adequate labour pool from which potential MFI staff can be trained. This is compounded by the over-reliance on agriculture for employment and income. Secondly, the genocide has damaged the social capital and social institutions that are generally relied upon for the successful operation of MFI's[12]. Collective action and mutual assistance have been greatly affected by the mass displacement of people and lingering mistrust.

[11] Wilson Tamsin, Lessons from a Microfinance Project in Rwanda
[12] Ibid

Where MFI's do exist, they mostly focus on giving small loans for business activities rather than for housing purposes. Due to the close scrutiny of use and repayment of loans, it is less likely that loans taken from MFI's are diverted to other non-business related uses.

Main MFIs in Rwanda - Selected Indicators (Mixmarket) (ranked by Gross Loan Portfolio size)

Name (Year Est.) (Type)	Gross loan Portfolio(Loans : Assets)	No. of Active borrowers	No. of Personnel	Avg loan balance per borrower ($)	Return on Assets	Operational Self Sufficiency
URWEGO (1997) (Bank)	$ 2.1 m (41%)	29,143	150	72	-12.31%	58%
Centre Financier aux Entrepreneurs (CFE) (2003) (NBFI)	$ 1.2 m (47%)	841	60	1,391	-1.59%	92%
Rwanda Microfinance (RML) (2004) (NBFI)	$ 1.1 m (92%)	1,161	11	709	0.36%	101%
Duterimbere (2005)(NBFI)	$ 673,537 (83%)	6,628	32	102	-13.11%	59%
Union des COOPECs Umutanguha (2005)(Cooperative/Credit Union)	$ 359,483 (60%)	723	30	497	-6.54%	84%
Amasezerano Community Bank (2006) (NBFI)	$ 38,263 (11%)	19	11	2,014	n/a	21%

Most of the MFI's in Rwanda have been in existence for less than 5 years. An analysis of the main MFI's confirms that their general performance has not been good, with only RML achieving operational self sufficiency. The characteristics are diverse with varying target markets e.g. women (URWEGO), salaried workers and MSMEs (RML); and average loan balances ranging from just under $100 to $2,000. Most of these loan facilities are less than $300 in value and of a short term nature, usually being used as short term working capital. There is little evidence to suggest that loans from MFI's are diverted to housing purposes.

Policy and Regulatory Environment

The Government of Rwanda has recognised the numerous challenges that face the country with respect to land reform and human settlement. As a result, the Government's Poverty Reduction Strategy Paper (PRSP) and the Rwanda Vision 2020 Paper, promulgated in the early 2000s, highlight these as specific areas to be addressed. Pursuant to this, a number of Bills have been drafted and passed that seek to provide the required regulatory framework. This section outlines key legislation for which information is available.

Draft Mortgage Law (2007)

The Draft Mortgage Law of 2007 has been put in place to enable the development of a more efficient mortgage market, and increase the participation of private institutions. To this end, many of the issues surrounding mortgages have been clarified and the rights and duties of the parties involved clearly spelt out. Some of the key issues touched on include;

- Mortgage registration – the mortgage has to be registered with in the register by the Registrar of Land Titles
- Priority – mortgages are to be ranked in priority according to the order in which they are registered
- Tacking – further advances can be given tied to the current mortgage
- Consolidation – the right to consolidate multiple mortgages exists where a mortgagee has more than one mortgage from a single mortgagor is set out
- Variation – stipulates rules governing the adjustment of interest rates and conditions

- Discharge and transfer of mortgages
- Outline of powers and duties of the mortgagor and the mortgagee
- Remedies and procedures in the case of default – the mortgagee has the right to sell the mortgaged land 30 days after the mortgagor has received written notice of his default
- Mortgagees power of leasing and sale
- Protection of purchaser of mortgaged land
- Powers and jurisdiction of courts

All in all the draft law reduces the risk that financial institutions faced with respect to uncertainties related to procedures in the case of default or other non-performance by the mortgagee. As a result it is expected that there should be an increase in the extension of mortgages to the wider population.

Draft National Human Settlement Policy (2004)

The Human Settlement Policy recognises that human settlement is not restricted to housing but encompasses other factors that supplement housing and affect the environment wherein settlement is made. The policy document focuses separately on urban and rural areas. Some of the constraints identified in the urban areas include:

- Considerable housing needs – 25,000 housing units a year are needed nationally, 10,000 in Kigali
- Poor urban planning and outdated development plans
- Poor urban infrastructure & complementary facilities – poor transport, amenities and roads
- Inadequate decentralisation of habitat management (this has improved since the passing of the Decentralisation Act, that transferred responsibilities to urban authorities)
- Limited financing sources – primarily only government is involved in the funding development of infrastructure and community amenities
- Limited human resources – lack of skilled resources
- Insufficient building materials

The policy paper then outlines objectives, strategies and programmes in both the urban and rural human settlement sector. There are five main objectives in the urban human settlement sector. These are:

- Objective 1: Controlling the growth of urban population clusters; through the development of urban planning systems (establishing conditions of land use, amenities, and define specific short term and long term investment programmes, updating urban development plans, and defining standards for settlement) and the rehabilitation of residential areas.
- Objective 2: Matching the supply & demand of building plots in urban centres; through improving mechanisms for producing adequate building plots, and diversification of plot types owned by Government, and regulatory development to encourage private land development, and land improvements & provision of facilities.
- Objective 3: Organising a human settlement financing system; through the establishment and strengthening of institutions involved in human settlement financing, including the Human Settlement Fund (mobilize domestic and international resources for long term financing including government, social security and insurance companies, employer contributions) and the Mortgage Loan Fund of Rwanda (collecting funds from the public and granting housing loans to households) and the introduction of new financial products including loans for building materials and house extensions.
- Objective 4: Organising and coordinating human settlement management structures; through giving responsibilities to local communities in the management of human settlement, strengthening the role of the local authorities, and the establishment of local commissions.

- Objective 5: Development of the building industry; through the promotion of production and sale of building materials, support to MSMEs for production and sale of building materials, studies and research in building materials, training of building technicians

The objectives and strategies for the improvement of human settlement in rural areas mainly focus around the improvement of the imidugudu system.

Several players at multiple layers of government are required for the implementation of the human settlement policy. The key ministries involved are Habitat and urbanization, and Economic planning, and commissions are to be established from national level to cooperative organizations at grassroot levels.

The policy document also advocates the promulgation of various laws covering areas including land tenure system, human settlement governing access to land and housing, contracts outlining participation framework for various players, update of relevant regulations, and the preparation of law on renting.

The National Human Settlement Policy in Rwanda document succeeds in highlighting the fact that successful human settlement depends on various factors and these need to be considered holistically. It brings together multiple objectives that can be tackled by different stakeholders and government departments without the risk of pulling in opposing directions. While housing finance is, for the most part, not directly addressed, the underlying conditions that are necessary for the enhancement of an efficient housing finance system are encouraged. However, the fact that the Policy attempts to consolidate the duties of a variety of stakeholders increases the risk of inefficiency, and efforts may also be hampered by greater bureaucracy.[13]

Draft Land Bill (2004)

Due to the scarcity of land and Rwanda's recent history, the country is faced with many land-related challenges. The Government thus formulated a Land Act and a Land Policy, which were finalized in early 2004[14]. 'Land use management' is identified as of the six 'pillars' of the Vision 2020 document.

Like the Draft Mortgage law relating to mortgages, the Land bill seeks to minimise the uncertainty relating to transactions and contracts involving land ownership, land tenure and the use of land. It 'institutes principles on land legal rights to be followed throughout the country together with land, natural and man-made appendages'.

Some of the key issues touched on include;

- Recognition of ownership of land through custom, inheritance, official granting or purchase
- Any gender discrimination in land ownership is prohibited (historically women had restricted land ownership and inheritance rights)
- The establishment of national, provincial and district land commissions to deal with land matters.
- Clear definitions given of urban and rural land, state and private land
- Consolidation of smaller rural plots to increase agricultural productivity, but ownership of individual parcels unaffected by this, and minimum division of land set at one hectare
- Period of land lease shall be between 3 and 99 years
- Land office to be established in each district to aid compulsory registration of land by the owners
- Sets out rights and duties for parties involved in the leasing of rural land
- Recognizes that a person can own buildings and other property on another person's land
- Gives state confiscation powers where land is not being productively used for a certain period, 3 years in some cases but owner has right to claim back and use it appropriately

[13] More information is available at: http://www.housing.gov.za/Content/Member%20Countries/Rwanda/National%20Human%20Settlement%20Policy%20in%20Rwanda.pdf
[14] C. Huggins and H. Musahara, Land Reform, Governance and the Environment: The Case of Rwanda, 2004

- People who have been denied their rights to land ownership shall be given land by the government

The Draft Land Bill succeeds in setting a strong foundation for providing secure land tenure to the greater population. Secure land rights lead on to greater possibilities for housing finance (especially incremental housing) funding using the underlying land as a form of collateral. The decentralisation of land registration and affairs aims to make this area more efficient but recent feedback has been that this has been hampered by inadequate suitably skilled personnel.[15]

The Way Forward

As has been demonstrated Rwanda seems poised to witness a profound change in the institutions that govern the ownership, distribution, sale and purchase of land. The success of this reform process cannot yet be assured but is profoundly important from a political perspective but also to reduce the risks and costs to the supply of housing finance.

Creating more secure conditions for property transactions will not of itself make a profound change to the availability of housing finance for all but the most wealthy of Rwandese. This is because of the difficulties the banks have in raising term funding to support the growth in the mortgage lending business. At present we estimate the banks are providing less than a quarter of the formal demand for mortgages, even with products that make borrowing very expensive (terms of 10 years and interest rates of 16% or more). Although the levels of deposits in the banking sector are growing rapidly they do not alleviate the term funding mismatch the banks face. To achieve a substantial increase in the availability of housing finance will require several structural changes in the flow of funds within the financial sector:

- Government needs to ensure that its desire to lengthen the Government yield curve does not have the perverse effect of crowding out potential term lending by the banks
- The CSR needs to develop a more structured approach to supporting the provision of term finance to the banking sector

With these changes, and overtime the banks should be in a position to extend both the term and reduce the cost of mortgages. We have not found any evidence of the creation or provision of products designed to assist people with income below the levels that would be required by the banks. This is because the size of the loans provided by MFI’s falls far short of what is required to finance even an informally constructed dwelling. Many of the initiatives thus far have either supplied simple low quality housing to a wider number of people or high cost high quality housing to the few who can afford it. This means that the goal of increasing the general population’s access to adequate affordable housing has not been met. This is especially the case in urban areas, especially Kigali City, where sprawling slums have resulted from the inadequate provision of housing.

Kigali City has embarked on efforts to ‘formalise’ these informal housing settlements.[16] This has involved relocating current slum dwellers into better housing settlements and generating income earning activities within close proximity of these areas. These settlements are subsidised by the Government, as the low income households cannot afford commercial loans. However, the main challenge the City is faced with is altering the mindset of the majority of those relocated, who have the mentality that they cannot afford to own a house, and therefore make little effort to improve their long term housing situation. This mindset would be more easily adjusted if the relatively considerable load of financing a complete house at one go was instead broken down into an increment financing facility – whereby the household would augment the housing structure at an affordable pace. There was no information on any plans by Kigali City to embark on supporting incremental housing within the informal settlements.

The World Bank Financial Sector Assessment Program (FSAP 2005) confirms that for the most part, housing lending products are unusable by the general population as the maturities are typically too short and interest rates remain relatively high. (UBPR has recently developed a savings-for-housing scheme wherein customers

[15] More information is available at: http://www.grandslacs.net/doc/3350.pdf
[16] Interview with Kigali City Planning Department

save for a minimum of 6 months to reach the minimum 20% deposit required and an additional 10% security margin).

FSAP reports that mortgage collateralization works well in Rwanda and has been strengthened by the 2004 Mortgage law, which reduces the use of delaying tactics and provides clear and enforceable time limits once foreclosure judgement has been passed. Also, specialized chambers have been set up in key areas in the country. However, current systemic weaknesses include insufficient training of judges, cumbersome mortgage registration processes and the role of the mayor of Kigali as the sole land registrar in the forced sale process.

FSAP further identifies the main issues and constraints surrounding the lack of housing finance as:

- Issues around lack of long term funding (that have been touched on elsewhere in this paper) including a deposit base with a short duration and mismatch of long term assets and liabilities
- Issues around administration of property and security rights:

  The Rwanda government is the exclusive owner of land. The right to use land is given under short term leases (3 years) renewable subject to the construction of a building, and longer term leases for agricultural land. But a large share of urban and semi-urban land is unregistered and in the form of informal settlements or held under traditional methods, and do not comply with various legislation including building rules. This limits the scope for housing finance.

  The legal framework also affects extension of secured loans. Those with 3 year lease do not have title to the land unless the building construction is almost completed, leading to uncertainty and restricted borrowing against the land.

  Registration administration is understaffed and relies on inefficient manual processes leading to a bottleneck and inhibition of the growth of property records and mortgage registrations

However, it is expected that the new land law will make it possible to deliver clear title before construction is carried out. Furthermore, Kigali is undertaking complete overhaul of land administration system, creating database and computerizing land records, but it is still too early to judge the success.

FSAP finally makes the following recommendations:

- The ‘creation of financial instruments able to better channel long-term institutional savings
- The promotion of savings linked to housing
- The establishment of an insurance scheme to cover perceived riskier lending to lower income households and improved assessment of real estate risk linked to collateralisation and concentration in Kigali.

Organisations such as FinMark Trust can play a number of roles including the following:

- Conduct primary research on the characteristics and behaviour of those who are currently settled on the informal plots and those without adequate housing in general. Many initiatives suffer from a lack of in-depth understanding of the key issues affecting the man on the ground due to inadequate funding and capacity to conduct the required research.
- Act as a linkage between private and public parties to optimise private-pubic initiatives. There have been limited inter-party initiatives and most of the current ones do not address the issue of supplying low cost affordable housing to the general population. Government has embarked on a number of initiatives but progress has been slow and the targets have not been enough to make a significant impact e.g. building 1,000 houses. The pilot projects need to be rolled out on a far greater scale.
- Explore high level policy issues that will inform the development of a viable long term housing market and aid the provision of low cost affordable housing. This would include input in the formalisation process, the development of alternative financing mechanisms e.g. incremental housing finance from MFI’s, and enhancing wider access to finance by the greater population.