CENTRE FOR AFFORDABLE HOUSING FINANCE IN AFRICA

A DIVISION OF THE FINMARK TRUST

2010 YEARBOOK

HOUSING FINANCE IN AFRICA

A review of some of Africa's housing finance markets

September 2010

FINMARK TRUST

Making financial markets work for the poor

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FinMark Trust is a non-profit independent trust, funded primarily by the UK's Department for International Development (DFID), and was established in March 2002. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. It does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings.

Thus, FinMark Trust has a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.

The Centre for Affordable Housing Finance in Africa is a division of the FinMark Trust. Overall, the vision of the Centre is that housing finance practitioners as well as consumers throughout Africa have the necessary information and analysis at their disposal to enable sound and productive choices for the benefit of (especially) the poor and financially excluded. To this end, the Centre is recognised as a primary source of information and debate relating to access to affordable housing finance in Africa.

African economies are growing. Positive macroeconomic reforms have been implemented and are ongoing. **Africa's middle class is growing and needs housing.** Remittances also contribute towards housing affordability. Urbanisation is putting significant pressure on housing markets.

Property markets offer a tale of encouraging growth. There is, however, a major challenge of affordability. Affordability and access is reduced by the prohibitive costs of borrowing, the risks of foreign currency loans in volatile economies, and an unrealistic focus on the mortgage instrument. Often, people simply cannot access financial services.

Challenges are being addressed on many fronts. The **lack of long-term finance** is a major constraint. Local capital markets are providing part of the solution, but only in some countries. **Land management systems need reform.** An often painfully slow land reform process is going on in almost all African countries in some form or the other.

Housing supply is constrained in the affordable bracket. There is limited capacity among developers and construction companies to deliver in this market. Local government and the state have been slow to provide serviced land, and this has also constrained housing supply. **Rising costs of building materials** and a reliance on imports have also made housing more costly.

Even with these challenges, **lenders are becoming more pro-active,** experimenting with new products **Housing microfinance** complements conventional financing methods.

About this publication

This yearbook is the first of its kind, reflecting the state of practice in housing finance in selected African countries. It is intended to provide housing finance practitioners, investors, researchers and government officials with a current update of practice and developments in housing finance in Africa, reflecting the dynamic change and growth evident in the market. It is hoped that this yearbook will also highlight the opportunities available for new initiatives, and help practitioners find one another as they strive to participate in the sector. While the general aim of the yearbook is to offer a broad overview of housing finance in Africa, special emphasis is placed on the key challenge of housing affordability, and the critical need for housing products and finance that are explicitly targeted at the income profiles of the majority.

This has been a desktop study. Using the CAHF's housing finance sector studies as baseline material, further information on more recent developments was accessed from media reports, journal articles and practitioner websites. A long list of further reading is provided at the end of the yearbook. Draft country profiles were then shared with local, in-country practitioners where possible, or with specialists familiar with the particular dynamics relevant to the countries studied.

Of course, this yearbook is not comprehensive. It includes a limited sample of only fifteen countries, drawn from those in which the CAHF has already worked and countries in which African Union for Housing Finance members are based. In forthcoming editions, the complement of countries will hopefully grow to include all the countries in Africa.

Housing finance is a complex field. It sits at the nexus of housing markets (and housing policy), land markets (and land policy) and finance (and finance policy). The availability of, and demand for, housing finance depends on matters as diverse as the price of building materials, the availability of land and labour, and the availability of infrastructure. The performance of housing finance depends on these factors as well as the existence of a functioning deeds registry system, strong financial institutions, the availability of housing support including good housing construction advice. It is hoped that this yearbook adequately covers this complexity.

A broad frame of analysis is crucial. Housing finance is a multi-sectoral area of interest whose performance is hugely dependent on the wider macroeconomic, and sometimes also social and political, environment. The CAHF will work hard to ensure this complexity is fully appreciated and engaged with, without being so distracting as to militate against any innovation at all. This yearbook is one way of engaging with this complexity and using it to refine strategy. The CAHF invites readers to share their experiences or to comment on the data and analysis in this report.

Acknowledgements

This report was written by Michael Kihato, with input from Kecia Rust.

We would like to thank a number of people who were of great assistance in commenting on this report. Bernard Ayitey-Adjin and Asare Akuffo for their comments on the Ghana profile, Reginald Motswaiso on Botswana, Manilaal Seetohul on Mauritius, Dr James Mutero on Kenya and Tanzania, Ken Corsar on Rwanda, Brad Lester and Junah Mpofu on Zimbabwe and Juliet Monroe on Zambia. The report has drawn extensively on the CAHF's housing finance sector studies, all of which are referenced in the "further reading" section. Errors of omission or interpretation remain, however, with the authors.

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Layout and production: June Viljoen Print Consultancy cc
Photos: Kecia Rust and Andreas Bertoldi

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Abbreviations

AFD	Agence Française Development
AfDB	African Development Bank
BBS	Botswana Building Society
BCR	Bank Commerciale du Rwanda
BK	Banque de Kigali, Rwanda
BHC	Botswana Housing Corporation
BHR	Banque Housing du Rwanda
CABS	Central African Building Society, Zimbabwe
CCODE	Centre for Community Organisation and Development, Malawi
CGAP	Consultative Group to Assist the Poor
COMESA	Common Market for Eastern and Southern Africa
CPIA	Country Performance and Institutional Assessment, World Bank
DUAT	Direito de Uso de Aproveitamento da Terra (Right to use and benefit from land) Mozambique
DFI	Development finance institution
FDI	Foreign direct investment
FFH	Fundo de Fomento de Habitação, or Housing Promotion Fund, Mozambique
FMBN	Federal Mortgage Bank of Nigeria
FNB	First National Bank
Forex	Foreign exchange
GDP	Gross domestic product
GNI	Gross national income
HDI	Human Development Index
HfH	Habitat for Humanity
HMF	Housing microfinance
ICF	Investment Climate Facility
IFC	International Finance Corporation
IMF	International Monetary Fund
IOR-ARC	Indian Ocean Rim-Association for Regional Cooperation
IRS	Integrated Resort Scheme, Mauritius
KCB	Kenya Commercial Bank
LDC	Least Developed Country
LIC	Low-income country
LTV	Loan to value
MCB	Mauritius Commercial Bank
MDG	Millennium Development Goal
MFI	Microfinance institution
MHC	Malawi Housing Corporation
MHC	Mauritius Housing Company
NACHU	National Cooperative Housing Union, Kenya
NBBL	Norwegian Federation of Co-operative Housing Associations
NBS	New Building Society, Malawi
NDP	National Development Plan, Botswana
NGO	Non-governmental organisation
NHA	National Housing Agency, Zambia
NHAG	Namibian Housing Action Group
NHDC	National Housing Development Company, Mauritius
NHE	Namibian Housing Enterprises
NHF	National Housing Fund, Nigeria
NPL	Non-performing loans
PMI	Primary mortgage institution
PPP	Purchasing power parity
PRS	Permanent Residence Scheme, Mauritius
SACCO	Savings and Credit Co-operative
SADC	Southern African Development Community
SAPES	Scheme to Attract Professionals for Emerging Sectors, Mauritius
SBM	State Bank of Mauritius
SDI	Shack Dwellers International
SBS	Swaziland Building Society
SMEs	Small and medium enterprises
SDFN	Shack Dwellers Federation of Namibia
SHHA	Self Help Housing Agency, Botswana
SNHB	Swaziland National Housing Board
SNL	Swazi National Land
SSA	Sub-Saharan Africa
SSFR	Social Security Fund of Rwanda
SSHFC	Social Security and Housing Finance Corporation, Gambia
UN	United Nations
US	United States
USAID	United States Agency for International Development
VAT	Value added tax
WHPI	Women's Housing Plan Initiative, Nigeria
ZAMFI	Zimbabwe Association of Microfinance Institutions
ZHPF	Zimbabwe Homeless Peoples Federation
Zinhaco	Zimbabwe National Association of Housing Cooperatives

Highlights

OVERVIEW

Economic performance

- Economic growth rates have been favourable over a number of years for the majority of countries in Africa. The recent global downturn has especially affected the Gross Domestic Product (GDP) growth rates of mining-reliant economies, with Botswana (-6%) and Namibia (-0.7%) posting negative growth. This is not expected to continue as commodity prices rebound.
- African markets have been relatively resilient in the face of the global economic downturn. The effect of decreased remittances, which are often linked to property markets, were felt only in those countries with high remittance inflows, including Ghana, Nigeria and Kenya. Nevertheless, many of these markets have bucked the trend and are even seen as hedges against the global decline.
- Some African countries have been among the top economic reformers across the globe, which has made them more attractive investment destinations. In the recent past, Egypt, Senegal, Botswana, Burkina Faso, Madagascar, Rwanda and Zambia stand out.
- There has been prudent economic management in the economies of many countries in the continent. This has nurtured a conducive environment for housing finance markets. Long-term inflation, for example, has been reined in countries such as Kenya (which also changed its method of calculating inflation) and Tanzania, which had a history of high and volatile rates. Inflation remains a concern in Nigeria and Ghana, however.

Urbanisation

- Urbanisation is an important factor in the increased demand for housing. Most of the countries surveyed in this report had urbanisation rates within the three to six percent range. Zambia has seen a drop in urbanisation rates to two percent, but it is an exception.

FINANCIAL SERVICES ACCESS

- While mortgage finance is offered in all of the countries surveyed, it is difficult to access because at a basic level, access to financial services generally is poor. According to FinScope[1], rates of financial exclusion (which measure exclusion from access to both formal and informal financial services) in Botswana, Kenya, Namibia are just over 30 percent; in Malawi and Tanzania just over 50 percent; Zambia 65 percent; and Mozambique and Nigeria, over 70 percent.
- Apart from basic access to finance, restrictive eligibility criteria, high costs, conservative terms, and the fact that mortgage generally targets high-priced housing limit access further.

Lending to the private sector

- Many of these countries come from a legacy where banks were not inclined to lend for mortgages in the first place. Instead, they opted for lower-risk, relatively high yielding government securities. This has declined across the board, and lending to the private sector by banks has increased. In Botswana and Kenya it is over 20 percent; Nigeria 34 percent; and Namibia 45 percent. Many of the other countries register levels of below 20 percent. The exception is South Africa which serves as a useful benchmark with its score of 145 percent of GDP. To put this number into perspective, Chile scores 97 percent and Malaysia 100 percent.
- Only in South Africa and Namibia is any significant proportion of this lending for mortgages. Mortgage lending as a percentage of GDP in the other countries is less than five percent.
- It is difficult to obtain information on how much mortgage lending is going on in these countries. This could be a legacy of the generally low levels of mortgage activity in these countries. The exception is South Africa where it is tracked and made readily available by the South African Reserve Bank. Going forward, this statistic should be incorporated into standard economic activity indicator data.

Housing microfinance

- The challenge of financing the unserved segments of the population is being partly resolved by housing microfinance (HMF). Ghana and Swaziland stand out as countries where HMF is already a commercial venture. Kenya, Malawi and Tanzania have limited numbers of non-governmental organisation (NGO)-supported HMF. Countries with existing vibrant microfinance industries, such as Gambia, Nigeria and South Africa, are areas of high potential for HMF.

- The use of pension funds to stimulate housing finance markets is generally low across the board. This is partly because of the small size of the industry; in most countries, less than 10 percent of the labour force are contributors. Regulatory constraints as well the conservative nature of fund managers also contribute towards this state of affairs.

[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, 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.

HIV/AIDS

- The HIV/AIDS pandemic and falling life expectancy rate presents challenges for financing. There are, however, a number of products emerging that take this into consideration.

AFFORDABILITY

Poverty

- Poverty remains the biggest constraint to affordability. With the exception of South Africa and Namibia, 50% of the population in the countries in this report is living below the international poverty line of US$2 a day, with alarming levels of more than 90 percent in Tanzania, Malawi and Mozambique.
- Most poor people still live in rural areas, although the gap differs depending on the countries. The gap is small in countries such as Kenya, Malawi, Mozambique and Tanzania. Urban areas in Ghana, however, do appear to provide an escape from poverty, as only 20 percent of the urban population are below the national poverty line, compared to 50 percent living in rural areas. So too in Rwanda, where urban poverty is much lower that rural poverty. Old data from Zimbabwe (survey year of 1991) shows that urban poverty was single digit, while rural poverty was above 30 percent. This is bound to have changed, however, with the economic problems the country faced in the last decade.

Employment

- Relatively good economic performance hides the fact that formal employment rates in most countries are low. Malawi, Tanzania and Zambia all have formal employment rates of less than 20 percent. Namibia and Botswana are different with high formal employment rates – over 70 percent. Zimbabwe stands out with only six percent employment in 2008 because of the precipitous decline in employment in that country.
- A large proportion of the working age population is involved in the informal sector. Gambia and Ghana stand out with informal sector workers as a percentage of the working being more than 70 percent. This is a significant statistic, especially considering that traditional forms of housing finance such as mortgages often require a stable, predictable and verifiable income among the lending criteria.
- Even so, national incomes have been rising steadily, although not uniformly across the continent. This has given rise to a growing middle class in need of housing.

Cost of borrowing

- Ghana stands out as very expensive to borrow money, with a prohibitive interest rate of 30 percent, with Zambia following closely at 28 percent and Gambia at 27 percent. Most bank prime lending rates are in the mid to late teens, Botswana and Namibia have interest rates, at just above 10 percent. South Africa's rate has just dipped below 10% for the first time since 1974.
- The lack of long-term finance for mortgage as well as microfinance continues to hamper the markets. Across the board, with the possible exception of South Africa, there is heavy reliance on deposits for mortgage lending. Some useful efforts at raising relatively longer-term money from capital markets have happened in Ghana, Kenya and Botswana.

- The vast majority of inhabitants cannot afford the cost of a typically supplied and financed house on the market. Across the surveyed countries, this proportion of the population does not exceed 15 percent, with most countries including Zambia, Malawi, Tanzania, Mozambique and Kenya registering far lower levels of access.

Cost of inputs

- The high costs of land as well as building materials have been one of the biggest impediments to the supply of affordable housing in urban centres across Africa.
- Most of the countries surveyed have few locally manufactured building inputs, especially fittings. Sourcing these abroad, usually outside the continent, is expensive and fluctuating foreign exchange makes the process hazardous. There are exceptions, with South Africa being the most prominent for having a well established local manufacturing industry that can produce most of the inputs.
- Cement is usually readily available locally, either manufactured or imported from a close neighbouring country, although not always in sufficient quantities. As a rough guide to the cost of inputs in the building process, prices are relatively similar – around US$10 for a 50 kilogram bag – with the exception of Malawi and Zambia where this costs more than US$15.

Housing supply

- A constrained supply of housing at affordable prices has also contributed to the poor housing conditions across many parts of the continent. Generally, the cheapest formally provided house costs from US$20 000 to US$40 000 across the countries surveyed. This is way above the affordability levels of most of the population including working class households. Further, houses priced within this lower range are in short supply.

Land and property markets

- There have been some commendable efforts at greater provision of land for housing, including in Botswana, Ghana and Tanzania.
- The land administration systems and their lack of accuracy, certainty, high costs and mixture of traditional and modern tenure systems remain a significant challenge to developing housing finance markets on the continent outside of South Africa.
- Property markets in most of the countries are growing, and have shown encouraging growth over the last two decades. Some have seen property prices jump by as much as 100 percent in certain parts of their urban areas, for example in Kenya and Mozambique. Of course, this puts pressure on housing affordability for those not yet on the property ladder.

African economies are growing

African economies are growing. Greater political stability, macroeconomic reforms and relative resilience in the face of the global economic problems has ensured this growth. Urbanisation is also driving housing demand significantly, as Africa urbanises faster than any other continent in the world. With this growth has come a burgeoning middle class in need of housing.

Sub-Saharan African economies have performed relatively well over the past few years. Indicators relating to investment, including private sector investment in the economy, foreign direct investment (FDI) flows and trade have been increasing (see Table 1).

Table 1: Key indicators over the years illustrating growth in African economies

Indicator	All African countries	
	1995 – 2005	1975 – 1994
Investment (% of GDP)	20.26	19.4
Private sector investment (% of GDP)	12.51	11.46
FDI Net flow (% of GDP")	4.95	1.5
Trade (% of GDP)	76.58	68.43
Exports (% of GDP)	32.27	28.06
Imports (% of GDP)	44.27	40.36

Source: Derived from Arbache and Page (2009)

The recent discovery of oil in Ghana, Uganda and Sierra Leone has the potential to drive economic growth and incomes in these countries, if the resource is managed prudently by these governments. The pending independence of Southern Sudan has also provided opportunities for regional developers and financiers to expand their markets, and will continue to do so if the referendum is successful.

Positive macroeconomic reforms have been implemented and are ongoing

The World Bank's Country Performance and Institutional Assessment (CPIA) measures policy and institutional performance. The average CPIA score for Africa rose from 2.8 in 1997 to 3.2 in 2006. The number of African countries with CPIA scores equal to or greater than the international good performance threshold of 3.5 also rose from five countries in 1997 to 17 in 2006[2]. The Doing Business indicators, which investigate regulations that enhance or constrain business activity mentions a number of African countries as reformers globally in 2007/2008. These include Egypt, Senegal, Botswana, Burkina Faso, Madagascar, Rwanda and Zambia (See Table 2).

Table 2: Top reformers in 2007/2008 (highlighted): improvements in doing business indicators

Country	Total number of reforms	Starting a Business	Dealing with Construction permits	Employing workers	Registering property	Getting credit	Protecting Investors	Paying Taxes	Trading across borders	Enforcing contracts	Closing business
Top reformers: world											
Azerbaijan	7	×		×	×	×	×	×		×	
Albania	4	×				×	×	×			
Kyrgyz Republic	3	×	×				×				
Belarus	6	×	×		×	×		×	×		
Colombia	5	×	×					×	×		×
Dominican Republic	4	×			×			×	×		

2 Arbache and Page (2009).

Table 2: Top reformers continued

Country	Total number of reforms	Starting a Business	Dealing with Construction permits	Employing workers	Registering property	Getting credit	Protecting Investors	Paying Taxes	Trading across borders	Enforcing contracts	Closing business
Top reformers: Africa											
Egypt	6	×	×		×	×	×		×		
Burkina Faso	4		×	×	×			×			
Madagascar	4	×			×			×	×		
Rwanda	4		×		×				×	×	
Botswana	3	×					×		×		
Senegal	3	×			×				×		
Mauritius	3	×			×	×					
Zambia	3	×			×			×			
Kenya	2	×							×		
Djibouti	1								×		
Eritrea	1								×		
Zimbabwe			Negative reform								

Africa's middle class is growing and needs housing

With improving economic conditions and growing economies, Africa's middle class is also growing. This emerging population needs housing. In the absence of affordable, formal housing solutions, many double up in family homes, or reside temporarily in informal accommodation. This creates an opportunity for investors and developers – this population has a purchasing power to which they can respond.

"The World Bank estimates that sub-Saharan Africa's middle class will be 43 million strong up from 12.8 million in 2000. Though the bulk of the continent's middle class consumers are in South Africa, growing markets in such countries as Zambia, Nigeria, Kenya and Ghana are attracting attention from investors around the world."

Michael M Philips, Wall Street Journal, Eastern Edition New York, 17 July 2007

There is "an emerging middle class in Africa with insatiable hunger for housing".

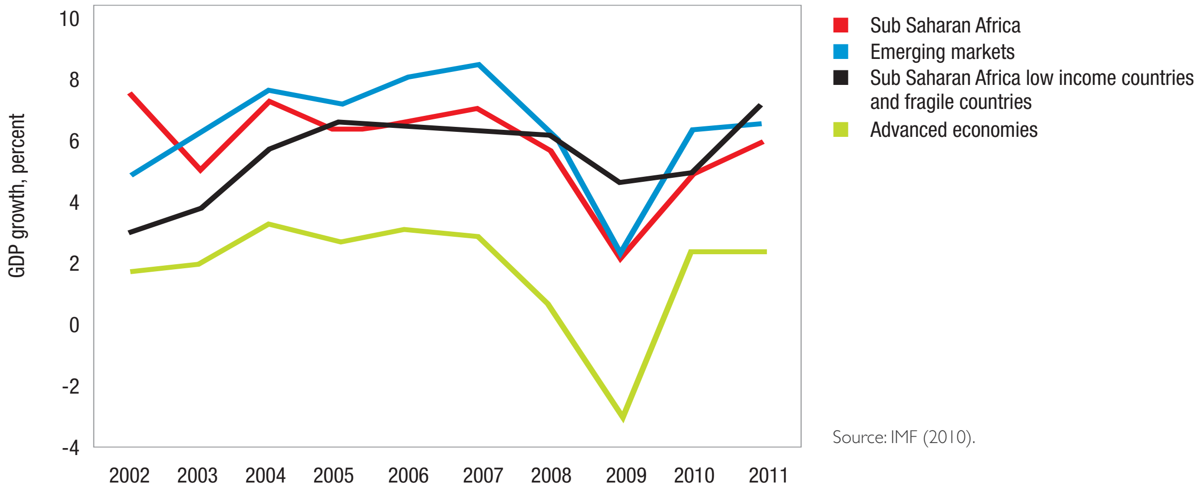
Shelter Afrique, 2008

In Kenya, most property developers believe that in the future "middle and low cost residential areas will drive demand … the emerging middle class move to own homes, most will be looking for affordable houses in the range of $20 000 – $40 000".

African Business November 2008

The effects of the global economic downturn in the recent past did affect the region, but overall less severely than elsewhere on the globe. According to the International Monetary Fund (IMF), this is because of the relative health of the region's economies in the mid-2000s, the counter-cyclical macroeconomic policies that were pursued in many countries, as well as the quick recovery in global economic activity. Commodity prices have also quickly rebounded, boosting export earnings in many Sub-Saharan Africa countries. There was also a deliberate increase in government spending in most of the countries.

Figure 1: Sub-Saharan Africa and world GDP growth



Source: IMF (2010).

Remittances also contribute towards housing affordability

Many African countries have benefited from substantial remittances from their citizens working abroad, and a substantial amount of these funds are invested in the real estate sector. The recession has had an effect on remittances in a number of countries including Ghana, and to a lesser extent Kenya.

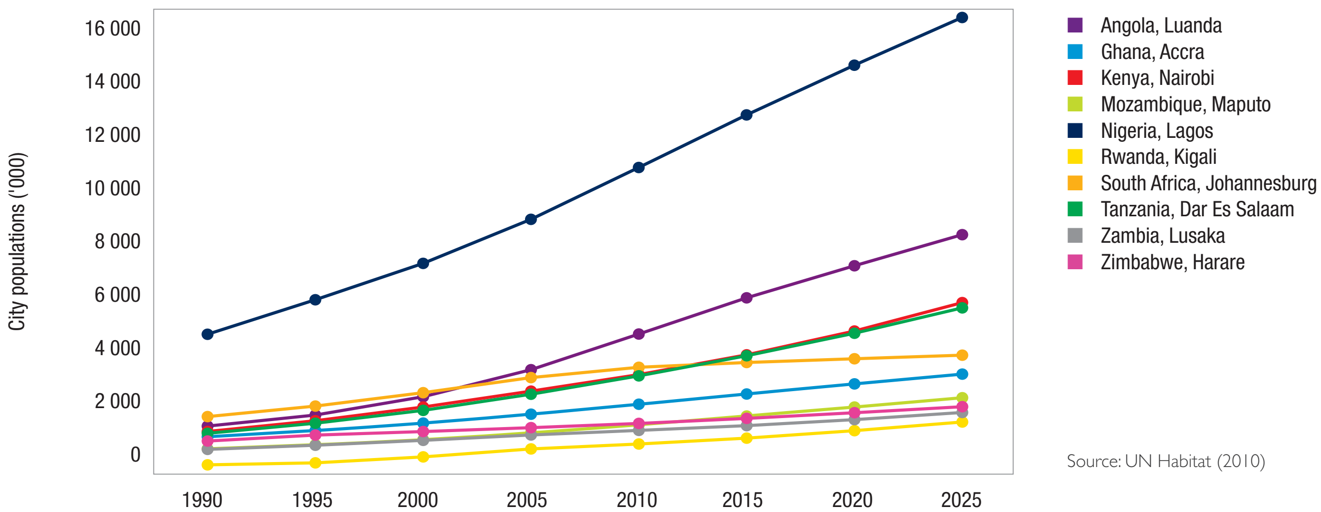
> The recession has seen falling remittances which has had an effect on the real estate sectors.
> *African Banker, Third Quarter (2009)*

> Remittances in Kenya have created increased activity in the property industry since 2002, pushing up professionalism, creating greater availability of developer services and incentivising more end use finance providers. However, there have been concerns that the global economic slow down will affect remittances and negatively affect the property sector in Kenya.
> *East Africa Standard, 4 March 2009*

Urbanisation is putting significant pressure on housing markets

Africa is the fastest urbanising region in the world. If trends continue, half of Africa's population will be urban by 2020 and Africa will have an urban population of 1.2 billion, nearly a quarter of the world's population. Figure 2 illustrates population growth for some of Africa's cities that had a population of more than 750 000 people in 2007, projecting up until 2025. Nigeria is the most populous nation, with 11 cities growing from a 2007 population of over 750 000. Lagos is the largest of these. Luanda, in Angola, is also set for rapid growth, almost at the same rate of Lagos.

Figure 2: City population growth for some African cities larger than 750 000 people in 2007 (1990-2025)

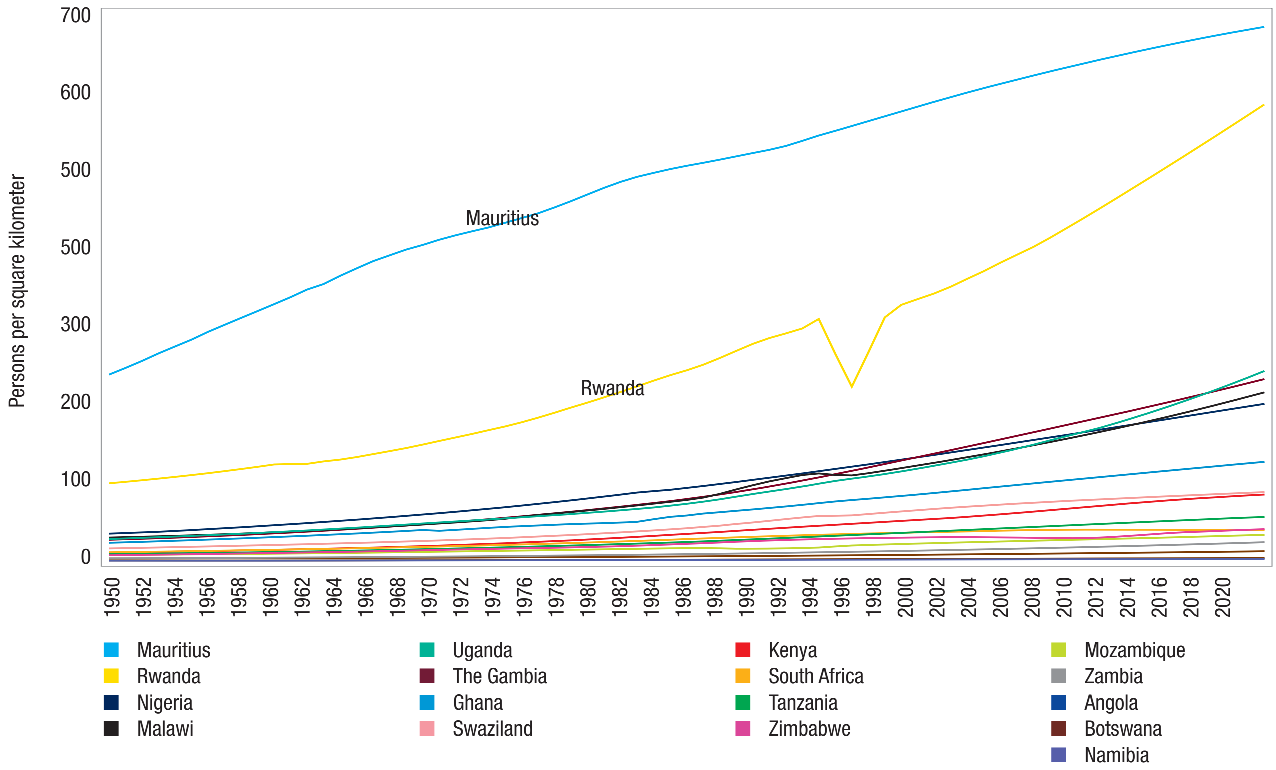


Source: UN Habitat (2010)

In many countries, this urbanisation is taking place either within a housing policy vacuum or in an environment in which housing has not been explicitly prioritised. Where housing policy exists it is often biased towards the middle- and higher-income classes. Another problem is that these elaborate policy documents are often not realised through implementation.

Population densities are another way of expressing urbanisation. Figure 3 illustrates persons per square kilometre for the countries included in this report. The country with the highest population density is Mauritius, followed by Rwanda (the impact of the genocide on population density is clearly indicated). Other particularly dense countries are Uganda, Malawi, the Gambia and Nigeria. Southern African countries have the lowest population densities, with projections of less than 50 persons per square kilometer in 2025.

Figure 3: Midyear population density (persons per square km) for selected African countries, 1950-2025



Source: International Data Base, US Census Bureau (www.census.gov/ipc/www/idb/region.php

Property markets offer a tale of encouraging growth

Property markets in Africa are growing, and have shown encouraging growth over the last two decades. The property market on the continent is increasingly emerging as an alternative investment destination for money across the world, with good returns for bold and pioneering investors.

> In Angola, the headline "Strong property growth predicted for Angola" focussed exclusively on high end apartments for oil sector employees in expatriates.
>
> *PropertyWire, 25 October 2008*

> In Gambia, property prices have risen by 30 percent per year over the last number of years. Overseas property investors for holiday and tourism are a key reason for this.
>
> *Gambia Now, 2007*

> Uganda has also experienced a building and construction boom described as being in the "take off stage". Kampala's residential market has seen the rapid growth with construction of various housing estates, apartment blocks and townhouses in older residential areas as well as new suburbs.
>
> *Agaba (2008)*

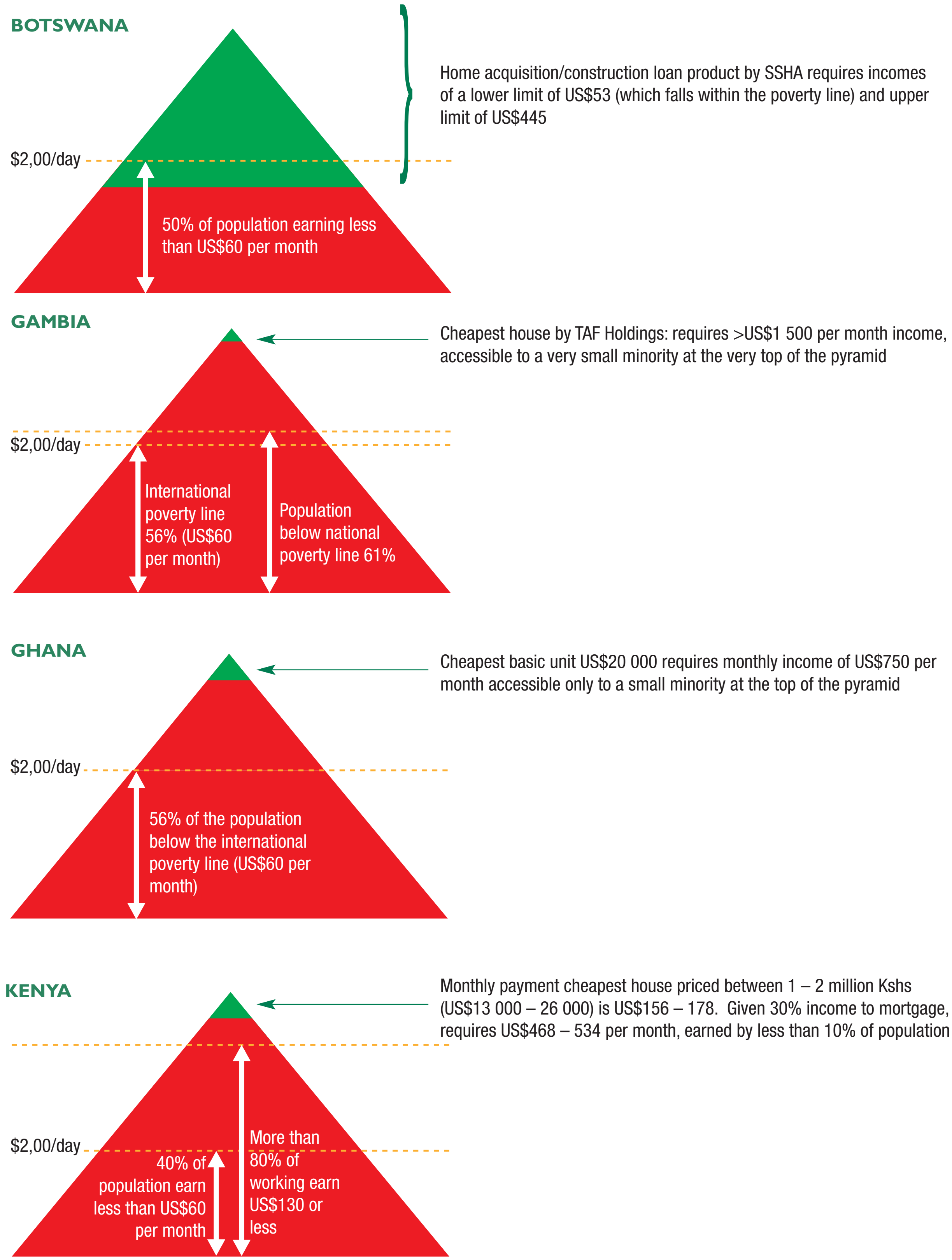
> Ghana's residential property sector has achieved "heady growth" especially in the higher end of the market.
>
> *African Business, July 2009*

There is, however, a major challenge of affordability

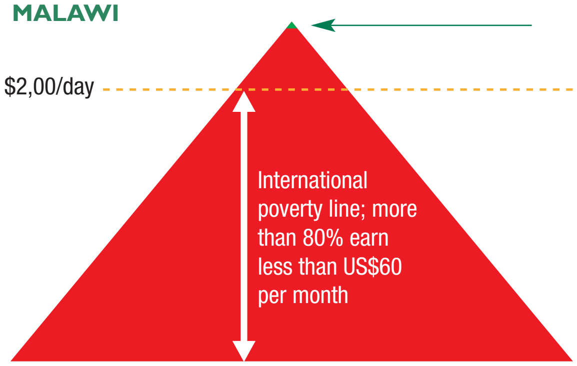
Despite the many positive economic indicators, the vast majority of Africa's population cannot afford the cost of a formally constructed and financed house on the market. Ten to 15 percent is often used as an estimate to represent the percentage of the population able to afford the cheapest housing product on offer through mortgage finance.

This estimate is quite generous and in many parts of Africa is restricted to urban areas, and in most countries, the figures are much lower.

Figure 4: Affordability of typically priced houses in some African countries

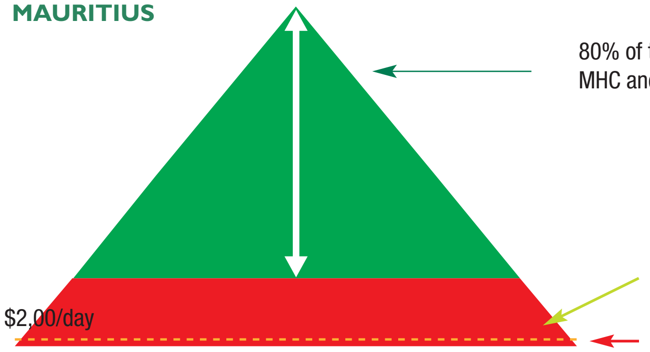


MALAWI



The cheapest house requires an income of >US$700 classified as a high income earner, less than 1% of the population

MAURITIUS

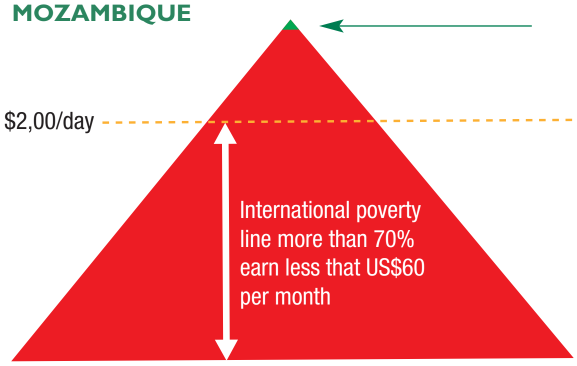


80% of the population having an income of at least US$244 has access to MHC and NHDC schemes

Small % of population cannot access MHC and NHDC loans but employed

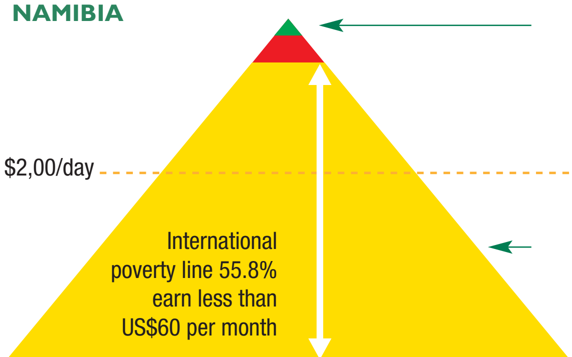
Less than 2% of the population below the international poverty line (less than US$60 per month)

MOZAMBIQUE



Houses provided by Joaquim Chissano Foundation require income of 25 000 meticals (US$680) per month to service, accessible to only a small minority

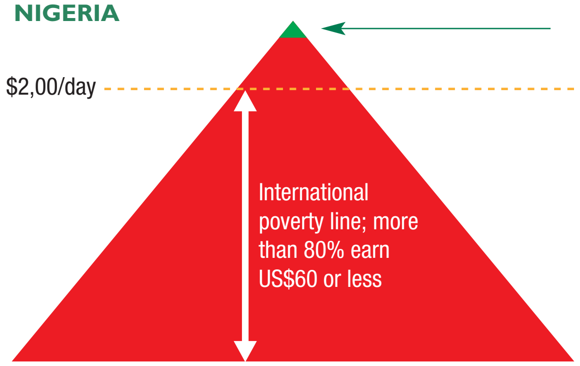
NAMIBIA



Cheapest house costs between N$244 000 – 252 000 (US$33 700 – 34 800) requiring US$372 – 382 monthly payment
Taking 30% income for payment means more than US$1 000 monthly income is required earned by < 10%

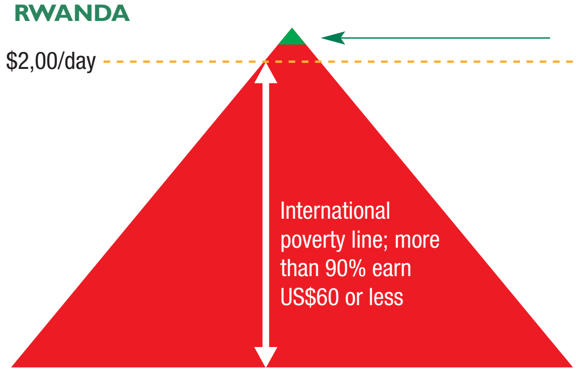
87% eligible for state housing support, but delivery is insufficient to meet demand

NIGERIA



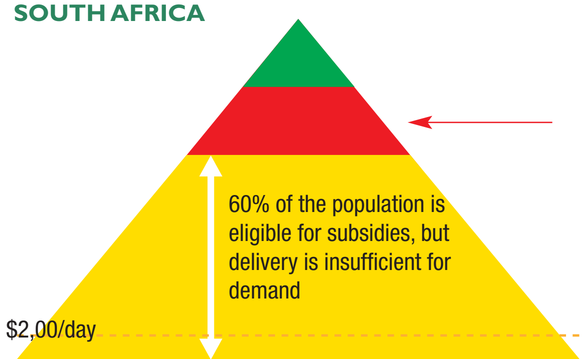
NHF loans are subsidised at a rate of 6 per cent for 30 years. Taking the full loan of N5 million (US$33 000) from the NHF at the current subsidised 6 per cent interest rate, the loan requires N30 000 to N40 000 (US$200 – 266) per month to service

RWANDA



Smallest mortgage as suggested by the liquidity facility is RwF 5.5 million (US$9 300). This requires a monthly income of approximately US$280 per month to service

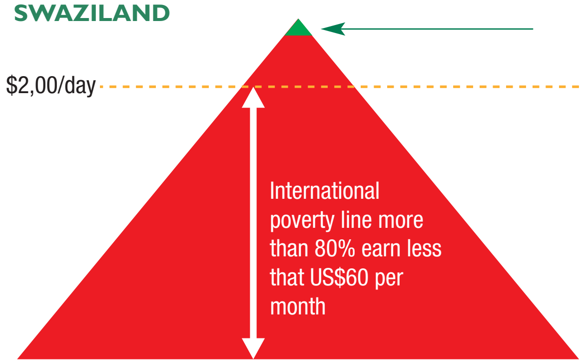
SOUTH AFRICA



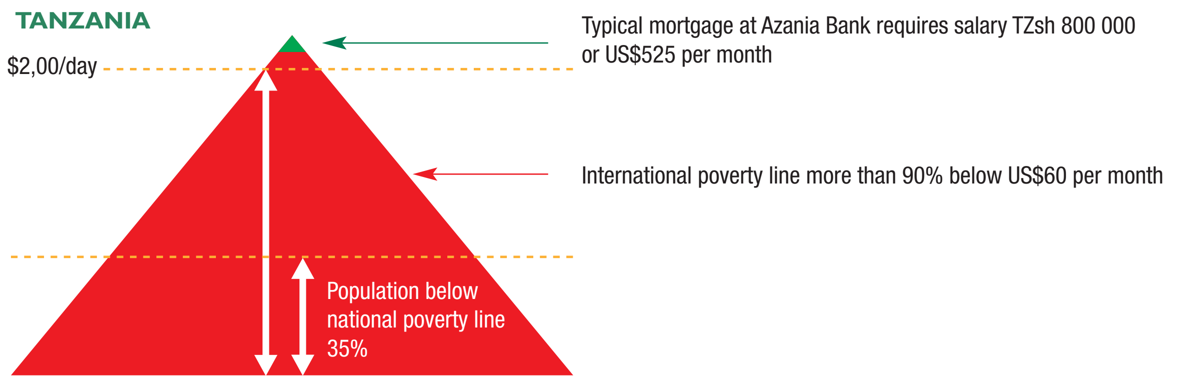
There is no affordable housing product for 20% of the population who earn too much for the subsidy but too little to afford the cheapest, new house

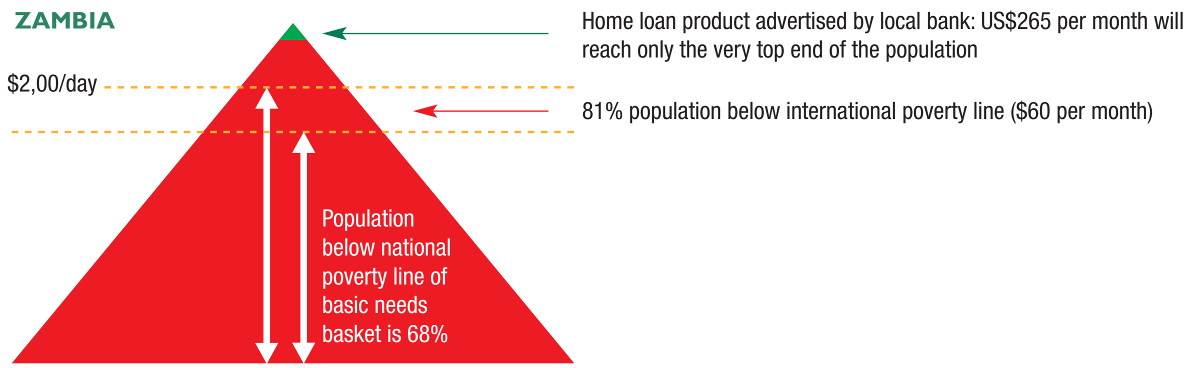
An estimated 7% earn below the international poverty line (<$60/month)

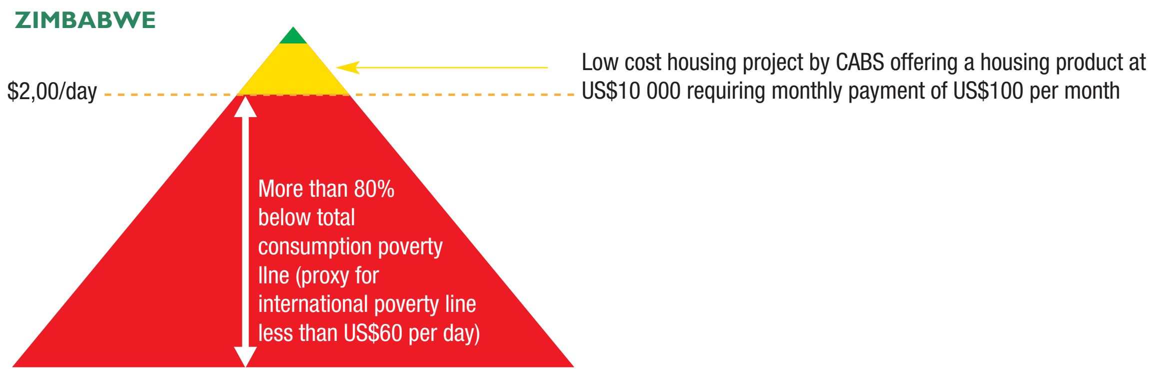
SWAZILAND



SNHB low cost housing offering costing E280 000 – E450 000 (US$39 351 – US$63 243) requires an income of at least E6 486 – E10 422 (US$913 – US$1 468) per month to qualify







Affordability and access is reduced by the often prohibitive costs of borrowing

Affordability is often further constrained by the prohibitive costs of borrowing. High and unpredictable inflation, excessive spreads and a generally higher risk environment make loans expensive.

> The cost of borrowing in many African countries is still prohibitive despite reforms and this creates the high levels of unaffordability seen. In Ghana for example as of April 2010, the lending rate among many banks hovered at the 30% mark despite the prime interest rate adjusted by the Bank of Ghana at 16%. Spreads by banks are also very high with approximately 11% interest paid on deposits.
>
> *AllAfrica.com, 27 April 2010*

> Inflationary trends also make the long term costs of mortgage unpredictable and high as is the case in Nigeria. This has also resulted in banks stopping their lending activities completely.
>
> *AllAfrica.com, 15 March 2010*

… risks of foreign currency loans in volatile economies

Many African countries have dual forex as well as local currency housing financing.

> The Zimbabwean economy has been largely dollarised; in one housing project for example, the government itself demanded US $ top ups of as much as US$ 900 to issue title deeds to beneficiaries.
>
> *African News Service, 13 May 2010*

> To illustrate the complexity arising out of the use of foreign exchange in dealings in many countries, a commentator states that there may typically be "demand for foreign exchange that could involve equity in local currency, senior debt in pounds, mezzanine debt in euros and tenants paying rent in US dollars as an example … a property valuation is done in the local currency and then converted to dollars, euros, pounds and rands. There is no yield curve, derivatives or gilts; only the Treasury Bill rate and prime bank rate"
>
> *News 24 Property, 25 June 2007*

. . . and an unrealistic focus on the mortgage instrument

Housing supply and housing finance are often unreachable for the majority because products are not designed for local circumstances.

> The bias and over-emphasis on mortgage has also affected affordability. Housing projects are almost inevitably delivered to beneficiaries through mortgage finance and there is a lot of attention being paid to reforms to enable greater mortgage lending. Greater housing delivery is seen as a function of greater mortgage delivery and sometime state delivery, bit little else.
>
> *All Africa.com, 11March 2010; and New Vision 14 July 2008*

> In Nigeria, the lack of affordable housing is a major problem and government according to commentators should set new criteria through which the poor could attract finance to develop their own house rather than build what it calls low cost houses. This is because it ends up spending more on those houses and in the end may not build enough. The best thing for government is to streamline the process of attracting credit and make such credit attractive to them … most African governments either seek to fund a limited stock of low cost housing themselves or stay out of the sector entirely but rarely adapt land ownership and lending regulations to encourage people to build their own homes.
>
> *African Business, July 2009*

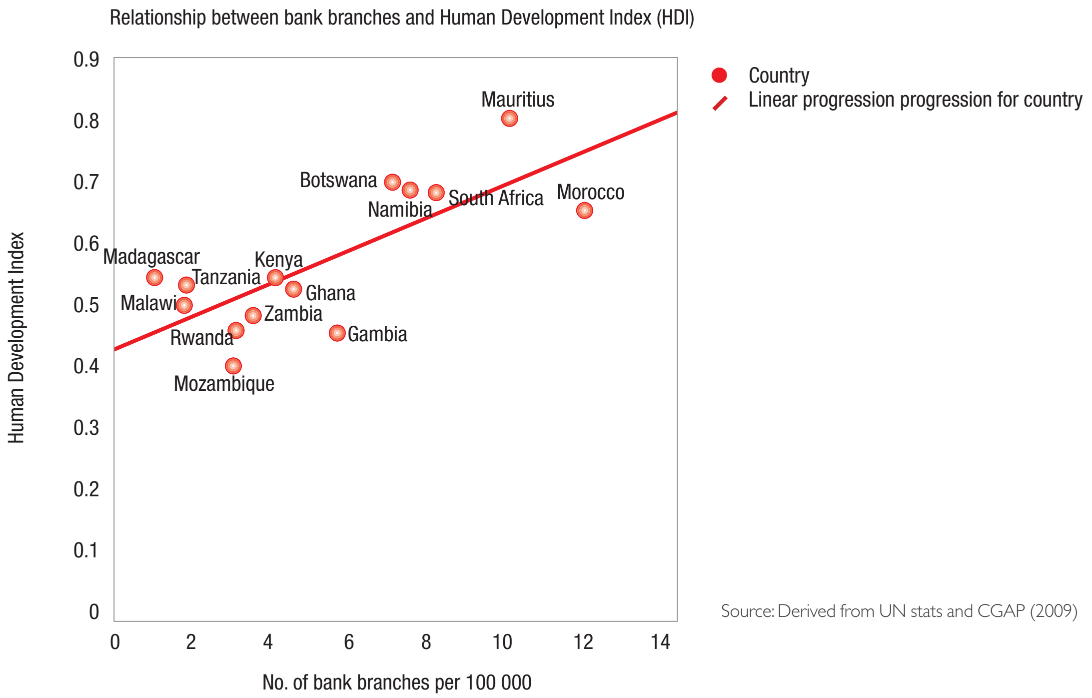
Often, it is that people simply cannot access financial services

Only a small fraction of the population in African countries has access to formal financial services in general, and fewer of these have access to housing finance. Banks as a rule serve a small minority of the population, and microfinance institutions, while they have improved reach for financial services considerably, still have a long way to go in promoting sufficient coverage.

There are certain economic trends of countries and economies with a high reach of financial services. One is that poverty rates are negatively correlated with access to finance. Also, there are more bank branches per head in higher-income countries. Figure 5 uses the United Nations Development Programme Human Development Index (HDI)[3] against the number of bank branches for selected number of African countries to illustrate the benefits of greater financial access.

[3] The HDI is a composite formula that is suited for country comparisons of level of development. This is because it measures three key aspects of human development: health, through life expectancy at birth; knowledge, measured by a combination of the adult literacy rate and the combined primary, secondary, tertiary gross enrolment ratio; and standard of living through the GDP per capita (Purchasing Power Parity (PPP) in US$). For more detail see http://hdrstats.undp.org/

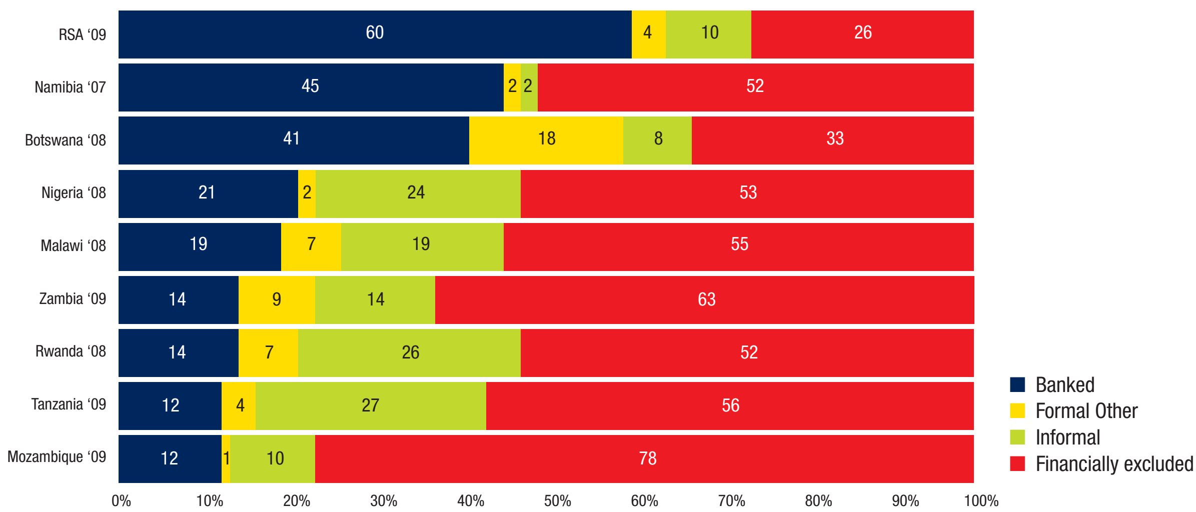
Figure 5: Relationship between the reach of financial services and the level of development in select number of African countries



Source: Derived from UN stats and CGAP (2009)

FinScope surveys show that a large percentage of people in many African countries are simply excluded from financial services altogether. Mozambique has a high 78 percent exclusion rate. The excluded comprise 55 percent in Malawi, 54 percent in Tanzania, 33 percent in Botswana, and 32 percent in Kenya (see Figure 6).

Figure 6: Access to financial services – country comparison



Source: www.finscope.co.za

"The problem with housing is not building it … we all know how to build houses. It's not demand. There are plenty of people who want houses. The problem is allowing the people who want the houses the financing capacity to buy them."

Robin Miller, brainchild of the Lilayi Project in Lusaka, Zambia

"African banking is still about exclusion" says Mark Richards, financial institutions partner (Actis) "A tiny proportion of people have a bank account and an even tinier proportion have a product like a mortgage. What happened in the US was what happens when markets get close to saturation point and go beyond prudent risk procedures. Africa is the other end of the spectrum and banks are still cherry picking the very highest quality customers" …

Challenges are being addressed on many fronts

The lack of long-term finance is a major constraint

Traditionally, there has been a lack of sufficient sources of patient and affordable capital for many banks in Africa meaning they prefer not to lend long term. The lack of finance cuts across both retail as well as developer finance.

Local capital markets are providing part of the solution

Economic reforms in many countries have made it possible for capital markets to develop. These are providing important areas of opportunity for housing finance practitioners.

The Botswana Housing Company is intent to raise P2 billion (US$ 294 million) to fund construction of 2400 units for 2010.
Botswana Gazette, *4 April 2010*

HFC Bank in Ghana has issued and listed six corporate bonds since 1996, which are among others funding the loan book originated by Boafo, its housing microfinance division. The most recent are its plans to raise GHc 15 million (US$ 10 million).

Business Guide, *12 May 2010*

Banque Commerciale du Rwanda in 2008 sold a 10 year corporate bond worth FR 1 billion ($1.8 million) to fund its mortgage business.

Financial Times, *May 22 2008*

Barclays Kenya in 2008 issued a Ksh 5 billion (US$ 62.5 million) corporate bond to fund its mortgage lending business
Financial Times, *May 22 2008*

Nairobi-based Housing Finance launched a Kshs 2.3 billion (US$ 29 million) rights issue last May and says it wants to issue a bond in the "medium term" to finance its growth

African Banker, Third Quarter 2009

In Nigeria, the Federal Mortgage Bank of Nigeria (FMBN) issued N 100 billion (US$ 660 million) in Residential Mortgage Backed Securities (RMBS)

AllAfrica.com, *7 April 2008*

Land management systems need reform

Efficiency of the land management system is crucial for the functioning of the mortgage market. It is crucial in ensuring that there is adequate serviced and appropriate land for development. As a rule, most African countries have a lot of work to do in resolving this issue.

An often painfully slow land reform process is going on in almost all Africa countries

In many countries, governments are seeking to address land titling challenges that have undermined the development of mortgage markets. Governments are beginning to recognise the power of land administration to stimulate housing and property markets.

Tanzania has enacted the Mortgage Financing (Special Provisions) Act to strengthen the ability of creditors to enforce collateral. In Uganda, the Mortgage Bill 2007 was passed earlier, seeking to consolidate laws relating to mortgages and revamp the mortgage industry. It has allowed for the use of customary land as collateral with certain parameters.
AllAfrica.com, *30 March 2009*

A direct power of sale of pledged properties has been introduced in Nigeria, targeted at "preventing ill founded court injunctions".

AllAfrica.com, *7 April 2008*

The housing boom in the capital of Kenya, Nairobi, was partly driven by introduction of the Sectional titles Act in 2002, which changed the concept of ownership among people.

AllBusiness.com, *1 November 2008*

Housing supply is constrained in the affordable bracket and there is limited capacity among developers and construction companies

There is insufficient supply that is both affordable and adequate, in many African markets. Thus the middle- to lower-middle income bands especially find it difficult to obtain well priced housing, within the range of US$20 000 to US$40 000.

While there are entrepreneurs in Africa with an interest in housing, they have limited experience. Most are small and medium-sized entities with weak financial and technical bases.[4]

Local government and the state have been slow to provide land served by basic infrastructure, which has also constrained housing supply Generally, serviced affordable land is in short supply across Africa, and this negatively impacts on housing supply.

> In Uganda, the lack of infrastructure is considerably slowing real estate growth.
>
> *AllAfrica.com, 5 April 2010*
>
> In Zimbabwe, the Central African Building Society's (CABS) US$ 15 million low cost housing scheme (each house valued at US $ 10 000 each with beneficiaries paying slightly over $ 100 per month) has been stalled as the financial institution has failed to get land for housing development from local municipalities.
>
> *AllAfrica.com 27 April 2010*
>
> In Nigeria, Lagos has fallen behind the infrastructure needs of its 17.8 million inhabitants growing at 5% per year.
>
> *AllAfrica.com, 2 January 2009*

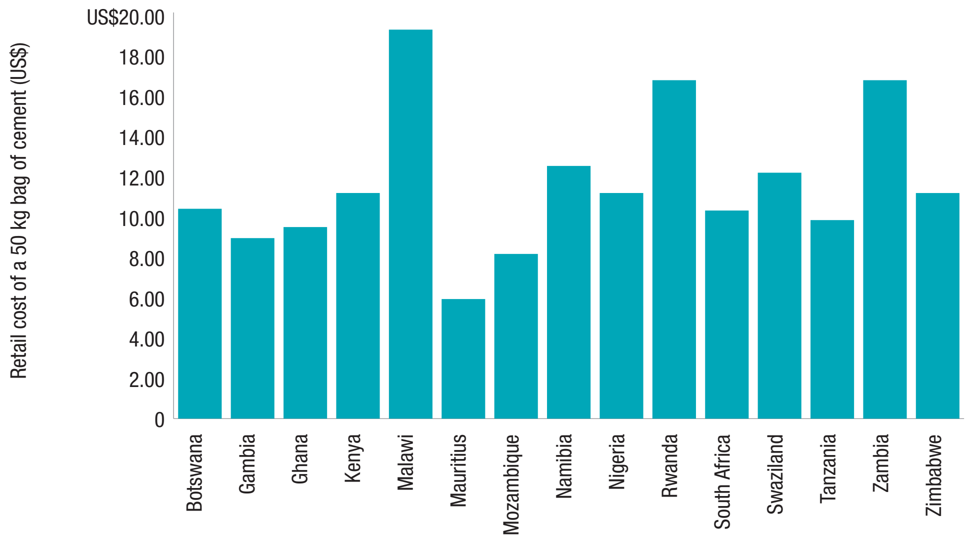
Rising costs of building materials and reliance on imports in most countries often makes housing more costly.

> Worldwide demand for commodities such as oil and steel driven by countries such as China and India has caused a surge in prices of basic building materials in most African countries
>
> *Business Daily, 10 May 2010*
>
> There is heavy reliance in many African countries on imports of basic commodities for building such as cement, and fittings which because of importation and foreign exchange costs makes costs that much more prohibitive.
>
> *PropertyWire, 25 October 2008*

The retail price of a 50 kilogram bag of cement is highest in Zambia, Malawi and Rwanda where it reached and surpassed the US$15 mark.

[4] Ositadinma. O. (2009). Financing Affordable Housing: Lenders Perspective, Presentation at the FMO/Houses for Africa Workshop on Affordable Housing Development, Taj Pamodzi Hotel, Lusaka, Zambia, 26th - 27th October 2009

Figure 7: Retail price of a 50kg bag of cement (US$)



Source: Local websites and in-country contacts.

There has been an increase in the price of cement across the board, which has put major upward pressures on the costs of building. The following is a sample of news items on this issue:

■ "Cost of cement gets out of control" 13 July 2009	Ghana
■ "Higher global cement prices push up cost of cement in Kenya" 10 May 2010	Kenya
■ "Stakeholders call for cement price reduction" 27 February 2009	Nigeria
■ "Lower cement prices ZACA asks Lafarge" 17 August 2009	Zambia

In countries such as Rwanda this has led to government controls on the cement price. Further, cement is prone to shortages in supply and the industry across all the countries is characterised by large and dominant suppliers. The general outlook is that the cost of cement is on a steady upward trend which will continue. High demand across the globe and the increased costs of its production inputs, such as fossil fuels, is driving this. This will continue to pose challenges, given the already poor affordability rates of standard housing products across the countries surveyed.

Even with these challenges, banks are becoming more pro-active, experimenting with new products

To improve (mortgage) uptake, banks in some jurisdictions are involved in stimulating supply of housing. In Kenya for example Kenya Commercial Bank has clubbed some of the housing developers it deals with and sponsored them for trips to China. This is to enable them obtain cheaper building materials and learn better building methods for example.

Business Daily, 7 May 2010

Change is being forced on many of the banks because of competition, excess liquidity and the need to expand business to new areas. Accordingly, KCB in Kenya has "idle cash to the tune of Ksh 35 billion sitting in government securities, a 67 percent rise from the situation in December 2009."

Business Daily, 7 May 2010

…. Housing finance on the other hand has a liquidity of nearly 30 per cent against the statutory minimum of 20 percent"

Business Daily, 7 May 2010

Because of the number of informally employed persons, Housing Finance in Kenya has adopted the use of audited accounts apart from payslips to assess ability to pay

African Banker. Third Quarter 2009

Stanbic Kenya has been quite visible in marketing its mortgage division, even going on to social networking sites. It has also lowered the minimum amount to be borrowed from R 5 million to R 3 million

Business Daily, 7 May 2010

Housing microfinance complements conventional financing methods

The plight of most urban dwellers in Africa was adequately captured by the following quote from African Business: [5]

> "As in other sectors of the economy, the lack of credit is a major problem as banks often refuse to deal with low cost properties, refusing to view such housing as adequate collateral, so it is difficult for potential home owners to secure mortgages or other housing loans for those without high incomes.
>
> Most African governments either seek to fund a limited stock of low cost housing themselves or stay out of the sector entirely but rarely adapt land ownership and lending regulations to encourage people to build their own homes."

Housing microfinance involves lending small periodic loans for housing purposes. The evolution of HMF is closely linked with the general microfinance industry which lends for consumption, and small and medium enterprises (SMEs). It was discovered that many loan beneficiaries were in reality using their microlending loans for housing improvement, as much as 30 percent.

Kenya has an emerging housing microfinance sector. A number of pioneering Savings and Credit Co-operatives (SACCOs) and NGOs are using this lending methodology to provide housing finance for the poor. Jamii Bora and Nachu (the National Cooperative Housing Union) are such organisations.

Tanzania also has a well developed microfinance sector suggesting potential for housing microfinance. WAT SACCOS, for example, is expanding to include housing microfinance by piloting a housing microfinnace project in Dar-es-Salaam's informal settlements with technical support of Rooftops Canada and NBBL of Norway (Norwegian Federation of Co-operative Housing Associations). The Financial Sector Deepening Trust (Tanzania) is meeting the costs of technical assistance in addition to availing guarantees. Another player is Habitat for Humanity with the Makazi Bora home improvement loan targeting urban and peri-urban households with incomes of US$1-US$5 a day, at interest rates as low as 2.5 percent.

Ghana has a well developed microfinance sector, which is beginning to make inroads into housing. HFC Bank, for example, has developed a microfinance arm for housing in collaboration with the Cooperative Housing Foundation. HMF loans are expected to range up to $2 000. ProCredit, a microfinance institute (MFI) in Ghana, in 2006 also launched a housing improvement loan.

[5] African Business, July 2009.

Conclusion

In her overview of housing finance literature in Africa, Tomlinson (2007) summarises trends in housing finance in Africa:

- Very minimal amounts of finance (quasi-mortgages, over shorter terms) are available to high-net worth clients through a handful of banks.
- High-income earners usually buy formal housing with cash.
- The middle class finance their own housing construction, also usually with cash. Their housing process is usually incremental, over time, and often in unplanned areas.
- Low-income earners finance their housing incrementally, with savings, loans from family and friends, or micro loans, usually on an informal basis and in unplanned areas.

While this situation persists, evidence from the countries covered in this yearbook suggest the situation is changing. The challenge facing housing finance practitioners and housing developers, as well as their supportive agencies and governments, is how to enhance access to *appropriate* housing finance so that the delivery of affordable housing products is stimulated to scale across the income pyramid. While the structure of income pyramids may suggest focusing primarily on non-mortgage options (for this is where the majority of demand lies), attention to the better targeted structuring of the mortgage market is also critical. Extending access to mortgage finance to a wider range of earners, will not only enhance the efficiency of their individual housing processes, but will also stimulate the economy and promote filtering in the housing market, progressively making more housing available also to lower income earners.

Three issues emerge from the analysis: the role of the macro-economy, the role of housing supply, and the opportunity for non-mortgage housing finance.

The development and prospects of housing finance sectors across Sub-Saharan Africa is inextricably tied up with the development of those countries' economies. Macroeconomic factors are fundamental determinants of the structure and health of housing finance sectors – choices made by a nation's macroeconomic decision makers influence quite fundamentally choices available to investors and housing finance practitioners. The countries reviewed have all undergone economic transformation over the past 20 years, and have all suffered a recent dip in GDP growth as part of the global economic crisis. But these things take time, and a housing finance sector only begins to develop once the macroeconomic indicators are all in place.

A second, crucial factor in the development of housing finance sectors is the structure and scale of the housing supply sector: housing finance is useful only if there is something to buy. If the housing supply sector is not operating at scale, or if it is not delivering goods affordable to the population, housing finance will be in less demand. Of course, the relationship between the supply of housing and the supply of finance is a complex one; each depends on the other in a chicken-and-egg sort of way. The availability of housing finance may well stimulate the supply of appropriate housing products.

A third factor has to do with the nature and quantum of demand which points to the need for non-mortgage alternatives. It is hard to imagine that there isn't a demand for housing finance in Africa – sprawling informal settlements and rapidly growing cities indicate quite clearly a demand for housing. However, with high rates of unemployment and low wages among the employed (some of whom who enjoy only seasonal or erratic employment), the ability to honour the lengthy commitment that a mortgage instrument requires is a challenge for most of the populations in the countries included in this report. In all of the countries studied (with the exception of South Africa), less than 10 percent of the population is realistically able to honour a mortgage contract for the cheapest, newly built house. The development of affordable housing finance products is an important area for growth and development across Africa. New housing supply models, such as incremental housing, financed with innovative housing finance products that respond well to the nature and capacity of the demand side, is a new frontier for exploration.

Out of these three factors emerges a housing finance system that will manage challenges and maximise opportunities as efficiently as possible.

Country profiles

This section briefly looks at the state of the housing finance markets in selected African countries. Data is drawn from a wide range of sources, much of which is available on the internet. The section on "further reading" at the end of the report, provides additional references.

Explaining the indicators

Each of the country profiles has a table with key indicators. The following is an explanation on what these indicators mean, and why they are important. Most of these figures and explanations are derived from the World Bank World Development Indicators 2010, the International Labour Organisations KILM 6th Edition and FinScope[6] surveys on access to financial services. Some, like the price of cement, are adapted by the authors for the purpose of this study.

- **Population:** This data is drawn from the World Bank's World Development Indicators. Population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship – except for refugees not permanently settled in the country of asylum, who are generally considered part of the population of their country of origin.
- **Urban population** is the midyear population of areas defined as urban in each country and reported to the United Nations. The urban population provides a rough indication of a demand market for housing finance. This data is also drawn from the World Bank's World Development Indicators.
- **GNI per capita:** Gross National Income per capita provides an indication of relative wealth. It is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI per capita is GNI divided by midyear population. Purchasing power parity (PPP) is GNI converted to international dollars using PPP rates. This data is drawn from the World Bank's World Development Indictors.
- **GDP percentage growth rate:** GDP is the gross domestic product of a country, or how much a country produces in a year. This indicator measures the annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2 000 US dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. The GDP growth rate is drawn from the World Bank's World Development Indicators.
- **Wage and salaried workers (also known as employees):** A high proportion of wage and salaried workers in a country can signify advanced economic development. This indicator provides the proportion of the total employed population that has a regular wage or salary, and it gives an indication of those who could (all else being equal) manage a regular housing loan repayment obligation. A shift in employment from the agricultural to the industry and services sectors would be reflected in an increase in the number of wage and salaried workers. Economies in the early to middle stages of economic development have definitively lower shares of wage and salaried workers in total employment and higher shares of own-account and contributing family workers, the two statuses that are viewed as more vulnerable in their nature. This data is drawn from the International Labour Organization.
- **Informal sector:** This is a measure of employment in the informal sector as a percentage of total employment, i.e. the ratio between the number of persons in informal sector employment and the total number of employed persons. This indicator has been included because informal incomes and informality do not always meet eligibility criteria among formal lenders. Microfinance methods of lending are well adapted to this form of income. This data is collated by the International Labour Organization.
- **Population less than US$2 a day:** Population below $2 a day is the percentage of the population living on less than $2.15 a day at 1993 international prices. At the very least it provides a rudimentary indicator on levels of affordability for housing finance in a country. This data is drawn from the World Bank's World Development Indicators.
- **Population below national poverty line:** This is the percentage of the population living below the national poverty line. National estimates are based on population-weighted subgroup estimates from household surveys. Again for the purpose of this work, this provides a rudimentary indicator on levels of affordability for housing finance in a country. The data is drawn from the World Bank's World Development Indicators.
- **Bank branches per 100 000:** This is a measure of access to formal banking services. It represents the number of bank branches per 100 000 people in the country. The Consultative Group to Assist the Poor (CGAP) collates and publishes this data.
- **Households with a housing loan:** This is a much more direct measure of the levels of accessibility to financial services related to housing in a country. It gives a percentage measure of the people who have had a housing loan. Most of this data, where available, has been obtained from FinScope surveys.
- **FinScope financial exclusion:** This measures the percentage of the population that is financially excluded, with access to neither formal nor informal forms of finance.
- **Central bank discount rate:** This is the interest rate charged by a central bank for loans of reserve funds to commercial banks and other financial

[6] 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, 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.

intermediaries. The discount rate serves as an important indicator of the condition of credit in an economy, because raising or lowering the discount rate alters the banks' borrowing costs and hence the rates that they charge. It is also known as the base rate, or repo rate, and should not be confused with the prime rate. Data is drawn from the different countries' central bank websites.

- **Average bank lending rate:** This is the average prime interest rate charged by banks on loans to prime customers. It is an industrial average and will vary per bank.
- **Rate on deposits:** This is the average rate offered by banks on savings.
- **Domestic credit to private sector:** This is the financial resources provided to the private sector – such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable – that establish a claim for repayment. For some countries these claims include credit to public enterprises. It has been expressed as a percentage of GDP. This data is drawn from the World Bank's World Development Indicators.
- **Mortgages as a percentage of GDP:** These are the financial resources provided by the private sector in the form of mortgages outstanding measured as a percentage of GDP. They are a direct measure of the level of mortgage lending in a country.
- **Cost of a 50 kilogram bag of cement:** This is a rough indicator of the relative cost of construction across countries. Data was drawn from building material supplier websites, phone calls made to suppliers, or in-country researchers.

Others used

- Durable dwellings: This refers to structures made of durable building materials (concrete, stone, cement, brick, asbestos, zinc and stucco) expected to maintain their stability for 20 years or longer under local conditions with normal maintenance and repairs. This takes into account location and environmental hazards such as floods, mudslides and earthquakes. In this work, it has been used as an indicator for the amount of mortgageable housing.
- Strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. Higher values indicate that the laws are better designed to expand access to credit.
- Depth of credit information index measures rules affecting the scope, accessibility, and quality of information available through public or private credit registries. It is a figure between 1-6 and the higher the value, the greater the availability of more credit information. It has been used as an indicator on the level of development of lending infrastructure crucial for mortgages.

The availability of relevant, accurate data has, and continues to be, a critical stumbling block to any analysis of market potential in Africa. In many African countries, only the most basic of economic indicators are tracked, and much of it is long out of date. Some data can be as old as 15 years for specific indicators in certain countries, where regular census-taking is not part of regular government monitoring. Given the relative newness of property markets, performance indicators in this sector are even scarcer. Statistically verifiable data is rare, and when it exists, it is often not in a form that can be compared across countries as definitions differ. In many cases, the underlying household surveys differ in method and type of data collected, making cross-country comparisons, and cross-data comparisons, difficult. As a result, practitioners use other methods – popular perception, interviews – to gauge market opportunities and challenges.

To address this gap, the Centre for Affordable Housing Finance in Africa has been involved in housing finance sector studies in many parts of Africa. FinMark Trust has also been involved in rolling out FinScope, a national-level survey of individual usage of financial services, now being undertaken in 14 African countries including many of the subject countries of this study. The Centre for Affordable Housing Finance is also involved in examining specific aspects of the housing finance sector in countries in Africa including housing microfinance, as well as the use of pension funds to back housing loans.

As this has been a desk-top study, the reporting is limited by the limitations in the literature and data available. While every effort has been made to overcome these shortcomings, the reader will struggle to find the level of detail possibly expected. In some cases, where the current status is not conclusive, both perspectives have been offered. In other cases, tables necessarily have a blank spot where data is not available. Future editions of this yearbook will strive to overcome these data shortcomings.

Botswana

Key figures	
Population^	2 million (60% urban) (2008)
Population growth rate urban^	3.9% (2008)
GNI per capita^	US$13 300 (2008)
GDP % growth rate ▲	-6% (2009)
Main urban centres	Gaborone (capital), Francistown
Currency	Pula (P)
Employment†	
Wage and salaried workers	73.2% (2003)
Informal sector	19.3% (1996)
Poverty levels†	
Population less than US$2 per day^	50%
Population below national poverty line	Not available.
Financial Services Access	
Bank branches per 100 000*	6.9
Access to housing finance	Not available
FinScope financial exclusion ■	33% excluded
Macro economic financial indicators	
Central Bank Discount Rate°	10% (April 2010)
Average bank lending rate°	11.5% (April 2010)
Rate on deposits°	5.6% (April 2010)
Lending by banks to the private sector	
Total % of GDP^	21.1% (2008)
Mortgages % of GDP	2.2%
Cost of building indicator	
Cost 50 kg bag cement	US$9.3 (August 2010)

^ World Bank (2010)
▲ Central Statistics Office
† ILO KILM 6th ed
* CGAP (2009)
° Bank of Botswana
■ FinScope

Overview

Botswana has recently faced considerable economic pressure with the fall of overseas demand for its minerals, upon which its economy is heavily reliant. The economy declined by six percent in 2009, although this is not foreseen to continue. Growth is expected to be more than three percent in 2010. Year-on-year consumer price inflation reached 7.8 percent in May, up from six percent in March. This was out of the Bank of Botswana's target range of three to six percent.

Access to finance

Access to finance in Botswana is relatively high by Africa's standards, but considered low globally. This is especially so considering the country's relatively high levels of GDP per capita. According to the second FinScope survey undertaken in Botswana (2009), 67 percent of the population are financially served, using either formal and/or informal products; 41 percent of the population are formally banked, and 33 percent are financially excluded. Nevertheless credit to households is generally on the increase and by the end of 2009, this was 57.9 percent, up from 56.9 percent the previous year. Lending to households by the banking sector mainly targets consumer spending in unsecured debt, rather than lending for mortgage finance. While lending to finance housing has increased, this has been eclipsed by lending for other forms of consumer expenditure. Housing finance is also negatively affected by low savings levels; FinScope 2009 states that up to 59 percent of the population do not save for retirement. These low savings levels further contracted with the recession in 2009. There is microfinance lending in the country, which has increased reach of finance services generally. This form of lending has also been associated with consumer spending, as well as with education and emergencies. Housing microfinance remains uncharted territory in Botswana.

The pensions industry has been conservative and does not provide members with housing loans or allow third party loans secured by pensions. The unclear regulatory framework dealing with pensions has been cited as part of the problem.

Formal housing finance is provided by commercial banks as well as Botswana Building Society (BBS). The BBS is the market leader in mortgage lending.

For lower income earners, the Self Help Housing Agency (SHHA) allocates plots and provides finance for self-build. The SSHA has greatly enhanced the accessibility of housing by providing serviced starter plots, low loan amounts and very concessionary interest rates. It has, however, been unable to meet the demand for plots, and there is a backlog of more than 15 years. It also suffers from poor repayment rates. Through the SHHA, the government introduced a Turnkey Scheme, in which the can purchase completed houses at a cost of P60 000 (US$8 760), financed by the SHHA at 0 percent interest over 20 years (interest is raised to 10% for those who default). The Botswana capital markets have provided facility for raising capital through corporate bonds. This includes microfinance and housing-related fundraising, the latest being the Botswana Housing Corporation's (BHC) intent to raise P2 billion (US$292 million).

Affordability

The financial institutions and government in Botswana have worked hard to ensure housing affordability across the population. The BBS has created a mortgage product that incentivises saving for mortgages for new home acquisition. It has also launched a fixed-rate mortgage for terms as high 30 years. Government assists all Botswana citizens to purchase or develop properties by guaranteeing 25 percent of all loans secured through the BBS. While financing a completed house is beyond most Botswana's citizens, small construction loans offered by financiers can theoretically reach more people, who can then build incrementally. The state-funded SHHA provides loans of as little as US$1 000 and up to a maximum of P45 000 (US$6 570) at no interest repayable over 20 years. The SHHA loans are accessible to both urban and rural households earning annual incomes of between P4 400 (US$642) and P36 400 (US$5 314). Beneficiaries can use the loan for extension or renovation of an existing house and/or completion of a house. This bridges the affordability gap considerably, because it lowers the qualification threshold and allows workers earning very low salaries to access finance (at the lower limit of the criteria, US$53 a month, which is within the poverty line). However, this does not completely solve the problem of access to housing finance for all. This is because even at this very low wage threshold some people are still excluded. In this segment, the Ministry of Lands and Housing has introduced the Integrated Poverty Alleviation and Housing programme, catering for those who do not qualify for the SHHA loans and the Turnkey facility. The programme seeks to train households to acquire productive skills in the construction industry so that they might address their own housing needs while also earning an income.

Other construction loan providers include the BBS, which lends as little as P10 000 (US$1 460) over 25 years. The National Development Bank, another state entity, has also introduced a self-build loan, lending as little as P20 000 (US$2 920). Commercial banks in Botswana likewise lend relatively low amounts, up to P75 000 (US$10 950), and offer 100 percent loan-to-value ratios secured by the land. Qualification criteria are, however, still stringent. NGOs such as Habitat for Humanity help cater for the excluded, considering the income thresholds of the SSHA as well as the considerable backlogs in the system. With their highly subsidised interest rate mortgages of between three to six years and use of the sweat equity of the beneficiary, a loan for a two-roomed house requires as little as US$23 a month to service.

Property markets

Property prices have risen steadily over the past few years, spurred on in part by the booming tourism industry. Secondary property markets are limited by the shortage of mortgageable stock in primary markets. A useful indicator is the fact that only 18 percent of the buildings in the country are of durable material. This shortage is also reflected in the lack of adequate affordable rental housing stock, and the consistent reports of steep rises in rentals in urban areas.

Housing supply

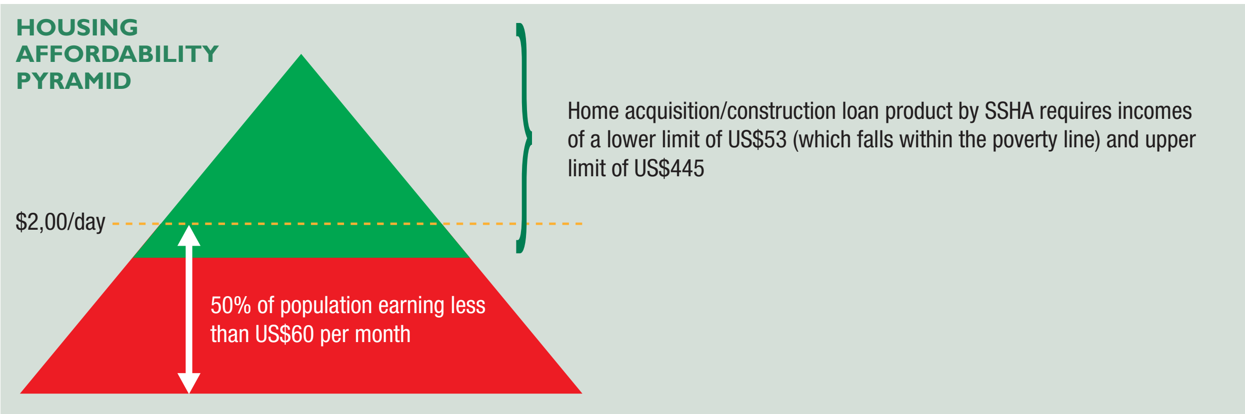
The supply of ready-built housing units in Botswana is low and most people self-build for occupation. The SHHA has been responsible for a substantial number of the plots used for this purpose. Rental is also a significant housing form.

Striving to be the best property developer and estate manager in the country, the BHC was established by an act of Parliament in 1970, to provide housing, office and other building needs of the Botswana Government, local authorities and the general public. The BHC has a large estate of flats, town houses, and a balanced mix of high, medium and low-income houses, spread throughout the country with concentrations in Gaborone and Francistown. Although historically focused on developing housing for rental, it has recently begun to offer houses for sale as well. The BHC builds close to 1 000 houses a year across the country – 742 units were delivered in 2007/2008 financial year and housing starts for the year amounted to 927 houses, ahead of the 900-house target. According to the BHC website (accessed April 2010), the BHC has four projects nearing completion. These include 545 houses in Gerald Estates in Francistown, 107 in Serowe, 111 in Maun and 720 units in Block 7 in Gaborone. The same article states they intend to deliver 1 424 housing units in the financial year 2010/11 and to start 2 400 units during the same year. In terms of the National Development Plan 10, construction of 29 000 houses is targeted for the next seven years.

Operating at the lower end of the income spectrum, NGOs such as Habitat for Humanity helped beneficiaries self-build 1 746 houses as of September 2008. Like many African countries, the lack of sufficient serviced land is a constraint, although the state has undertaken significant efforts to deal with this. In the 2010/2011 financial year, it intends to deliver 70 000 serviced plots across the country

Property markets

The outlook for the property market is generally positive and has experienced a boom in recent times. The BHC has embarked on an aggressive sales campaign, a significant change from its previous policy of renting out units. Between 2006 and 2008, the BHC sold 1 404 units on the market. In April 2010, it announced the sale of 134 sectional title units for sitting tenants in Gabarone and Francistown, and that a further 228 units will be available in November 2010.



The market has also shown significant resilience in the face of the recession. For example, even given the harsh economic climate and decreased profitability, the BBS increased mortgage lending in 2009.

Policy and regulation

The Botswana government has prioritised encouraging savings and credit for long-term investments such as housing. One area of reform identified is the land administration system. The lengthy process for conversion from tribal to common law land as required for mortgage lending has been cited as a problem. Regulations about land use management such as building permits and related procedures are also considered unduly onerous and bureaucratic and need to be reformed.

Opportunities

Botswana is a relatively stable, well-managed economy that has shown significant growth over the last few years. Finance for self-build housing still offers significant prospects for growth, due to this being the preferred method of building, even among the middle- and higher-income categories. HMF therefore has enormous potential. Mortgage lending has been increasing, and while there is limited demand given the country's generally small urban areas, it also has potential for growth. The state has recognised the need to reform in many key areas such as land administration. If followed through, this can enhance access to, and affordability of, mortgages among the population.

Gambia

Key figures	
Population^	1.7 mill (38% urban) (2008)
Population growth rate urban^	5.6%
GNI per capita^	US$1 280 (2008)
GDP % growth rate ▲	4.6% (2009)
Main urban centres	Banjul (capital), Serekunda
Currency	Dalasi (GMD)
Employment†	
Wage and salaried workers	Not available
Informal sector	82.7% (1993)
Poverty levels†	
Population less than US$2 per day^	56.7% (2003)
Population below national poverty line	61% (2003)
Financial Services Access	
Bank branches per 100 000*	5.5
Access to housing finance	Not available
FinScope financial exclusion	Not available
Macro economic financial indicators	
Central Bank Discount Rate°	10% (3rd Qtr 2009)
Average bank lending rate°	27% (3rd Qtr 2009)
Rate on deposits°	15.5% (3rd Qtr 2009)
Lending by banks to the private sector	
Total % of GDP^	34.3% (2008)
Mortgages % of GDP	Not available
Cost of building indicator	
Cost 50 kg bag cement [a]	$8 (2009)

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
[a] All Africa News 25 March 2009
° Economist Intelligence Unit (2010)
▲ IMF (2010)

Overview

Gambia is the smallest country in Africa, with an economy based mainly on agriculture and a growing tourism sector. The country has one of the highest urbanisation rates in the world, fuelled in recent times by extreme weather patterns in the rural areas. Nevertheless, the economy grew by 4.6 percent in 2009, with the agricultural sector registering a good year. This despite the global economic crisis and consequent fall in tourism and foreign remittance revenues.

Access to finance

Penetration of financial services, like much of SSA, is low, even given the country's small size. Formal banking is growing, however, and a number of foreign owned banks have entered the market. For example, Access and Skye banks, both of Nigeria, entered the market in 2007 and 2009 respectively. Most banks do not provide mortgage facilities. Gambia's housing finance system does not benefit from private or public credit bureaus to aid lending. The country scores a modest five out of ten in the Strength of Legal Rights Index of the World Bank, a measure of the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders. Tenure security among Gambians is limited, with only 45 percent of the population being secure. All these factors limit accessibility to mortgage financing, and dampen the incentive to self-build through housing microfinance.

Gambia has a conducive environment for microfinance lending, including specialised microfinance regulations. This has led to greater availability of financial services through MFIs. The country has a high per capita savings rate to other countries. This is a good platform for housing microfinance going into the future. Gambia also has the advantage of a pension industry that actively supports housing expansion. The Social Security and Housing Finance Corporation (SSHFC) administers a housing fund linked to the various pensions and provident funds it administers. It invests in affordable residential housing development. Financing for the mortgages is likewise provided by the fund. At least four projects have been completed so far, although the total output is fairly modest given the size of the demand.

Affordability

Mortgage products are offered by various banks. The Home Finance Company, for example, offers a mortgage product that finances 70 percent of the value of the property payable over a maximum of 15 years. One of the largest private developers in the country, TAF, is involved in housing development, requiring monthly payments of at least US$1 500, and even more per month, depending on the housing product. These mortgage products are all above the financial ability of the vast majority of Gambians. The SSHFC, which has a mandate to provide affordable housing for the poor, has been criticised for providing products that are unaffordable for most Gambians.

Housing supply

There is a general shortage of affordable housing for the majority of Gambians. This was acknowledged in the launch of the latest development by the SSHFC, in joint venture with a private developer in Makumbaya. The development is worth GMD400 million (US$14 million) and consists of 3 000 serviced plots.

Property markets

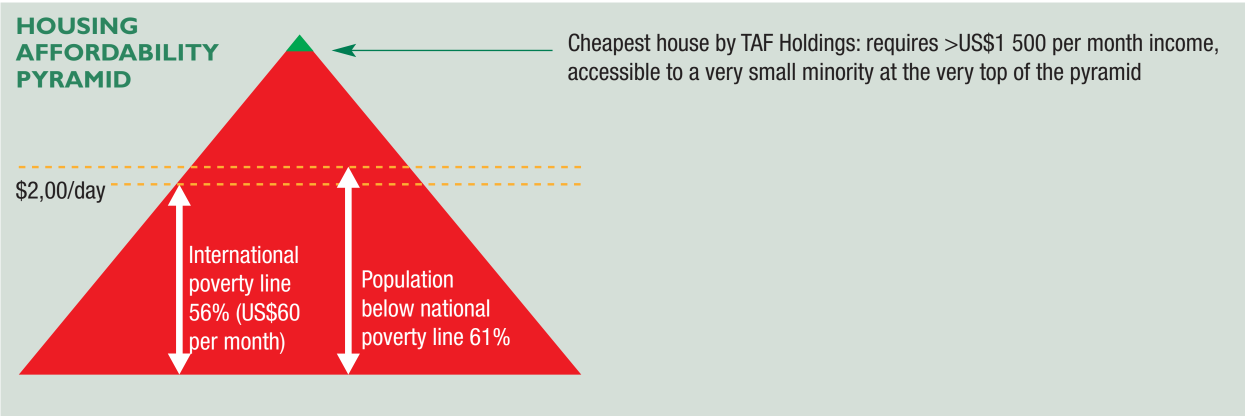
Property prices have risen steadily over the past few years, spurred on in part by the booming tourism industry. Secondary property markets are limited by the shortage of mortgageable stock in primary markets. A useful indicator is the fact that only 18 percent of the buildings in the country are of durable material. This shortage is also reflected in the lack of adequate affordable rental housing stock, and the consistent reports of steep rises in rentals in urban areas.

Policy and regulation

Laws effectively dis-establishing the SSHFC and creating distinct entities to deal with social security (Social Security Corporation Bill) and housing funding (Housing Finance Corporation Bill) were introduced in April 2010. Fortunately, the intent of the latter Bill remains to retain a fund for affordable housing in the country. To spur on better functioning housing finance markets, the country requires extensive reforms, especially around infrastructure supporting the mortgaging process. The land administration system also needs reform to create greater certainty around land collateral. Gambia's Poverty Reduction Strategy Paper acknowledges these important reforms, pointing out their necessity for the general improvement of trade and creation of a conducive investment climate.

Opportunities

The Gambian market offers potential in the areas of high-income and tourism housing development. Like many African countries, the affordable housing market is inadequately served, a fact acknowledged by the government. Gambia's substantial remittances from the diaspora provide a useful source of housing finance that can be harnessed for both mortgage and microfinance lending. The high levels of informality and an established microfinance industry point at potential for HMF, which can be supported by what has proved to be a relatively well developed pensions industry.



Ghana

Key figures	
Population^	23 million (2008)
Population growth rate urban^	4.2 (1990 – 2008)
GNI per capita^	US$1 320 (2008)
GDP % growth rate ▲	3.5% (2009)
Main urban centres	Accra (capital), Kumasi
Currency	Ghana Cedi (GH¢)
Employment†	
Wage and salaried workers	Not available.
Informal sector	78.5% (1997)
Poverty levels†	
Population less than US$2 per day^	53.6% (2007)
Population below national poverty line†	28.5% (2005 – 2006)
Financial Services Access	
Bank branches per 100 000*	4.4
Access to housing finance	Not available
FinScope financial exclusion ■	Survey currently ongoing
Macro economic financial indicators	
Central Bank Discount Rate°	16% (March 2010)
Average bank lending rate°	31.8% (July 2010)
Rate on deposits°	3.7 – 9% (March 2010)
Lending by banks to the private sector	
Credit % of GDP^	27.2% (2010)
Mortgages % of GDP	2.44%
Cost of building indicator	
Cost 50 kg bag cement [a]	US$8.49 (March 2010)

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° EIU (2010)
▲ IMF (2010)
■ FinScope

Overview

Ghana is often considered one of the better investment destinations in Africa. A stable political climate, pragmatic macroeconomic policies, robust private investment, outstanding growth performance in the agriculture sector as well as strong consumer spending continue to support economic growth. Ghana also has a growing mining sector with steel, gold and recently discovered oil, which in the near future should give a further boost to the growing middle class. The economy has experienced a volatile inflation environment and although steadily improving, inflation is still a major drag on affordability. Ghana also has some of the highest bank lending rates on the continent.

Access to finance

Historically, Ghanaian banks favoured the lower risk and relatively good returns on government instruments, and so access to finance has been limited. Ghana has 26 universal banks, the largest being the state-owned Ghana Commercial Bank, holding about 15 percent of banking sector assets.

The total value of home mortgage loans outstanding at the end January 2010 was US$200 507 875, and as a ratio of GDP this is less than three percent. One of the reasons for this low figure is that few banks have been involved in mortgage lending and there are essentially only two major lenders at present – HFC Bank with 30 percent of market share and Ghana Home Loans, a specialised lender. Ghana Home Loans commenced operation in 2006. As of 2009 it had disbursed over 550 loans worth close to US$40 million. Some new lenders are coming into the market, including international banks such as Barclays and Standard Chartered and SG-SSB (Societé Générale – Social Security Bank). These banks, however, tend to lend only to higher-income salaried households, bank employees or favoured clients.

While market capitalisation as a percentage of GDP is still a relatively low 30 percent, Ghana has one of the more promising stock markets on the continent. It has been used to raise funding for mortgage lending. For example, HFC Bank has issued and listed six corporate bonds since 1996, which are among others funding the loan book originated by Boafo, its housing microfinance division. The most recent are its plans to raise GH¢15 million (US$10.45 million). Over 50 percent of funding is nevertheless obtained from customer deposits. One measure being introduced to ensure greater accessibility of long-term funding and therefore greater affordability and accessibility of mortgages is the proposed Mortgage Funding Trust. This uses the International Finance Corporation's partial credit guarantee of up to US$35 million to support the sourcing of long-term, local currency-denominated funding.

Ghana's pension industry is small with only nine percent of the labour force being contributors. The country has a well developed microfinance sector that is beginning to make inroads into housing such as HFC Bank, which is offering housing loans in collaboration with CHF International. HMF loans range up to US$2 000. ProCredit, a MFI in Ghana also launched a housing improvement loan in 2006. Microfinance operations, like conventional banking, suffer from the lack of long-term funding sources.

Ghana has some way to go to create the necessary systems to support mortgage lending although it is registering some progress. The country's 2009 rating on the World Bank depth of credit information is zero, although this should improve with time. This is because a Credit Reporting Law has only just been enacted with one credit bureau subsequently coming into operation. The country has consumer protection legislation for mortgage financing through the Borrowers and Lenders Act 2008 coupled with Mortgage Finance Act 2008. A national identification exercise is also underway. These measures are expected to improve the environment to facilitate lending by banks and non-bank financial institutions

Affordability

The cost of borrowing is still very high in Ghana. As of April 2010, the lending rate among many banks hovered at the 30 percent mark. Loans to Values (LTVs) vary but are all generally not exceptional; HFC lends with an LTV of 80 percent. Ghana Home Loans has an aggregate LTV of 54 percent. There are some short terms for loans, as little as six months to two years, although 20 year loans are available. Most formal housing units are also beyond the affordability of the majority; a basic one bedroom semi-detached house costs US$25 000. The monthly mortgage will be US$250 a month and requires that the prospective mortgagor be earning about US$750 a month to qualify. In Greater Accra the average annual household income was US$1 402 or US$115 a month. Ghana has historically suffered a high level of non-performing loans. This has been attributed to a combination of poor "sometimes fraudulent" lending practices, weak management and ineffective loan repayment and follow-up systems.

Housing supply

As much as 90 percent of Ghana's housing stock has been produced through self-build. Residential property construction, previously slow, has changed according to the Ghana Real Estate Developers Association. Since 2005, completions and new building plan approvals have increased. Permit approvals for registered real estate developers and parastatal real estate developers have more than doubled. This has not changed the predominant self-build form of housing delivery, however. There is some delivery of housing by the government. Players include the Social Security and National Insurance trust and the State Housing Company. Housing developments driven by the state, which primarily targets the public service have, however, been unable to significantly dent the demand. Over the 10-year period 1991-2000, state housing institutions produced less than 40 000 mortgageable units. Private sector players include Rigimanuel Grey, NTHC Properties, Trassaco Estates Development, Lakeside Estate Ltd, Devtraco, Salem Investment, Flexcon and Civil Master Company. They have also not delivered sufficient quantities of housing across income bands. The country thus suffers from a substantial housing shortage estimated at one million units in 2009. Recently, 50 000 acres of land have been acquired by the government for its national housing programme. This initiative is intended to incentivise private developers to cater for all income levels through provision of land. Some new projects on the cards include 200 000 housing units worth US$10 billion, the construction to be funded by the STX Group construction firm. About half are intended for government employees and the other half for sale to the public.

Property markets

Demand for housing has accompanied what has been generally good economic performance. There has been a gradual rise in incomes of middle-class Ghanaians accompanied by lively property markets. A significant rise in the number of Ghanaians living abroad who want to own houses back home, foreign buyers of residential property, and foreign investment by multinational companies into the country have contributed to the growth in the market.

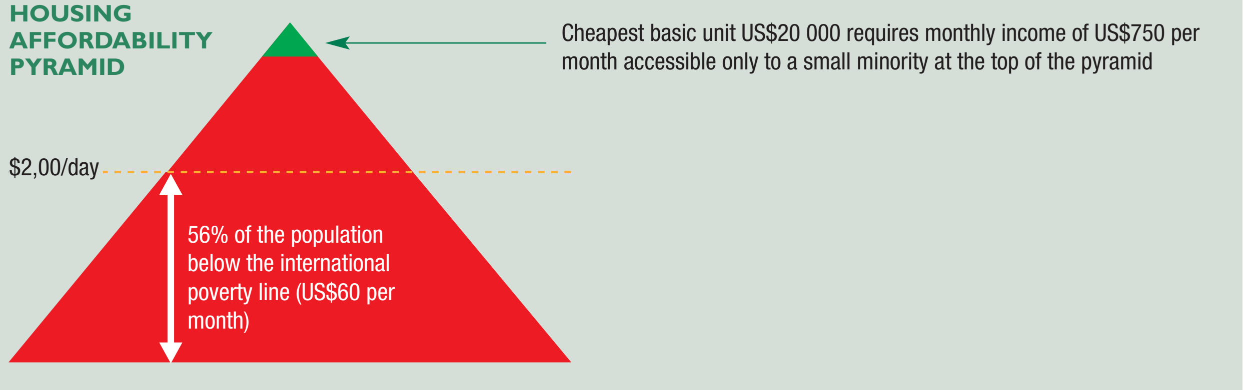
Policy and regulation

The land administration system remains the Achilles heel of Ghana's housing finance system. Ghana is ranked second from last in the registry inefficiency index of the IFC'sFinancing Homes Database. The time needed to register a title in the country is over 120 days, one of the longest among the countries surveyed. Foreclosing a property through the required judicial methods is about 700 days, with the judgment phase taking over 500 of these. Again this was a poor performance among the 42 countries surveyed. Ghana's land administration system is characterised by the coexistence of overlapping systems, namely traditional, state and private. It is not uncommon for land claims to clash and land is often the subject of litigation. This and unreliable title documents intensify the risk of mortgage lending, explaining why banks in Ghana often shy away from lending or do so at a premium. Reforms to the land administration system have been ongoing although their results are yet to be felt. Ghana is yet to finalise its housing and shelter policy, which has been in draft form for the last three years.

Opportunities

A growing, relatively stable, well-managed economy provides prospects for even greater demand for housing, currently recognised to be huge. The entry into the mortgage space by new and specialised mortgage financiers such as Ghana Home Loans, which has since 2006 increased its lending activities, shows that the housing finance sector still provides opportunities. With greater awareness and acceptance of mortgages products in the country and finalisation of reforms to the land administration system, the mortgage industry has room for more players. The already established microfinance industry that has branched into housing provides an additional area of housing finance opportunity, one which has the potential to cater for many more Ghanaians.

HOUSING AFFORDABILITY PYRAMID



Kenya

Key figures	
Population^	39 million (urban 20.7%)
Population growth rate urban^	3.3%
GNI per capita^	US$1 550 (2008)
GDP % growth rate ▲	2.1% (2009)
Main urban centres	Nairobi (capital), Mombasa, Kisuma
Currency	Kenyan Shilling (KSh)
Employment†	
Wage and salaried workers	Not available
Informal sector	36.4% (1999)
Poverty levels†	
Population less than US$2 per day^	40% (2005 – 2006)
Population below national poverty line†	52% (1997)
Financial Services Access	
Bank branches per 100 000 *	4
Access to housing finance	Not available
FinScope financial exclusion ■	32.7% excluded
Macro economic financial indicators	
Central Bank Discount Rate°	6% (March 2010)
Average bank lending rate°	14.29% (July 2010)
Rate on deposits°	3.85% (July 2010)
Lending by banks to the private sector	
Credit % of GDP^	30% (2008)
Mortgages % of GDP	3.3%
Cost of building indicator	
Cost 50 kg bag cement [a]	US$10

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° Central Bank of Kenya
▲ IMF (2010)
■ FinScope

Overview

Over the years, macroeconomic reform has created greater economic stability, making the country a prime investment destination in the region. Volatile and high inflation that characterised the mid 1990s, with highs of 31 percent, has been curbed. Today, there is less incentive for banks to invest in high yielding treasury bonds. Greater discipline has been introduced in banking regulations, and the substantial legacy of non-performing loans is unlikely to be repeated. The recent success in passing a new Constitution should catalyse the restructuring of the land administration system and enhance political stability in the country.

Access to finance

The mortgage industry has increasingly grown and become competitive. The main providers of mortgages are Housing Finance, Savings and Loan, East African Building Society, Standard Chartered Bank, Barclays Bank and Stanbic Bank. Lending by commercial banks and mortgage finance institutions to the housing sector at the end of 2009 was KSh92.5 billion (US$1.12 billion), representing about 12.2 percent of total credit advanced. Nevertheless mortgage lending is still accessible to only a tiny minority. There have been some efforts to expand this reach by the industry. New entrants and aggressive marketing has resulted in some newer products. For example, fixed rate mortgages have been made available for between 10 and 20 year terms. Some banks have recently introduced 100 percent financing for the full value of a house. One lender has also introduced mortgage insurance against the risk of a loss of income. The Retirement Benefit Authority in 2009 allowed that pension contributions of up to 60 percent be used to secure a mortgage. This has the potential to leverage assets worth KSh290 billion (US$3.625 billion) and increase access for lower-earning people who have accumulated substantial pensions.

Kenya has an emerging housing microfinance sector. A number of pioneering SACCOs and NGOs are using this lending methodology to provide housing finance for the poor, such as Jamii Bora and Nachu. The government has put in place measures to encourage lending by banks. For example, the Central Bank of Kenya reduced cash reserve ratios for banks in 2009, intended to free up more money for lending. It is nevertheless doubtful that banks were using the already existing cash liquidity allowed.

Kenyan banks have been on an aggressive expansion drive in the region, and are now represented in Uganda, Southern Sudan, Tanzania and Rwanda. In 2009, S&L Mortgages, the housing finance subsidiary of Kenya Commercial Bank (KCB), signed a KSh35.3 billion ($441 million) housing deal with the Government of Southern Sudan to finance the construction of 1 750 housing units for public servants. The Nairobi Stock Exchange has been a useful arena for raising money to fund these activities, with them often oversubscribed. The most recent is the KCB rights issue to raise US$182.5 million, which was unusually undersubscribed by more than US$20 million. Another is the intended floatation of a US$130 million bond by Housing Finance. Kenya has a substantial part of the necessary infrastructure for housing lending to take place. There is a well-established and professional valuation industry. The country's judicial system also allows for non-judicial foreclosure, often considered the most conducive for mortgage lending. The first licensed credit bureau, Credit Reference Bureau Africa (CRB Africa Ltd) was launched in March 2010 meaning coverage is still low.

Affordability

Despite the increased mortgage activity, the vast majority cannot afford a mortgage. The minimum amount offered by commercial banks for mortgage is pegged at KSh500 000 (US$6 250). At current interest rates and a term of 25 years, this requires payment of about US$75 a month. This is out of reach of the majority. Further, there is little or no supply of housing within that price range. Instead, the cheapest and most basic house costs around KSh1 million (US$13 000) through self-build, and KSh2 million (US$25 000) as a finished unit. The increasing cost of land in urban areas is also making it difficult to keep housing within affordable levels.

For the excluded majority, one option has been NGOs such as Jamii Bora, which has introduced micro mortgages for its members who are from slums. Members access mortgages of KSh300 000 (about US$3 750) for a three-bedroom house and KSh495 000 (US$6 187) for a four-bedroom house. The repayment period ranges between five and 20 years. Generally, however, these organisations have been unable to scale up their operations because of limited funding.

Housing supply

There is a housing need of 150 000 houses a year, of which 120 000 are met by slum housing. This means formal housing supply is in the range of 25 000 to 30 000 units a year, with only 6 000 units or around 20 percent catering for low-income groups. One of the biggest impediments to housing supply has been the unavailability of serviced plots in urban centres, a problem affecting housing delivery across all income bands, but especially affecting affordability for lower-income developments because of the added cost of servicing plots. There are also major question marks over the capacity of local government to ensure good quality residential development. A spate of building collapses as well as tragic fires in 2009 highlighted shortcomings in local government enforcement of building and safety standards. As a proportion of mortgages, the secondary mortgage market constitutes as much as 60 percent of transactions. It is nevertheless also restricted by the limited supply of good housing stock, given as much as 50 percent of the existing structures in urban areas are in need of repair and rehabilitation. Mortgageable stock is also generally geographically restricted to the largest towns of Nairobi and Mombasa.

Property markets

A highly speculative property market and high demand for housing has driven Kenya's residential property price inflation steadily up over the last eight years. Even with lower economic growth in the early part of the decade, as well as the aftershocks of the post election violence, the residential property sector has performed well against these odds. According to the housing minister, property prices rose by 100 percent in the capital city Nairobi and by between 30-50 percent in other smaller urban areas from 2004. Indicators within the construction industry likewise point to a construction boom. In Nairobi, the council approved KSh19 billion (US$238 million) worth of buildings for the first three months of 2009, up from KSh12 billion (US$150 million) in 2008. Cement consumption increased by 16.2 percent in 2008/2009 from the previous period. Low-end real estate housing has posted a market value increase of a staggering 200 percent since 1998, and has gained the reputation of providing fantastic profits. The Kenyan diaspora have also contributed to the boom, responsible for almost 35 percent of the mortgage loan volume as non-owner occupied borrowers. Finally, suppliers of housing finance across the board have recorded healthy profits over the last couple of years because of this upward turn in the property market.

Recently the boom has slowed down considerably; local price indices showed a drop-off in 2009 after a four-year surge. A leading real estate agency showed that in 2009, mortgage valuations were down and revaluations up, signalling a review by banks of the quality of their securities.

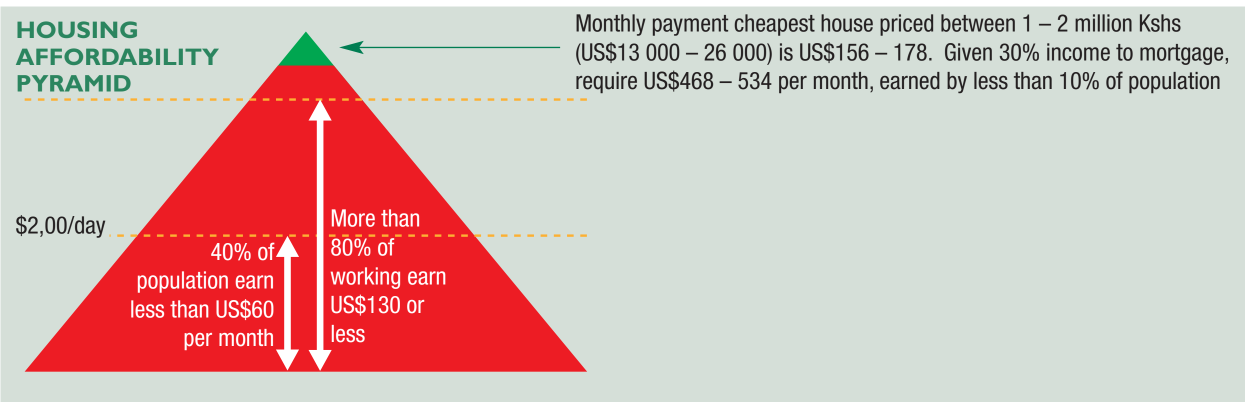
Policy and regulation

Reform is urgently needed in the land administration system specifically targeting laws dealing with collateral, which make mortgage lending unattractive to lenders. Generally, the system is considered inefficient, inaccurate and prone to delays and corruption. In 2009, for example, there was a large scale revocation of illegally provided deeds that shook confidence in the land titling system and affected the appetite for collateralisation by banks. The system is also considered costly and priced out of reach of the majority (obtaining a title can cost US$280). Kenya also needs to reform laws dealing with money laundering. Anecdotal evidence suggests that the property boom in urban centres has been partly fuelled by laundered Somali pirate money.

Some reform has happened; 2009 saw the adoption of the national land policy, a positive step in resolving the protracted question of the reliability, accuracy and legitimacy of the land administration system in the country. To create greater affordability, stamp duty on property purchase was cut from 25 percent to five percent of the principle amount and tax on mortgage reduced to 0.1 from 0.2. Finally, to encourage more supply, developments of greater than 20 low-cost units are exempt from VAT.

Opportunities

Going into the future, property developers believe that the best prospects will be for middle- and low-cost housing in the range of US$15 000 to US$40 000, where demand is highest and supply least. Housing microfinance, which has an established practice, is destined to grow, catering for the lower- and informal-income groups, the majority of the population.



Malawi

Key figures	
Population^	14.8 (19% urban) (2008)
Population growth rate urban^	5.2% (2008)
GNI per capita^	US$810 (2008)
GDP % growth rate ▲	8% (2009)
Main urban centres	Lilongwe (capital) Blantyre
Currency	Malawian Kwacha (MK)
Employment†	
Wage and salaried workers	16% (1987)
Informal sector	Not available
Poverty levels	
Population less than US$2 per day†	89.3% (2004)
Population below national poverty line★	52.4% (2004 – 2005)
Financial Services Access	
Bank branches per 100 000 *	1.8
Access to housing finance	Not available
FinScope financial exclusion ■	55% (2007)
Macro economic financial indicators	
Central Bank Discount Rate°	6.75% (March 2010)
Average bank lending rate°	19%
Rate on deposits°	3% (February 2010)
Lending by banks to the private sector	
Credit % of GDP^	11.4% (2008)
Mortgages % of GDP	Not available
Cost of building indicator	
Cost 50 kg bag cement	US$17.24 (March 2010)

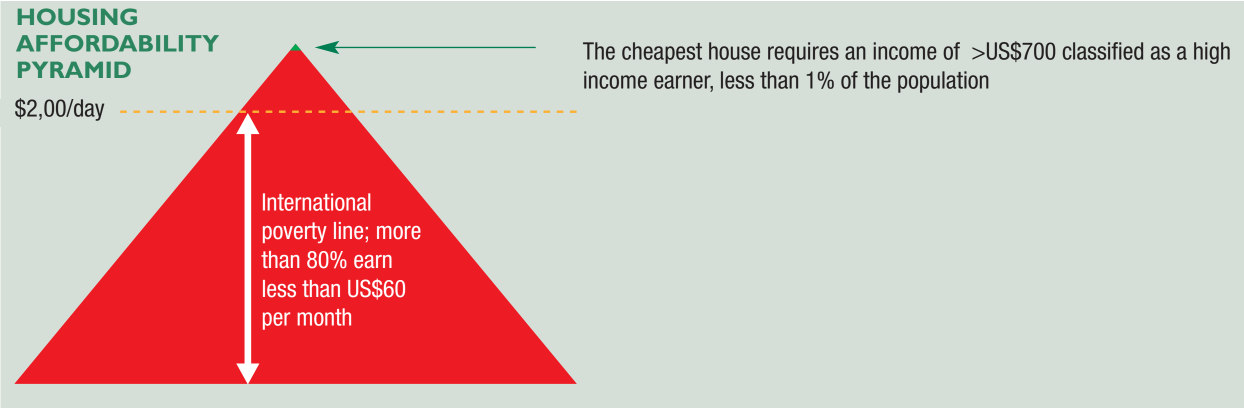
^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° Reserve Bank of Malawi
▲ IMF (2010)
■ FinScope 2007
★ Manda (2007);

Overview

Malawi has a relatively small urban population, less than 15 percent, and its two largest cities Blantyre and Lilongwe have less than one million inhabitants. This presents a window of opportunity in managing future urbanisation going forward, as the country rapidly urbanises at over 5 per cent per year. Historically, volatility of key economic indicators such as inflation, interest rates and exchange rates (for forex loans) made anything but short-term loans unattractive to lenders and borrowers. Malawi still has a lending industry that is more inclined to lend to short-term, low-risk, high-return government securities, although the return on treasury bills (T-bills) has reduced significantly. The economy has continued to grow steadily over the first seven months of 2010, as uranium output at the Kayelekera mine has been scaled up, tobacco production has been strong and the country has experienced another reasonable harvest. The country is however overly reliant on rain fed agriculture, especially tobacco farming. This points to the urgent need to diversify the economy.

Access to finance

Malawi's banking system has emerged from the global financial crisis well capitalised, reasonably profitable and with a low ratio of non-performing loans to total loans. Low penetration of formal banking and financial services characterises the country, although access to financial services has been improving mainly because of the entry of new players in the banking industry. Before 1989, only the New Building Society (which converted to the NBS Bank) could offer mortgage finance. In the 20 years of its operations, it lent a very modest number of mortgages, in total less than 1 000. Currently, it has an accumulated a loan portfolio of MK6 billion (US$40 million). The mortgage market has since broadened with new players including the National Bank, Standard Bank, Indobank, Ecobank and Malawi Savings Bank. Strict eligibility criteria including a 20 percent cash deposit, a minimum of six months history with a bank and three months of payslips restricts access to mortgage finance. Nevertheless mortgages are increasing slowly and, significantly, private sector credit grew by 45.2 percent from the previous year to December 2008. Active in the housing sector for the poor are NGOs such as Habitat for Humanity. Since commencing operations in 1986, it has helped build nearly 6 000 houses in both urban and rural areas. The organisation operates revolving funds that provide interest-free building materials. It has recently entered into an arrangement with a microfinancier, FINCA Africa, to begin lending for housing microfinance. The Mchenga Fund in conjunction with the Centre for Community Organisation and Development has a housing microfinance product targeting the poor. Recently, Select Africa entered the housing microfinance space. There is, however, a general lack of funding for the small HMF lenders, and the restriction to using only members' savings for housing means they do not have sufficient funds to loan money. The country's modest pensions industry is mainly invested in equities, T-bills and property development. Pensions are not generally used for lending for housing finance. Two other factors limiting access to housing finance are the shortage of mortgageable tenure security and the lack of a national identification system. There is a small valuation industry of less than 50 registered valuers. Most banks have excess liquidity – their funds consisting primarily of a combination of equity plus retail funds from savers. Some have external lines of credit, but only for special schemes such as SME lending or for access to foreign exchange. The main source of funds for the few mortgages remains retail funds and most surplus funds are instead invested in T-bills (there are no bonds).



Affordability

Malawi has higher lending spreads than other SSA countries, as high as 16 percent compared to the SSA average of seven percent. It has been argued that higher bank overhead costs and relatively low productivity compared to peers has contributed to this. Further, the current funding base, through own retail funds, has meant that extension of loans for greater than 10 to 15 years is unusual. The exception is Standard Bank's 20 year mortgage. Fundraising through the capital markets has been limited – the NBS Bank, the biggest mortgage lender, is partially listed on the Malawi Stock Exchange and raised money through the capital markets. NBS Bank provides a small mortgage of MK500 000 (US$3 300), although typically the least expensive, entry-level house costs around MK2 million (US$13 200). Given that only 30 percent of income is allowed towards servicing mortgage payments, the total income to be earned by a borrower for this house would be MK107 200 (US$710). This means that access to the very cheapest house is available only to the highest income earners, comprising less than one percent of the population. It is possible, however, for the smaller NBS Bank loan to be used for home improvements, or even incremental housing construction.

Housing supply

Individual builders dominate the housing construction landscape with 90 percent of houses being self-built. For the remainder, Malawi Housing Corporation (MHC) and a few private sector players are the principal housing deliverers. The MHC was established to develop housing estates for both high-income and low-income earners. The high-income groups, largely public servants, were provided for through the construction of conventional houses ready for occupation. The low-income groups were provided for through the development of Traditional Housing Areas. Since inception, only about 10 000 units have been built countrywide. Malawian urban centres have a shortage of affordable housing for the middle- and lower-middle-income bands. Because of rapid urbanisation and inadequate housing finance, among other things, demand remains unsatisfied. The housing situation also started to worsen because the MHC stopped housing development when government stopped annual budgetary allocations to state organisations. The policy of build and sell, introduced in the mid-1980s, also did not increase the MHC's capacity to build more houses.

Property markets

The housing markets have registered increased activity because of high demand. Thus NBS Bank, for example, saw its mortgage advances rise from MK3.8 billion (US$25 million) in 2008 to MK4.8 billion (US$31.6 million) in 2009. Nevertheless there is a real constraint in the supply of housing, and in the recent past this has caused rapid property price rises. The supply constraint also acutely manifests itself in the resale market; there is limited existing mortgageable housing stock, and most formal housing is in slum areas – 60.9 percent of households in formal housing live in areas with 25 percent or less slum dwellings; 12.7 percent live in areas where 25-50 percent of stock is slum, and as much as 20 percent in areas where 75 percent or more stock is slum.

Policy and regulation

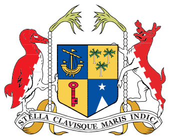
The land administration system in Malawi needs reform in a number of key areas. Firstly, it is estimated that as much as 90 percent of land is customary land. However, to date there are no defined laws that deal with property rights of customary land, resulting in uncertainty on the mortgageability of this type of tenure. Further, transferring customary property rights is difficult. Secondly, the system is generally inefficient; it takes up to 118 days to register land, a considerably long and complex process that slows down the mortgage system. Thirdly, coverage by the formal mortgageable tenure system is only eight percent of the land, almost all confined to urban areas.

Enforceability of collateral should be improved as banks have expressed a lack of confidence in the legal system. This has resulted tighter eligibility criteria, which limits access. Government policy does not engage sufficiently with the issue of housing finance markets: the Malawi Growth and Development Strategy does state that the availability of housing finance is a key barrier to increasing home ownership and improving the quality of shelter, but this is only in passing. The Draft National Housing Policy 2007 advocates broad access to housing for all, decentralisation, improving urban land markets, upgrading informal settlements and improving the quality of rural settlements, but this is yet to move beyond paper. There have been some positive reforms in various sectors. The Reserve Bank of Malawi drafted the Financial Services Bill 2008, intended to strengthen the legal framework for providing financial services and consolidating supervisory functions. The government has also recently passed a law to establish a Credit Reference Bureau. Malawi also has a draft consumer protection law for financial services.

Opportunities

Given the predominant self-build method used in Malawi and the existence of a budding microfinance industry, lending for housing microfinance has good potential for growth. Growth of the middle class has also boosted the mortgage market. Nevertheless, this potential can be fully met only with substantial reform of the land administration system, and sustained and prudent macroeconomic reform and management. Greater competition in the banking industry has spurred on the mortgage markets, and access to mortgages will be greatly enhanced if this trend is sustained.

Mauritius



Key figures	
Population^	1.1 million (42% urban) (2008)
Population growth rate urban^	0.8% (1990 – 2008)
GNI per capita^	US$12 570
GDP % growth rate ▲	1.5% (2009)
Main urban centres	Port Louis (capital)
Currency	Malawian Kwacha (MK)
Employment	
Wage and salaried workers†	80% (2007)
Informal sector	Not available
Poverty levels	
Population less than US$2 per day✖	<1.5% (2006/2007)
Population below national poverty line✖	(Proxy) 7.9% (US$124) (2006/2007)
Financial Services Access	
Bank branches per 100 000 *	(Proxy) 80% (2007)
Access to housing finance ❖	(Proxy) 16% (2000)
FinScope financial exclusion ■	(Proxy) 80% (2007)
Macro economic financial indicators	
Central Bank Discount Rate°	3.96% (July 2010)
Average bank lending rate°	8 – 9% (July 2010)
Rate on deposits°	4 – 4.75% (July 2010)
Lending by banks to the private sector	
Credit % of GDP^	87.7% (2008)
Mortgages % of GDP	Not available
Cost of building indicator	
Cost 50 kg bag cement ★	US$5.3 (September 2010)

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° Bank of Mauritius (2010)
▲ IMF (2010)
■ FinScope 2007
★ State Trading Corporation
✖ Central Statistics Office
❖ Mauritius Housing Company (2007)

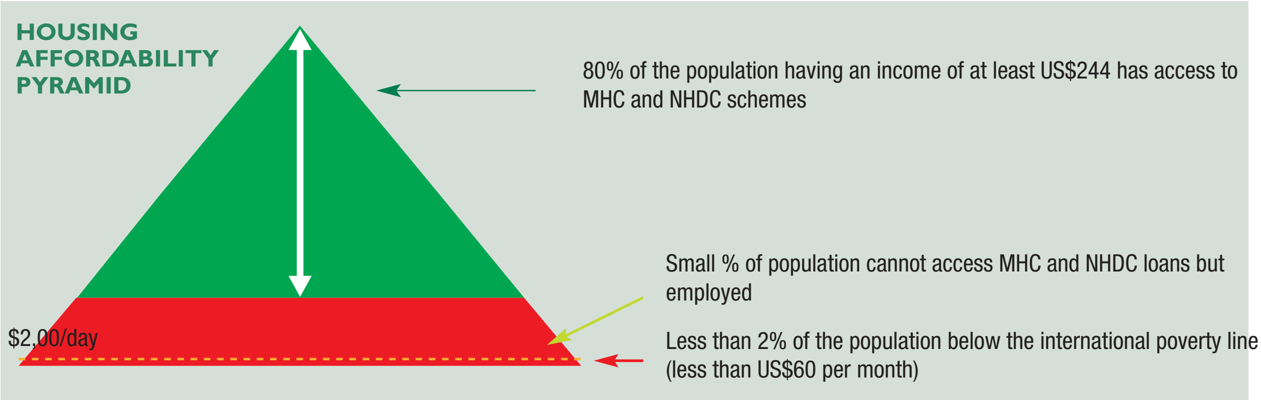
Overview

Mauritius is a well run economy with sound political and economic management practices. The *2009 Ibrahim Index of African Governance*, which measures governance, ranked it highest among African nations for "participation and human rights" and "sustainable economic opportunity", as well as earning the highest score in the index overall. Mauritius came second in "rule of law", and fourth in terms of "human development". Mauritius has largely weathered the global recession despite a fall in tourist arrivals by six percent. It is predicted this sector will pick up by mid 2010 as European markets improve, considering 60 percent of its tourists originate there. In the short term, sugar, another major income earner, will benefit from increased demand from ethanol producers and lower global stocks in 2010. Textile and clothing manufacturing in its Export Processing Zones areas should also rise as markets in Europe and America recover. In the long term, Mauritius is poised to see gains in service sector employment, replacing declining employment in the agricultural and manufacturing sectors, as trade privileges it has taken advantage of are phased out.

Access to finance

Mauritius has a healthy banking industry with 18 banks, of which two, the Mauritius Commercial Bank (MCB) and the State Bank of Mauritius (SBM), are among the largest banks in the East African region. Despite the tough operating environment in 2009, banks remained strong, liquid and profitable. Like the majority of banks on the continent, Mauritian banks had limited involvement in complex structured financial products and low exposure to toxic assets, shielding them from the global banking problems. Loans and advances by the banking industry to the private sector have increased by more than eight percent year-on- year as of July 2010. Mortgage lending has also been on the rise. The SBM for example saw consumer credit rise by 3.6 percent as at June 2009. Much more notable was growth of 17.1 percent in mortgages, for the portfolio to stand at Rs21.8 billion (US$710 million). The MCB saw mortgage advances for the year increase from Rs6.87 billion (US$220 million) in 2008 to Rs8.3 billion (US$270 million) in 2009. A sign of economic stress among borrowers has been the rise by 13.8 percent in non-performing loans (NPLs) across all banks. However, the total NPLs as a ratio of total advances, at about two-and-a-half percent, has been contained. Penetration of financial services is generally good, with 80 percent of Mauritians having bank accounts. The use of mortgage is also generally high. According to the 2000 Mauritius Housing Census, 47 000 housing units were mortgaged representing almost 16 percent of the country's housing stock.

The government uses parastatals such as the Mauritius Housing Company (MHC) to create greater reach. The MHC is a housing finance provider as well as developer. Through the MHC, a subsidised Government Loan Scheme (GLS) is provided to lower-income earners. The Mauritian government further guarantees loan capital obtained by the MHC from various sources of funding both locally and overseas. Another government driven scheme to increase affordability is through the National Housing Development Company (NHDC). This parastatal was set up in March 1991 to serve low-income Mauritians. It offers both fully developed units and sites and services at subsidised rates. Mauritius has a relatively large pensions industry and 51.4 percent of the labour force are contributors. The national pension fund is also involved in the housing sector and, for example, lends money to MHC. There are no private credit bureaus and the public bureau's coverage was only 37 percent of the adult population as of 2009. The depth of credit information therefore needs improvement.



Affordability

Affordability at the lower end of the income spectrum is provided through the GSL loan channelled by MHC. It has a government-subsidised interest rate of 6.5 percent for the first five years then eight percent for another five and ultimately 10 percent for the remaining period. A maximum loan amount of Rs325 000 (US$10 585) is provided. Up to 20 percent of the loan amount can be drawn as a government grant. Terms are for 25 years and construction of the house is on land belonging to the client or leased from the government. Further, savings in the form of regular contributions on a monthly basis within a period of 12 months are required. For a term of 25 years, the monthly payment required for the maximum loan amount will peak at Rs2 487 (US$81) a month, meaning a monthly income of more than US$265 is needed to qualify. For lower loan amounts, which can be used for housing improvements, lower incomes qualify. The NHDC site and service scheme provides applicants a portion of state land through a lease. There is an income criteria, requiring a monthly income of between Rs7 500 (US$244) and Rs16 000 (US$521) to qualify for the land. To put this in perspective, the average monthly earnings in the lowest paid sectors, the textile and mining and quarrying sectors, were Rs8 274 (US$270) and Rs6 870 (US$223) respectively. This means that while the products do cover the majority of the population, a small minority of the working population, as the lowest paid, misses out. Further, Mauritius in 2009 had an unemployment rate of around seven percent or over 40 000 people. The country's poverty level, according to the Central Statistics Office, is around 1.5 percent of people earning below US$2 a day. Thus the much greater access to housing finance in the economy, more than any other surveyed country still means a small minority cannot access housing. These people are increasingly turning to squatting. More market driven mortgages in the country also have products with relatively easy terms, when compared to the region. For example, the MHC Home Loan Plus product offers a minimum loan of Rs300 000 (US$9 770) for a relatively long maximum term of 35 years, at 90 percent loan to value (LTV) for a completed unit, or 100 percent LTV for construction. Loan repayment to income ratio allowed is 40 percent.

Housing supply

According to the 2000 housing census, 10 000 dwellings needed to be constructed annually over the 20-year period to 2020 to meet demand as well as deal with housing backlogs. Despite this, currently, there is a recognised housing backlog especially at the lower end of the market. The NHDC produces about 500 units a year, which is insufficient and this has created a waiting list of about 20 000 units. The government encourages self-build at this lower income level through the NHDC scheme. On acquiring a plot of land through the scheme, beneficiaries can access services provided by architects of the MHC at Rs2 a square foot. Financing for construction may also be obtained at concessionary terms from the MHC. Further, the government provides a grant for slab casts worth Rs60 000 (US$2 000) and building materials worth Rs35 000 (US$1 140) for the construction process.

Property markets

The global economic problems affected the higher-end property market in Mauritius, although this market is set to pick up in 2010. This segment of the market is highly coupled to the economic fortunes of Europe and the US because of the deliberate efforts by the government to target greater foreign ownership here. This has been done through Permanent Residence Scheme, Integrated Resort Scheme, and Scheme to Attract Professionals for Emerging Sectors.

Most housing stock in Mauritius is of good quality, a platform for active property markets outside the high-end tourist segment. According to the World Bank, 91 percent of the dwellings are durable. The Mauritius Housing Census of 2000 provides that 99 percent of households had electricity in 2000. The percentage of households which obtained their water supply from fountains, wells or rivers dropped from 10.5 percent in 1990 to 1.8 percent in 2000, and 89 percent had flush-type toilets. In terms of ownership quality, 99 percent of the housing units enumerated were privately owned, with virtually all occupied as a principal residence.

Policy and regulation

Mauritius generally has investor-friendly policies and regulations. This has been borne out of deliberate government action to make it a competitive investment destination. The World Bank ranked it first in Sub-Saharan Africa in their Doing Business in 2010 survey. As of 2009, for example, it took 26 days to register property (aside from South Africa at 24, the best in the continent). The tax regime is also especially attractive, intended to turn the country into a global financial centre.

Opportunities

Mauritius has been emerging as an international financial centre since the early 1990s. It is becoming a favoured country for structuring cross-border investments into Asia and Africa and particularly into India and China. This reputation as an offshore financial haven should see it continue to become an important player in international financial flows. The country also has preferential access to markets in the Africa region (such as the African Union, Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the Indian Ocean Rim-Association for Regional Co-operation (IOR-ARC) pointing to its strategic location. State investment in educating its population should see it continue to grow its financial and services sector. All these factors point to greater opportunity in middle- to higher-end housing finance, as foreign investment and wealth increases in the country.

Mozambique

Key figures	
Population^	22 million (urban 37%) 2008
Population growth rate urban^	4.1% (2008)
GNI per capita^	US$770 (2008)
GDP % growth rate ▲	6.3% (2009)
Main urban centres	Maputo (capital) Beira Matola, Nampula
Currency	Metical (MZN)
Employment†	
Wage and salaried workers	Not available
Informal sector	Not available
Poverty levels	
Population less than US$2 per day†	90% (2002 – 2003)
Population below national poverty line^	19% (1998 – 1999)
Financial Services Access	
Bank branches per 100 000 *	2.9
Access to housing finance	Not available
FinScope financial exclusion ■	78% excluded (2009)
Macro economic financial indicators	
Central Bank Discount Rate	4% (Feb 2010)
Average bank lending rate°	16% (Feb 2010)
Rate on deposits°	2%
Lending by banks to the private sector	
Credit % of GDP^	18.4% (2008)
Mortgages % of GDP	Not available
Cost of building indicator	
Cost 50 kg bag cement	US$7.3

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° All Africa.com
▲ IMF (2010)
■ FinScope 2007

Overview

The civil war in the late 80s and early 90s drove the rural population into urban areas, giving the country a high urbanisation rate. This has changed, however, and Mozambique is bucking the continental trend as the growth of large cities such as Maputo, Matola and Beira is slowing down. The country has had rapid economic growth and foreign investment, although it is still heavily reliant on donor funding. All land is owned by the state and may not be bought or sold. Formal land sales therefore involve selling only improvements to the land wherein the land rights or DUAT (Direito de Uso de Aproveitamento da Terra) then get automatically transferred.

Access to finance

Mozambique's banking industry, while profitable and liquid, has tended not to lend to the private sector. While there has been a definite increase in credit to the construction sector, by 50 percent from October 2009, lending criteria remains stringent. The retail housing finance market is small, with only 3.8 percent of total bank credit being extended for housing loans in 2008. Formal banking institutions include Banco Internacional de Moçambique, Barclays Bank and Standard Bank. Banks and loan terms range from 12 to 25 years. There is a vibrant microfinance industry in Mozambique, and the country has specialised microfinance laws. A nascent housing microfinance sector is also emerging; Procredit, for example, grants housing loans. The law in Mozambique provides a high degree of security of land tenure, which provides ideal conditions for incremental self-build methods. Construction loans, commonly provided in many other countries, are not readily available from formal banks, further increasing the potential for specialised HMF lending.

Less than 10 percent of the population is covered by the social security system in the country, which limits extending pension savings for housing finance. Mozambique has draft consumer protection laws and a public credit registry was established in 1997. While the latter has operated successfully since then, its coverage of borrowers is low and greater buy in from banks is necessary to reduce non-compliance with data submission requirements. It also needs to expand to include non-bank financial institutions and other lenders.

A state sponsored parastatal, the Housing Promotion Fund (Fundo de Fomento de Habitação or FFH) was founded to increase access to housing for people with few resources. Currently working in 35 districts and 14 municipalities, it provides access to housing in three ways. Firstly, it acquires land, services it and then sells fully serviced sites for construction of basic housing. Demand for these plots is much higher than supply. Secondly, it provides low-interest loans for modest amounts, repayable over periods of 5-20 years. While banks do not accept an FFH plot as a guarantee for a loan, the loan does help beneficiaries to start building incrementally. Finally, the FFH builds a limited number of houses. From 1996-2004, FFH laid out 7 488 plots and funded 1 021 new houses throughout the country. In practice, the FFH has targeted a relatively small number of middle-income households. Further, rates of loan recovery have not been exemplary, currently standing at 70 percent. It plans to build 600 houses in the cities of Maputo, Matola, Beira, Quelimane and Nampula in 2010, as well as install basic infrastructure for 20 000 plots of land in municipalities.

Affordability

Supply constraints and growing demand means that house prices are beyond the reach of middle-income Mozambicans. To illustrate, the Joaquim Chissano Foundation recently launched a housing project in Maputo costing US$100 million to build 1 836 homes, the cheapest costing US$25 000 and most expensive US$120 000. According to the project promoters, a couple with a joint income of 25 000 meticals (about US$680) a month would be able to pay off the mortgage on one of these homes over 30 years. This is a large sum by Mozambican standards where statutory minimum wages range between 1 593 and 3 483 meticals (US$43 to US$95).

Housing supply

As access to mortgage loans is difficult, many low- and middle-income families build their own housing. In the north and centre of the country in particular, houses are built with local materials and self-built housing is affordable. This is more difficult in the larger urban centres where local materials and building land are in short supply. One of the biggest constraints to housing supply is the severe shortage of serviced land. Further, the typical procedure for land allocation from the state is long. This unmet demand for land suitable for housing often results in down-raiding by higher income earners of plots occupied by low-income groups.

Property markets

Mozambican towns and cities retain the spatial legacy of the colonial period with a central area (the "cement city") formally laid out with some public services. Areas surrounding these have a mix of unplanned occupation and formal laid-out areas with plots for self-build. Recent history has seen a steep increase in prices of houses in the cement towns, growing at about 100 percent per annum. Today these may be worth between US$75 000 and US$1 million. The purchase price for a flat in a high-rise building can be anything above US$120 000. These price increases have resulted in the gentrification of some small, relatively well-maintained areas of the cement city. There is some limited new development in Maputo mainly in the form of gated residential estates (condominiums) or blocks of flats.

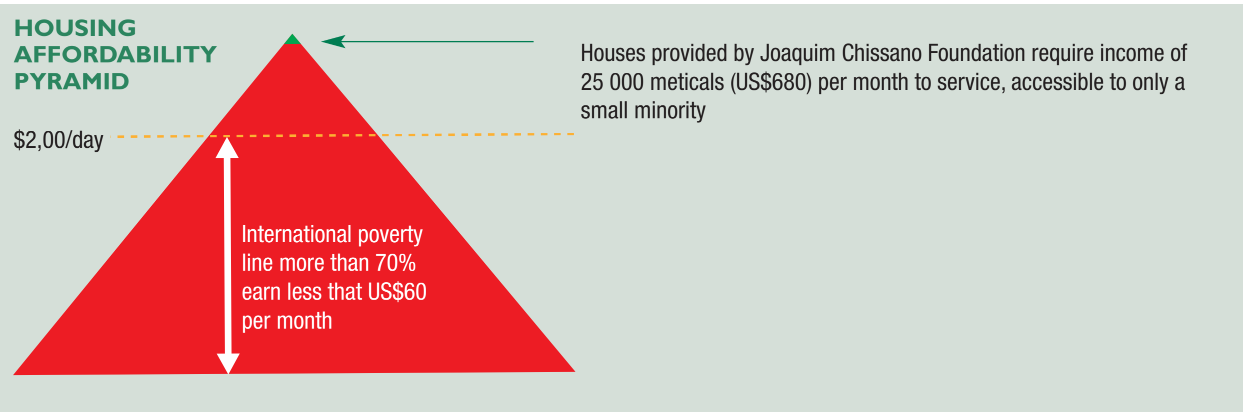
Most of the urban population lives in less formal areas, roughly 75 percent of the population. According to the World Bank, only 20 percent of the dwellings in urban areas are "durable" meaning they are made of formal construction materials and expected to maintain stability for twenty years or longer under local conditions with normal maintenance and repairs. Because overall housing quality and access to public services remains poor for the majority, there is little mortgageable stock. Further, secondary sales are also limited. Apart from the fact that they are difficult due to the protracted procedures and consents necessary because of leasehold tenure, owners also avoid the risk of forfeiting current rights in the process of sale (fearing for example the title may be questioned). Some rented housing stock converted to private ownership is emerging from the government's policy since 1991 of divestiture to existing tenants at concessionary prices and interest rates. The majority of this stock has however already been sold.

Policy and regulation

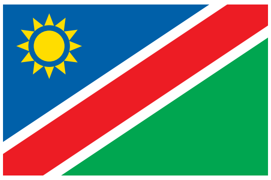
Systems and regulations around land administration need reform. A good example is the registration and cadastre systems, which cover limited urban areas; in Maputo for example, a mere ten percent, mainly in the cement town area. This limits the amount of formally financeable land through mortgages and contributes to a general lack of clarity on property titles. Greater coverage of land by the formal administrative system is also needed to improve mortgage markets. Collateral enforcement through the regular court systems is long (on average three years) and there are many instances of fraudulent titles. Traditional authorities have been fairly competent in administering tenure rights in the vast tracts of customary land; however, using this land as collateral is limited. Weak condominium laws have resulted in otherwise formal and potentially marketable high-rise flats turning into slums. In mitigation, the government Housing Policy and Five Year programme 2010-2014 has given housing high priority status. However, these issues must be addressed if the programme is to achieve its goals.

Opportunities

Mozambique has had healthy economic growth and foreign investment in the last few years. While this has led to a boom in the higher-end property market, the need for greater supply of affordable housing is huge. Housing finance is still largely cash-based, and there is a dire need for long-term housing finance. Greater mortgage lending will necessarily require a more efficient land administration system. This is particularly important in this country where all land is owned by the state, and the need for state consent is onerous. There is enormous potential for HMF; a pre-existing microfinance industry, self-build being an accepted building method, provision of starter plots by the FFH, and secure tenure among urban dwellers create an ideal environment.



Namibia



Key figures	
Population^	2 million (Urban 37%) (2008)
Population growth rate urban^	2.9%
GNI per capita^	US$6 240 (2008)
GDP % growth rate ▲	-0.7 (2009)
Main urban centres	Windhoek (capital), Walvis Bay Swarkopmund
Currency	Namibian Dollar (N$)
Employment†	
Wage and salaried workers	72.8% (2004)
Informal sector	Not available
Poverty levels▲	
Population less than US$2 per day^	62.2% (1993)
Population below national poverty line	Not available
Financial Services Access	
Bank branches per 100 000 *	7.3
Access to housing finance	<10%
FinScope financial exclusion ■	51.7% excluded (2007)
Macro economic financial indicators	
Central Bank Discount Rate§	7% (May 2010)
Average bank lending rate§	11.25%; mortgage rate average 11.63% (May 2010)
Rate on deposits§	5.29% (May 2010)
Lending by banks to the private sector	
Credit % of GDP^	45.6% (2008)
Mortgages % of GDP°	32% (2007)
Cost of building indicator	
Cost 50 kg bag cement	US$11.2

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° Bank of Namibia (2008)
▲ Central Statistics Office
■ FinScope 2007
§ Sacredoti (2005)

Overview

Namibia is a middle-income country with relatively high income levels per capita, but displaying great inequality with a Gini coefficient[7] of 74.3 (the highest in the world). Like some of its regional neighbours heavily reliant on the mining sector, Namibia was greatly affected by the global economic downturn when the sector contracted by 45 per cent in 2009, affecting its GDP growth rate negatively. This negatively affected the housing markets, a trend which is gradually changing for the better as economic conditions improve.

Access to finance

Traditionally, lending to households and corporations has been a big part of bank credit and has been increasing, having done so by 10 percent in 2009. In comparison, lending to government and other public organisations fell significantly in this period. A substantial part of this lending by banks – as much as 40 percent in 2009 – is in the form of mortgages. This makes mortgage lending as a percentage of GDP relatively high by continental standards. Eligibility criteria is generally stringent and has become more so in recent times.

To promote enhanced access to financial services, Namibia launched a Financial Sector Charter (FSC) in May 2009 to last until 31 December 2019. The FSC is a voluntary code of conduct for the transformation of the Namibian financial industry. Among its objectives are creating greater access to and affordability of financial products and services. There are specific targets the deal with lending to formerly disadvantaged members of the population, which should encourage even greater lending by the financial sector.

Interest rate spreads continue to be a concern for the Bank of Namibia. The infrastructure to facilitate mortgage lending is fairly well developed. In terms of the World Bank depth of credit information index Namibia scores 5 out of a possible 6, as the country has private credit bureaus with reasonably good coverage. The judicial system scores 8 out of a possible 11 on the World Bank's strength of legal rights index. More needs to be done for certification standards in the valuation industry, however.

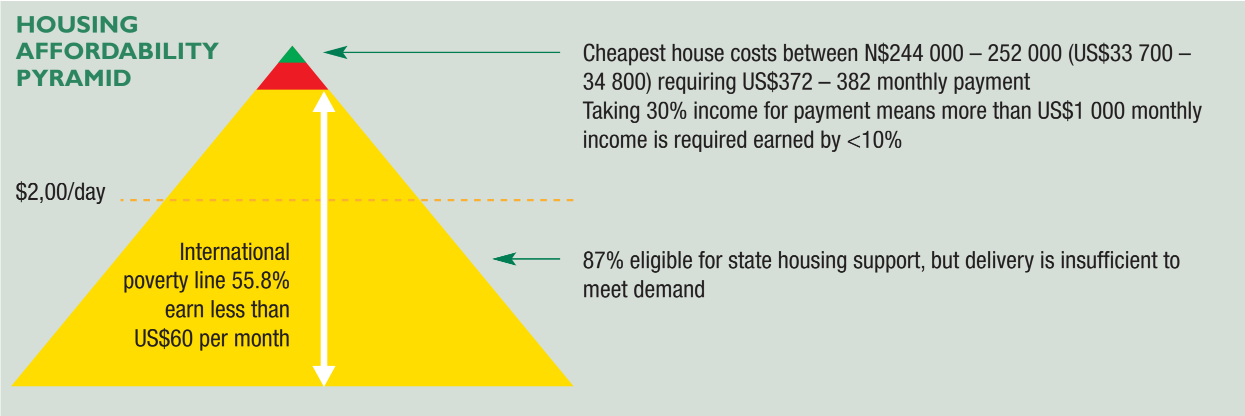
State housing is driven by the Namibian Housing Enterprises (NHE) which targets low-income formal housing. It acts as developer, provides loans for the purchase of its own developments and lets out units that have not been sold. Financing is provided to households based on their ability to make repayments. In 2007, it made loans worth N$440 million (US$60 million). One of the NHE products is a core house, which consists of one or two rooms plus an enclosed bathroom. These houses are intended to form the core of a larger house for extension at a later stage. Pension-based lending for housing is allowed, although concerns have been raised that part of the money is diverted for consumer rather than long-term housing spending. Better enforcement for correct use is needed.

Namibia has a small but growing microfinance sector, and lending for housing purposes is starting to take place, for example by the The Shack Dwellers Federations of Namibia (SDFN).

Affordability

According to the FNB House Price Index, a small housing unit is priced between N$244 000 and N$252 000 (US$33 500-US$34 600). Over a term of 20 years this will cost between N$2 700 and N$2 800

7 The Gini coefficient is a number between 0 and 1, where 0 corresponds with perfect equality (where everyone has the same income) and 1 corresponds with perfect inequality (where one person has all the income, and everyone else has zero income).



(US$370-US$384) a month. As 87 percent of the population earn less that US$200 a month, the cheapest house is therefore not available to the vast majority of the population. Further, supply of houses at this price, which represents the lowest priced formal housing unit, is not always available. Mortgages are also becoming accessible to fewer and fewer people. FinScope survey 2007data showed that the mean age of mortgage holders was 46 years and there were fewer new entrants into the mortgage loan market. The recent recession has had a significant effect on housing affordability levels in Namibia. The proportion of overdue mortgage loans rose from 6.5 percent in June 2009 to 11.3 percent in December 2009. Growth in mortgage credit also slowed to 9.2 percent in 2009, from 12.2 percent in 2008, all attributable to a decline in disposable income, which only grew in real terms by one percent during 2009.

The Namibian Housing Action Group (NHAG), the service NGO of SDFN, caters for the housing needs of lower-income groups. The SDFN is an alliance of savings groups operating in many informal settlements in Namibia. Its principal aim is to mobilise collective savings for the purchase and group settlement of land for their members. The SDFN has also been active in lobbying for a policy that supports incremental development with legal land tenure. The results have been encouraging in Windhoek where residents are allowed to construct basic shelter to meet their needs for accommodation. The understanding is that the housing will be improved at a later date, when it is affordable. Through the Flexible Land Tenure Act, secure tenure is obtained through sales of blocks (multiple plots) to communities that are then responsible for upgrading the sites, including transforming communal toilets and water points to individual household connections. SDFN obtains funding from the state for its Twahangana Fund, the latest being a N$3 million (US$411 000) grant for the 2010/2011 financial year. The Build Together Programme is part of the government's national housing strategy to provide access soft loans to the poor to construct homes. More than 10 000 such loans have been given, for as much as N$40 000 (US$5 480 at subsidised interest rates, requiring monthly instalments of less than N$300 (US$41).

Housing supply

While the housing markets in the higher income bands have done well, Namibia has an affordable housing shortage. For example, from 2000 to 2006, the NHE supplied only 3 245 houses. According to research by FinMark Trust (Kalili et al, 2008) this mainly targets people earning N$ 4600 (US$ 638) - 10 500 (US$1 440) a month, and even lower income earners. This is a modest number of houses, as the target represents over 90 percent of the population. It is noteworthy that while those earning more than US$1 000 a month may qualify for a mortgage, supply of housing priced at this range is not always available. For the 35 percent of the population earning between N$1 500 and N$4 601 (US$205-US$635) a month, and another almost 52 percent of the population earning less than N$1 500 (US$205) a month left out because of the NHEs limited supply, there is the option of seeking financing from organisations such as the SDFN or loans from the Build Together Programme. There are, however, significant backlogs, as these are the largest sections of the population and these organisations, while having some impact, cannot deliver all the houses needed. The commonly used figure for the informally housed who constitute these organisations' beneficiaries is more than 200 000. SDFN for example has delivered less than 2 000 fully built houses, although significantly more households have been provided with tenure security. A significant cause of the problem is obtaining serviced, well-priced land in major urban centres.

Property markets

The Namibian property market has over the last couple of years been affected by the slower economic growth; the FNB House Price Index registered an average decline of -3.9 percent for 2009 as a whole. There are, however, signs of recovery in 2010. The price index is up 27.1 percent year on year as at July 2010, with the easing of economic pressures and a fall in lending rates. Credit to the mortgage sector expanded to an annual growth rate of 10.1 percent during May 2010, although this is being attributed to escalation in size of mortgages rather than numbers. The secondary property market for affordable housing is especially limited because of the restricted supply.

Policy and regulation

The National Development Plan 2 recognises the shortage of affordable housing and advocates establishment of mechanisms to meet this demand. There has been little actual development around these enunciations, however, and the housing gap continues to be a problem. The mortgage market is affected by the limited amount of land that can be used as collateral; urban private land constitutes less than one percent of the land area. Instead, communal land titles dominate, which presents problems for lending, a particular problem experienced by pension scheme loans that often act as collateral substitutes for banks. There is need to clarify the role of communal land in this regard. Also while many occupiers have relatively secure tenure on state owned land, there is reluctance to lend against this form of land security. On a positive note, Namibia has enacted judicial reforms targeting mortgage enforcement. These were to improve proceedings by providing detailed guidance on the process, limiting delays and the possibility of abusive appeals, and eliminating arbitrary decisions and delays. The Flexible Tenure Act has also been cited as a pioneering piece of land legislation in its recognition of incremental forms of tenure and building methodology.

Opportunities

Affordable housing presents the highest potential of an untapped housing market. This not only includes people for whom there are no mortgage products, but also a section of the population which may qualify for loans but are unable to access suitably priced housing. The recognised successes of the SDFN through its group savings and lending methods, incremental approaches to housing, and use of land laws such as the Flexible land Tenure System point to the high potential for housing microfinance. Commercial banks are overexposed to mortgages, which is an ongoing concern in the economy. There have been calls to provide greater opportunities for fundraising through securitisation, for example. This could increase the number of investment instruments and deepen the financial sector, as well as enable local authorities to raise the funds necessary for urban infrastructure development and thus increase the housing provision.

Nigeria

Key figures	
Population^	151 million (urban 48%) (2008)
Population growth rate urban^	4.2% (2000 – 2008)
GNI per capita^	US$1 980 (2008)
GDP % growth rate ▲	5.6% (2009)
Main urban centres	Lagos (capital), Kano Ibadan, Abuja, Port Harcourt, Benin City
Currency	Naira (N)
Employment	
Wage and salaried workers	Not available
Informal sector	Not available
Poverty levels	
Population less than US$2 per day^	83.9% (2003 – 2004)
Population below national poverty line^	34.1% (1992 – 1993)
Financial Services Access	
Bank branches per 100 000 *	Not available
Access to housing finance	Not available
EFInA financial exclusion ■	74% excluded (2009)
Macro economic financial indicators	
Central Bank Discount Rate°	6% (July 2010)
Average bank lending rate°	17.65%; Maximum 22% (July 2010)
Rate on deposits°	1.62% (July 2010)
Lending by banks to the private sector	
Credit % of GDP^	33.9%
Mortgages % of GDP	<1%
Cost of building indicator	
Cost 50 kg bag cement§	US$10

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° Central Bank of Nigeria (2010);
▲ IMF (2010)
■ EFInA (2008)
§ BusinessDay

Overview

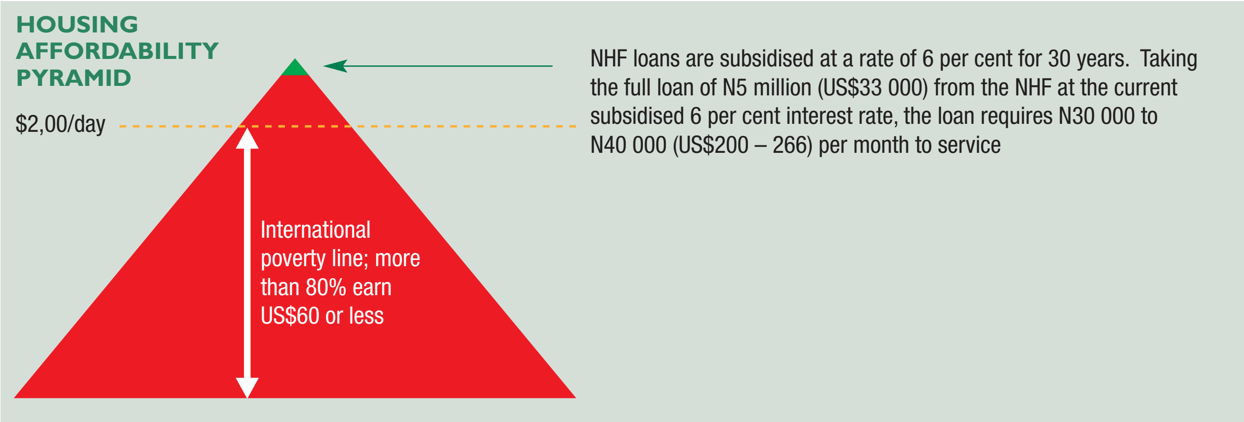
Nigeria, Africa's most populous country and the world's twelfth largest producer of oil is poised for another strong year with 7.5 percent growth anticipated for 2010. Currently, Nigeria's banking sector is undergoing substantial turmoil, with five banks, Afribank, Finbank, Intercontinental Bank, Oceanic Bank and Union Bank deemed to be on the edge of failure. As a response, the central bank is bringing in reforms to improve accounting practices and transparency. With no heavy debt servicing costs, Nigeria has the capacity to invest heavily in crucial infrastructure to make it a more attractive destination for foreign direct investment (FDI) in the future.

Access to finance

Most residential mortgage loans in Nigeria are provided by the existing 24 commercial banks, primary mortgage institutions (PMIs) (institutions specifically established for the purpose of providing mortgages and include the government owned Federal Mortgage Finance Ltd.) and some, usually institutional, employers. Of the approximately 195 registered PMIs only about 20 are active. They have a consolidated balance sheet of which N61.4 billion (US$400 million) is in mortgage loans. To put this loan portfolio into perspective, the largest, Union Homes, has less than 10 000 mortgages originated over a 10-year period, a modest number indeed. In total, the mortgage market is put at a mere N127.5 billion (US$840 million). Mortgage finance is thus very small and inaccessible to the vast majority. Instead, savings, remittances, small loans and gifts from family friends are the more commonly used methods of housing finance in the country.

The Nigerian government uses the Federal Mortgage Bank of Nigeria (FMBN) an apex mortgage institution to avail greater access to mortgages in the economy. The FMBN raises capital through the National Housing Fund (NHF) which obtains funding, mostly by mandatory contributions from salaried employees earning N3 000 (US$20) and above monthly, who must contribute 2.5 percent of their salary. Contributions receive a two percent interest rate, which is repayable at age 60 or on death. Contributions are also expected from banks and registered insurance companies according to pre-prescribed formulas. The Federal Government is also required to make "adequate financial contributions to the Fund for the purpose of granting long-term loans and advances for housing development in Nigeria". For workers, after contributing to the scheme for six months, they are entitled to a mortgage loan of up to N5 million (US$33 000) to be used for house purchase, house expansion or building on a plot that is owned. Loan applications are made through the PMIs and if accepted, necessary funds are paid by the FMBN to the PMI at a rate of four percent. The PMI may make an additional loan at market rate if the borrower requires more. The FMBN-NHF channel has achieved modest results; over 13 years, only US$40 million (excluding developer loans) was provided. Indeed few people can access the loans in this system, described as "grossly inadequate". At present 26 states contribute to the NHF (10 states have no PMIs) and its collection has tripled to more than N1 billion (US$6.6 million) a month and cumulative collections at December 2009 stood at N52 billion (US$342 million).

Like many parts of Africa, long-term funding is a major problem in the Nigerian housing market. There is however increasing use of the



capital markets to raise funds for housing finance in the country. The FMBN in 2008 issued N100 billion residential mortgage backed securities. Union Homes Savings and Loans Plc. introduced its hybrid Real Estate Investment Trust (REIT) N50billion ($US333 million) public offer in 2008. It was, however, undersubscribed. There have been state level efforts at improving mortgage market liquidity; recently Lagos announced plans to begin a mortgage board, and also launched a mortgage scheme seeded with an initial capital outlay of N40 billion (US$264 million), raised from banks for 25 years, to serve as an intervention fund for long-term financing.

There is scope for pensions to be used to fund housing finance, a fact that is increasingly being recognised in the country. The pension industry in Nigeria is relatively small; only 1.7 percent of the labour force are contributors. Nevertheless it holds a substantial amount of long-term liquidity. N1.2 trillion (US$80 billion), of which the Pension Act allows 40 percent to be invested in REITs and Mortgage backed Securities The potential for these instruments has been hampered by the very low loan portfolios held by PMIs, however, and over 80 percent of pension funds have gone into government bonds instead. Nigeria has only begun to create a framework for providing credit information to lenders. The policy initiated by the Central Bank of Nigeria has started yielding results as 21 of the 24 banks in the country have engaged the services of credit bureaus. Over 50 microfinance institutions have also signed up.

Affordability

Like many African counties, the lack of affordable housing is a problem in Nigeria. The NHF loan offering has LTVs that are graduated, between 70 to 90 percent, and the larger the loan, the bigger the down payment needed. Recently, the maximum loan available was increased from N5 million to N15 million, when the previous amount was recognised to be too little to purchase or build a decent house. There is no minimum limit, however, which does allow the possibility of borrowing for incremental housing. NHF loans are subsidised at a rate of six percent for 30 years. Taking a loan of N5 million (US$33 000) from the NHF at the current subsidised six percent interest rate, the loan requires N30 000 to N40 000 (US$200-US$264) a month to service; this in a country where 80 percent of the population earn less than US$60 a month. There are a number of causes for the relatively high costs housing in Nigeria. High building costs are one, with over 60 percent of raw materials being imported and subject to daily vagaries of exchange rate fluctuations. Second is the lack of basic infrastructure, which adds as much as 30 percent to the total costs of the development. Land is also very costly. Inflation is another cause of the high cost of borrowing in the country and has additionally often discouraged banks from lending. The poorest sections of the population are partly served by NGOs such as the Women's Housing Plan Initiative and Habitat for Humanity, which in conjunction with the MTN Foundation has launched a low-cost housing project.

Housing supply

Estimates of the housing shortfall in Nigeria are about 14 million units and the World Bank notes that the country needs to produce about 720 000 units annually for the next 20 years to begin to solve the problem. The rental market is big; about 85 percent of the urban population lives in rented accommodation, spending more than 40 percent of their income on rent. Ninety percent of houses in Nigeria are self-built, with less than five percent having formal title. A substantial amount of work needs to be done to supply serviced land, and infrastructure provision in Nigeria's main urban centres is poor. The government owns a substantial amount of housing stock which it has been selling into the open market from time to time. There are also some small private sector players in housing construction in the country, but they are almost exclusively serving the very high end of the housing sector. Further, they have limited capacity; Nigeria has neither a single indigenous construction company capable of handling large-scale projects, nor a real estate developer that builds more than 100 housing units per annum. The developers rely on bank loans (with interest as high as 27 percent for terms like two years) and cannot access long-term financing that capital markets offer. Besides the private sector, there are the activities of the FMBN, which is also involved in housing construction. In 34 years, it has built only 30 000 houses. One of its most recent efforts is a N2billion (US$13 million) affordable housing project in Kogi State for civil servants.

Property markets

Nigeria has a high-income housing market with demand for good quality housing outstripping supply in many urban centres. However, the fact that very little land is under formal title, as well as the predominance of less than mortgageable quality housing, means that overall the formal housing market in the country is small.

Policy and regulation

The Vision 2020 national strategic plan provides that mortgages will be the foundational sector in growing the country. However, one major handicap towards this goal is the land administration system, which scores poorly continentally in terms of cost, efficiency and transparency. Protracted transaction processes, which include consents from the state governors and onerous fees, contribute to the unattractiveness of mortgage financing. The enormous powers of governors over state land allocation also means that title is prone to political uncertainty and interference. Establishing title to land can be a fraught process. Even in urban areas where title deeds are more common, there can be difficulties in clarifying who actually holds title to land. This title uncertainty often means endless challenges in court taking a number of years. Another hindrance is the fact that 65 to 70 percent of land is still held under customary title, again limiting its utility for mortgage. Finally there is dire need for better land use management at local authority level to create better quality housing stock; fatal accidents caused by poorly constructed buildings are common.

There have been some regulatory and policy changes. The government in the year 2000 went about a number of reforms to spur on the housing sector. These included establishing a Real Estate Developers Association and a Ministry of Housing, and restructuring the housing finance system through the FMBN to introduce among others a secondary market. Computerised land registries are also being introduced, starting with Lagos and Abuja. Reforms to mortgage laws such as the Lagos State Mortgage Bill are being undertaken. There have been some regulatory changes covering the housing finance market. Proposals are on the table to no longer make PMIs the sole originators of mortgages for the NHF, and universal banks, pension funds, insurance companies as well as microfinance banks will in future also have this ability. Foreclosure, which has always been difficult in Nigeria because of legal restrictions, has been eased through direct power of sale of pledged properties to "prevent ill founded court injunctions". Despite these, the Nigerian housing finance system needs much more wholesale reform to improve its functioning.

Opportunities

Nigeria represents a potentially huge market for microfinance lending for SMEs, consumers and housing. Pison Housing Company (2010) points to this high potential of HMF, noting it is the manner in which the vast majority have built in this country historically. Housing co-operatives have been delivering housing to members where government and the organised private sector have failed. With a population of more than 70 million low-income people and a very small mortgage market, HMF has enormous potential. Many self-build properties have appreciated in value in the country pointing to the possibility of HMF products entering into the formal property market and being resold through mortgages.

Rwanda

Key figures	
Population^	10 million (urban 18%) (2008)
Population growth rate urban^	8.5% (2008)
GNI per capita^	US$1 100 (2008)
GDP % growth rate ▲	4.1% (2009)
Main urban centres	Kigali (capital)
Currency	Rwandan Franc (RWF)
Employment†	
Wage and salaried workers†	6% (1996)
Informal sector	Not available
Poverty levels	
Population less than US$2 per day†	90.3% (2000)
Population below national poverty line^	56.9% (2005 – 2006)
Financial Services Access	
Bank branches per 100 000 *	3.1
Access to housing finance	Not available
FinScope financial exclusion ■	52% excluded (2008)
Macro economic financial indicators	
Central Bank Discount Rate	11% (May 2010)
Average bank lending rate°	16.65% (May 2010)
Rate on deposits°	6.86% (May 2010)
Lending by banks to the private sector	
Credit % of GDP^	12.1% (2005)
Mortgages % of GDP	2.6% (2007)
Cost of building indicator	
Cost 50 kg bag cement	US$15

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° National Bank of Rwanda
▲ IMF (2010)
■ FinScope 2008

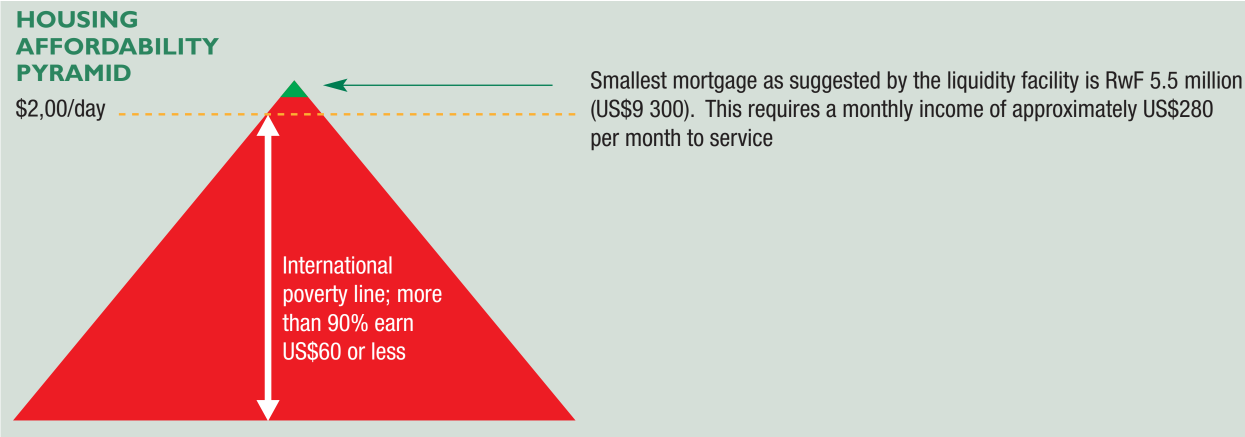
Overview

This small East African country with the highest population density on the continent is a case study of positive economic transformation after the genocide of 1994. The capital, Kigali, is the first city in Africa to be awarded the Habitat Scroll of Honor Award in recognition of its "cleanliness, security and urban conservation model". The country was named top reformer in the World Bank's Doing Business 2010 report. Rwanda is predominantly rural, but has a high urban population growth rate, which is driving demand for housing. The macroeconomic environment is stable, with inflation having being reined-in to less than one percent. GDP growth was 4.1 percent in 2009, representing a fall of more than one percent from the previous year mainly due to the recession. According to the IMF, this growth is based on sound economic fundamentals including good policies, higher investment and a commitment to implement wide-ranging structural reforms. Major economic challenges remain, however, including a narrow export base, low government revenues, inadequate basic infrastructure, a shallow financial sector and low domestic savings.

Access to finance

The Rwandan banking system comprises 12 financial institutions, including eight commercial banks: Kenya Commercial Bank, Bancor, Cogebanque, Bank Commerciale du Rwanda (BCR), Banqu de Kigale (BK), Bank Populare Rwanda (BPR), FINA Bank, Ecobank) and four other banks and financial intermediaries: Rwandan Development Bank, Banque Housing du Rwanda (BHR), Urwego Opportunity Bank, and Continental Discount House Rwanda. BHR is a state-sponsored institution set up to promote the development of the housing market. It has not been a major success, and comprises a small share of the market for loans and assets. This is spurring on reforms to convert it into a liquidity facility. The other major mortgage lenders are BCR and BK. Growth in overall lending has increased, with mortgages growing from 1.8 percent of GDP in 2004 to 2.6 percent in 2007. Rwanda's mortgage market is still relatively small, variously put at between RWF33 and RWF47billion (US$60–US$80 million) worth of mortgages outstanding in 2009. This is against an estimated potential demand of more than RWF200 billion (US$ 340 million). This mortgage finance shortage was exacerbated in 2009 by difficult lending conditions when a domestic liquidity squeeze resulted in outstanding credit to the private sector to fall by 1.8 percent. This has been partly blamed for the fall in housing prices, by as much as 20 percent in late 2009. As a result of these liquidity problems, BCR suspended its mortgage product in early 2009. These problems are easing off, however, as lending increased in the latter quarter of 2009 and early 2010. BCR also resumed mortgage lending later in 2009.

Rwanda's mortgage market faces a number of challenges, the most critical being the lack of liquidity. Long-term finance for mortgages as well as microfinance has been a constant problem. Part of the solution lies in selling long-term debt to the market, given the growing demand for such from good companies in an economy with limited investment opportunity. The modestly sized Rwandan stock market, in existence since early 2008, has provided some facility for these listings. This includes BCR's 10-year note issue worth RWF5 billion (US$8.4 million). As a result, the BCR is now offering 20-year loans, funding mortgages with a blend of short-term deposits (65 percent) and the



bond issues proceeds (35 percent). Kenya Commercial Bank shares have also been listed on the Rwanda stock exchange as they have been through cross-listings across the East Africa Community. The process of transforming the BHR into a mortgage liquidity facility will, if successful, support long-term lending activities by PMIs. This facility will raise money by issuing debt instruments, targeting investors such as the national pension fund, insurance companies, and even denominate sufficiently sized bonds for the emerging class of individual investors. To this end, the BHR has had a 20 percent stake acquired by the International Finance Corporation (IFC), which also extended a RWF2.3 billion (US$4 million) loan to facilitate this transformation.

Lack of consistency and standardisation in the way banks originate mortgages is also an issue. This is a challenge to the liquidity facility if PMI loan books are used as security. Enforcement of minimum origination standards by PMIs for them to qualify for borrowing has been suggested to remedy this problem.

The Rwandan housing market does not have a good source of credit information. The existing Public Credit Registry, the Centrale des Risques et Impayés, does not have sufficient coverage. The government is setting up a new system and has suggested two options: improving the existing public credit registry, or establishing a private credit bureau. It has drafted a new law to create the enabling environment for a credit bureau, including its licensing and supervision, and has held various consultative meetings with stakeholders including banks, MFIs and the insurance industry.

Rwanda has a growing microfinance market with more than 90 SACCOs and microfinanciers licensed as of 2009. Facilitative, specialised microfinance laws have been enacted by the government. Some HMF lenders are emerging. For example, COOPEDU-Kigali, a local MFI, is offering HMF loans averaging US$350 for a term of one to five years. Urwego has also partnered with Habitat for Humanity to offer home improvement loans.

Remittances from the Rwandan Diaspora remains a leading source of foreign exchange, contributing about US$150 million to the economy in 2008. These have fuelled a housing boom and are being specifically targeted by housing products. The Kigali City Council, for example, is developing a framework that will make it easy for non-resident Rwandans to acquire land and housing.

Affordability

A survey of some mortgage products in the market reveals that maximum LTVs are 80 percent with loan terms usually for around 10 years (for example BPRs construction or outright purchase loan scheme) with higher terms being the exception. The proposed housing finance liquidity facility is recommending that loans originated by PMIs obtaining capital from it should have a minimum loan size at origination of RWF5.5 million (US$9 300) and maximum loan size of RWF110 million (US$187 000), LTVs at not more than 75 percent if owner occupied, and debt service to income ratio not exceeding 35 percent. Loan maturities should also significantly improve with this facility, to as high as 20 years. A study of the housing supplied by the Social Security Fund of Rwanda (SSFR) pension fund found that current prices of homes built are misaligned with the income of pension contributors, making home ownership out of reach for many. Taking the suggested minimum mortgage loan by the proposed liquidity facility, it is clear that this problem will persist. A mortgage of RWF5.5 million (US$9 300) requires an annual income of over RWF2 million (US$3 400). Very few people have this financial ability, in a country where more than 90 percent of the population are below the international poverty line. Further, formal supply of houses priced at this level is not common. Units priced at around RWF16 million (US$27 000) and more are more likely to be available.

Housing supply

Housing in Rwanda is constructed mostly through self-build. It is mainly informal, using inexpensive and easily available materials. These structures have few or no amenities and are not properly planned. Ideally, the builders 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 penalties uncommon. One of the biggest constraints to self-build housing supply in urban areas is the lack of serviced plots. There are some formal suppliers of housing such as the SSFR, DN International and Real Contractors. They are, however, well short of meeting the country's housing demand of an estimated 15 000 units in urban centres per annum. The SSFR, one of the biggest suppliers in the market both in residential and commercial construction, has a number of residential projects in the pipeline. These include constructing 2 759 houses valued at US$500 million in Gaculiro in Kigali City reportedly catering for the entire income spectrum, from high end to low income earners, and another 50 housing units on 3.3 hectares of land at Kinyinya Kigali. Other initiatives include the state-funded pilot project to provide 1 000 low cost houses in Batsinda, Gasabo district. The project has adopted a low-cost house model worth US$10 000, enabled through the use of local building materials. Private-public partnerships have also been pursued. These include the development of land plots targeted at high-income earners, going for around US$6 000, in Urugarama, Gisozi and Kibaganbaga involving the UN and the City of Kigali.

Property markets

Few transfers are taking place at present mainly because of the lack of a well-functioning land registry. The country also has a history of poor coverage of the formal registration system in urban areas; according to FinScope, in 2008 less than 80 000 plots were in existence. This restricts formal property market activity. This is changing, however, with extensive reforms of the land administration system, including a systematic countrywide land registration process that kicked off in 2009. There is little information on the quality of the housing stock, although indications are that mortgageable stock is in short supply. According to the World Bank, only 30 percent of the urban dwelling structures are made of durable materials. FinScope 2008 finds that homes consist mainly of informally built houses using local materials such as iron sheets and earth tiles for roofs, bricks and wood for walls, and mud or clay for floors. Most households have their own toilets, mainly an ordinary pit latrine, and very few households have electricity – only five percent of the population is connected to the electricity grid. Lamps are used for lighting and firewood for cooking. The Knight Frank Africa report on higher-end properties also notes a generally muted market. Knight Frank concludes that this is driven by low demand, which will rise if international companies make greater investment in exploring the country's rich natural resources.

Policy and regulation

Rwanda's National Urban Housing Policy acknowledges the lack of affordable housing finance products and calls for facilitation of greater access for lower and middle income groups. The country is generally regarded as a top reformer in making its business environment more investor friendly. The country has quick and relatively cost-effective procedures for enforcing pledges of immovable property, including a non-judicial power of sale that can be enforced in less than six months. This fast-track foreclosure procedure (voie parée) has time limits on appeals once a judge has agreed to foreclose, and specialised chambers established within the three busiest courts to deal specifically with these cases. Reforms to the judiciary, driven by among others the Investment Climate Facility (ICF), have seen the backlog of cases in the judiciary fall significantly. It is now quicker to enforce a contract than in many much more developed countries in Europe. A modernised law on mortgage is under consideration by the business law reform programme of the Ministry of Justice. It is expected to make further improvements to the efficiency and transparency of the system as well as allow the pledge of intangible contractual rights such as loan agreements, negotiable instruments and mortgages. A new banking law has been published, and the process to update the prudential regulations commenced towards the end of 2009. An amendment to the Social Security Act of 2006 is ongoing, seeking to create an umbrella compulsory contribution Provident Fund to which citizens and government will be contributors. According to reports, the fund will be used to help develop affordable housing. The land registry has also been the focus of substantial attention since the adoption of the 2005 Land Law. This has been through, among others decentralisation and a reduction in fees. The registration fee for a mortgage is currently a flat RWF20 000 (US$34) as opposed to 1.2 percent of the mortgage amount previously. The real property transfer fee, formerly six percent of appraisal value, was reduced to a RWF20 000 (US$34) flat fee. Private ownership of land needs to be applied for from the state and is granted on condition that investment and development of the land has happened. This process of title issuance is being simplified and accelerated to enable occupants to obtain their titles quicker. Further, additional steps are being taken to accelerate the point at which creditors may obtain valid mortgages on undeveloped land. This is by issuing beneficiaries of state lands with long-term leases, which can then be mortgaged pending completion of improvements and conversion to free hold.

Opportunities

Housing finance demand, both mortgage and microfinance, in rapidly urbanising Rwanda has barely been met, and there is great potential for growth. More players are needed in the market to improve accessibility in general. As a top regional performer in reforming the macroeconomic environment, the state has performed its role as a market maker well. For example, the advanced process of converting the BCR into a liquidity facility means that more capital will soon be provided to lenders to meet the untapped demand. Positive steps on land administration reform are also being made. Given the country's high poverty rates, the mortgage market, which clearly has unmet demand, will not reach the majority in the near future. Housing microfinance offers an important opportunity for the majority and the nascent HMF lending practices emerging serve as a pointer to this enormous potential. Clear action towards creating a good investment climate by the state, growing urban demand and positive economic growth provide ample opportunity for housing finance in this country.

South Africa

Key figures	
Population^	48 687 000 (61%) (2008)
Population growth rate urban^	2/7% (1990 – 2008)
GNI per capita^	US$9 790
GDP % growth rate °	2.8% (2010)
Main urban centres	Pretoria (capital) Johannesburg (economic centre) Cape Town (parliament)
Currency	South African Rand (R)
Employment	
Wage and salaried workers	82.4% (2007)
Informal sector	13.8% (2004)
Poverty levels	
Population less than US$2 per day✣	7%
Population below national poverty line	22%
Financial Services Access	
Bank branches per 100 000 *	8
Access to housing finance°	1.818m mortgage accounts (13% of households)
FinScope financial exclusion ■	26% (2009)
Macro economic financial indicators	
Central Bank Discount Rate°	6%
Average bank lending rate°	9.5% prime
Rate on deposits♦	5.2% (30-day deposit)
Lending by banks to the private sector	
Credit % of GDP^	145.2% (2008)
Mortgages % of GDP°	31.7% in 2009
Cost of building indicator	
Cost 50 kg bag cement	US$9.22

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° South African Reserve Bank
■ FinScope 2009
✣ Statistics SA
♦ Nedbank

Overview

South Africa is the largest economy in Africa. It is classified by the UN as a middle-income country – but in many respects is a high-income and low-income country rolled into one without the benefits of the average. It has well-developed transportation infrastructure, legislation that is largely supportive of private investment, a world-class financial sector, and a well-diversified economy. It's stock exchange ranks among the top 20 in the world and is the largest on the African continent. Historically dominated by mining (South Africa is a signficant producer of platinum, gold and chromium), the services sector now dominates the economy, employing 65% of the labour force. The country has enjoyed growth since its first democratic elections in 1994, which has supported an extensive social security programme providing social grants (child, pension, housing and others) to the majority of the population and considerable public infrastructure investment. Evenso, South Africa continues to be one of the least equal economies, with a Gini coefficient estimated to be 0.679 in 2009. At 22.9%, unemployment is unmanageably high. The informal sector is large and creates more work than the formal sector. Public confidence in prospects improving is low, as evident by the many service delivery protests and strikes in the past year.

South Africa has weathered the global economic crisis from a position of strength: national credit legislation enacted in 2005 is credited with protecting the financial sector from venturing into subprime territory. In September 2010, the Monetary Policy Committee reduced the repo rate to its lowest level since 1974, leading to a reduction in the prime interest rate to 9.5 percent. Making the announcement, Reserve Bank Governor Gill Marcus also reported that domestic inflation had moderated – expected to be at 3.7 percent in the third quarter of 2010 and rising to 4.8 percent in 2012. The Bank's forecast of GDP growth has declined moderately to 2.8 percent in 2010, but this is expected to rise to 3.2 percent in 2011.

South Africa is ranked 19th in an United Nations Conference on Trade and Development (Unctad) list of "top priority host economies" for foreign direct investment, making the top 20 for the first time in 2010.[8] It is ranked 34th in the World Bank's Ease of Doing Business Ranking.

Access to finance

South Africa has a sophisticated banking industry that serves the upper-income segments of the population well. The country has 36 registered banks (17 of these foreign), of which four dominate: Absa Bank, First National Bank, Nedbank and Standard Bank. According to the 2009 FinScope survey, 64 percent of the South African adult population is financially served and uses some kind of formal product. Ten percent of the population relies on informal products, and 26 percent of is financially excluded and does not use either formal or informal financial products. South Africans are more likely to use formal loan products (24 percent) than informal products (four percent).

Financial access was given a substantial boost by the signing of the Financial Sector Charter (FSC) in 2003. The agreement grew out of requirements in the Black Economic Empowerment Act, which required certain key industries in South Africa to promote transformation in their ownership and management structures so that they reflected the racial population distribution in the country. The FSC had an added feature to other charters, however, in that it also

8 The survey is based on the responses of 236 trans-national corporations and 116 investment promotion agencies.

promoted access to the goods and services of the financial services industry for those who had been previously excluded. In terms of the FSC, members of the financial sector collectively committed themselves to extending more than R70 billion of development finance by end 2008 (just under US$10 billion), including R25 billion of infrastructure finance, R5 billion for small business finance, R1.5 billion for rural development and R42 billion (about US$5.8 billion) for housing finance to low-income earners with a monthly income of between R1 500 and R7500 (about US$208 - $1 041). In the five years of the FSC, the financial sector actually exceeded its housing finance target, originating R44 828 billion in loans. Mortgage loans comprised 24 percent of the 984 730 housing loans originated through the FSC, and 63 percent of the total value; loans secured by the borrower's pension or provident fund comprised 26 percent of all housing loans originated and 11 percent in value; unsecured (housing micro) loans comprised 32 percent of all housing loans originated and eight percent in value; wholesale loans comprised 18 percent of all loans originated and were eight percent of the total value; and the 402 construction loans comprised 10 percent of the total value of FSC housing loans extended over the five years.

While the FSC had a significant impact on access to housing finance, mortgage loans in the FSC target market still only comprise a fraction of the overall mortgage book. According to the National Credit Regulator (NCR), only 2.7 percent of all mortgage credit by Rand value and 9.8 percent by loan volume in 2008 was granted to borrowers earning less than R10 000 (US$1 388) a month.

By the end of 2009, residential mortgages (banks only) accounted for 39% of total credit extended to the private sector and 31.7% of GDP. The sector grew particularly strongly in the period between 2001 and 2007, when annual growth averaged at 22.4%. This has tapered off in recent years, however, with growth of just 3% in nominal terms beween 2008 and 2009.

Affordability

South Africa's housing and finance policies have paid explicit attention to housing affordability since 1994. Understanding that most of the population could not afford housing, and facing an estimated housing backlog of about three million units, the 1994 government implemented an ambitious and far-reaching national housing subsidy programme. This Reconstruction and Development Programme or RDP subsidy entitled all households earning less than R3 500 a month and satisfying a range of other criteria to apply for a fully subsidised house. In terms of the RDP programme, subsidy beneficiaries get freehold title to a 250m^2 serviced stand with a 40m^2 top structure, entirely for free. The programme persists today, with a few modifications, and has delivered an estimated 2.3 million housing units to 11 million low-income households.

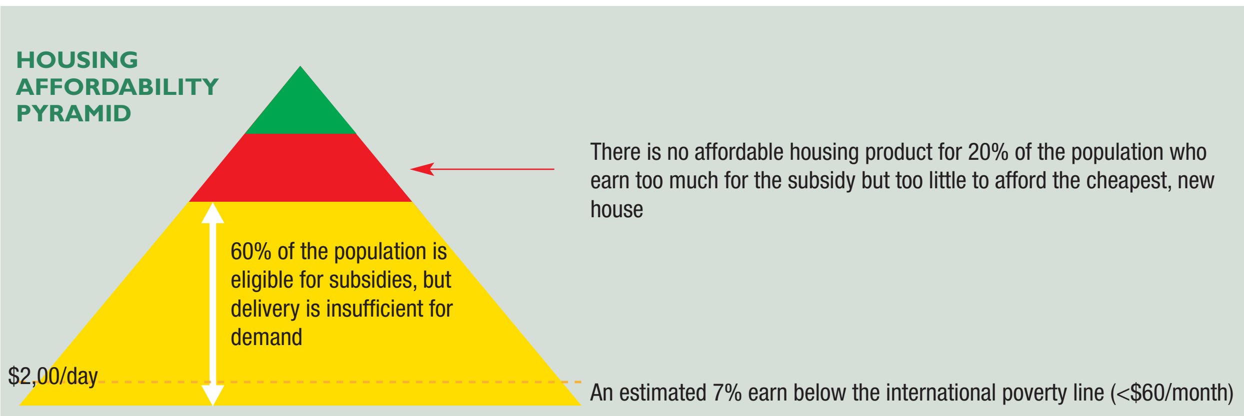
In addition to the RDP subsidy, the 1994 housing policy implemented other measures to enhance access to housing finance and improve housing affordability. These included establishing the National Housing Finance Corporation and the Rural Housing Loan Fund in the mid-1990s, wholesale financiers which continue to provide capital to non-bank housing lenders targeting low-income earners. As a result, South Africa has a small but growing housing microfinance industry.

These government interventions notwithstanding, South Africa has a new housing affordability crisis. While the estimated 60 percent of the population earning less than R3 500 is eligible for housing subsidies, the cheapest newly built house is about R240 000 (about US$33 300), affordable at current rates to households with an income of about R9 000 a month or more. The issue was highlighted by President Jacob Zuma in his State of the Nation address in February 2010, when he promised "a key new initiative to accommodate people whose salaries are too high to get government subsidies, but who earn too little to qualify for a normal bank mortgage" required to access the least expensive house avaialble. The President, and later the Ministers of Finance and of Human Settlements, promised the introduction of a R1 billion guarantee facility to address this affordability gap affecting 20 percent of the population.

While affordability challenges remain in the housing sector, access to finance has been so successful that South Africa now faces a serious problem of indebtedness. In the first quarter of 2010, the NCR calculated that 87.76 percent of mortgages were current. While this was up from 84.06 percent in 2009, it remains worrisome. Performance on mortgage loans is better than on other credit – the NCR calculated that only 67.53 percent of secured credit agreements and 70.87 percent of unsecured credit agreements were current. In the absence of affordable housing for purchase, there are also worries that households may be indebting themselves over non-productive, consumption goods that will not enhance their overall wealth as housing would, if it were available.

Housing supply

Housing supply in the country is dominated by government-subsidised delivery. The National Department of Human Settlements reports on the delivery of subsidised housing annually. For the 2008/2009 financial year, 239 533 subsidised housing units were completed or under construction, down



slightly from 248 850 in the 2007/2008 financial year. While the actual number of houses completed is not published, it is estimated that in the region of about 150 000 units – more than twice that delivered in the non-subsidised, higher-income private sector market. Data published by the National Home Builders Registration Council, comprising all residential delivery across South Africa, suggests that 78 568 units were developed outside the subsidised market in 2008. In keeping with the effects of the global economic crisis experienced in many countries, private sector deliver declined in 2009 to a low 26 920 units.

Despite impressive delivery in the subsidised market, the housing backlog persists. It is officially defined as 2.1 million units, comprised of households in inadequate housing, many of whom live in informal settlements. This is part of the problem: of the 1.1 million households that live in informal settlements in South Africa, about 350 000 are not eligible for the housing subsidy that was designed to address this problem. Because of the affordability gap, these households cannot purchase improved housing even though they could afford some credit. A further one million households falling outside the subsidy range live in inadequate or overcrowded conditions.

There are a number of reasons why housing delivery is not achieving the levels of scale requried to support the population. Construction capacity has been limited, especially in the lead-up to the 2010 World Cup hosted by South Africa. Municipal capacity constraints are, however, more significant. In 2005, the Banking Association of South Africa estimated that the time lag in the delivery of serviced stands from a raw piece of land was around three years. This delay affects the extent to which developers particpate in the market, and adds to the cost. A further constraint to supply involves limitations in infrastructure capacity at municipal level.

Building costs have generally been rising faster than inflation. Absa Bank reports that in the second quarter of 2010, the cost of building a new house in the middle segment increased by a nominal 7.8%. ABSA suggests that this is related to rising costs of wages and transport.

Property markets

South Africa has a well-established property market and a world-class cadastral system that offers procedural protection for buyers, sellers and financiers. According to the World Bank, it takes 24 days to register a property in South Africa. This involves six procedures and costs an estimated 8.7% of the property value – lower than the Sub-Saharan African average, but higher than for the rest of the world. Property transaction data is reported on in a myriad of publications and economic analysts rely on this as a key indicator for overall macroeconomic health. In line with the global recession, property prices dipped to negative growth in all market segments in the last quarter of 2008 and first half of 2009, with the exception of the affordable market, which retained positive growth. By April 2010, all market segments were showing positive growth, with the affordable market segment the most healthy at 14.7%, followed by the mid-value segment at 8.8%. This reflects the constrained supply in that market as well as increased interest by investors, given the positive returns. According to Absa Bank's house price index, the average nominal house price in the middle segment of the market was just over R1 million (about $139 000) in August 2010. Absa segments the middle segment by size, and reported that the average value of small houses (80-140m^2) was about R837 100 (about US$116 000) in August 2010. The affordable market is defined as houses between 40m^2 and 80m^2 and costing less than R430 000. By the second quarter of 2010, the average price was R296 100 (about $41 125). The gap in affordability between the "affordable" segment and the "middle" segment has been noted as cause for concern.

Policy and regulation

South Africa generally has investor friendly policies and regulations. This has been borne out of deliberate government action to make it a competitive destination. The World Bank ranked it second in Sub-Saharan Africa in its Doing Business in 2010 survey, after Mauritius and before Botswana. South Africa was also ranked first in terms of business access to credit, and protecting investors.

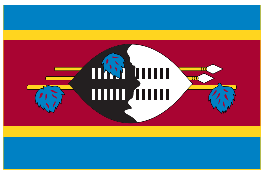
Housing policy in South Africa is at a crossroads. Recent strike action has drawn attention to a critical gap in the housing policy framework, in that there is no explicit policy targeting the 20 percent of the population falling into the affordability gap. Key public sector workers are in this gap and their frustration with their housing prospects were voiced in a 20 day public sector unions strike in August and September 2010. One of the resolutions which allowed for the suspension of that strike by union bosses was an agreement by government to develop a housing policy to address worker housing concerns. Given the size of the housing budget already, and the myriad of constraints to delivery of housing that extend beyond simply finance, it is not clear how soon such a policy will reap the kinds of results that workers expect.

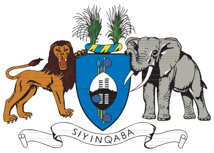
At the other end of the spectrum, the persistence of informal settlements across the country is receiving explicit government attention. A policy position put forward by the Presidency's monitoring and evaluation unit, entitled Outcome 8: Sustainable Human Settlements and an Improved Quality of Household Life, includes the upgrading of 400 000 units of accommodation within informal settlements as a key deliverable for government, by 2014.

Opportunities

Opportunities in South Africa's housing finance landscape can be found in a variety of market segments. At the top of the income pyramid, appetite for housing, including second and third dwellings and investment properties persists. While this segment suffered possibly the most in the economic recession, its capacity to bounce back from economic troubles is the greatest. Just below this, are households earning enough to afford the cheapest newly built house. Their affordability, however, is not matched with supply, and so there are opportunities for increased housing delivery and lending in this segment. The most interesting segment, however, is just below this: the 20 percent or so of households that earn too much to access a housing subsidy but too little to afford a new house. This market segment is desperate for innovative solutions – solutions which might be found in the resale of government subsidised housing, the delivery of incremental housing on serviced stands, inner city rental, or conversion of office blocks to residential accommodation for sale or for rent. While the state housing subsidy creates some market distortion in this market, demand should be responsive to alternative housing and financing approaches.

Swaziland





Key figures	
Population^	1.2 million (25% urban) (2008)
Population growth rate urban^	2.1% (1990-2008)
GNI per capita^	US$5 000 (2008)
GDP % growth rate ▲	0.4% (2009)
Main urban centres	Mbabane (capital), Manzini
Currency	Lilangeni (E)
Employment†	
Wage and salaried workers†	76.4% (1997)
Informal sector §	Not available
Poverty levels	
Population less than US$2 per day†	81% (2000-2001)
Population below national poverty line^	69.2% (2000-2001)
Financial Services Access	
Bank branches per 100 000 *	2.9
Access to housing finance	Not available
FinScope financial exclusion ■	Less than 50% (2003)
Macro economic financial indicators	
Central Bank Discount Rate	6.5% (December 2009)
Average bank lending rate°	10% (March 2010)
Rate on deposits°	2.5 – 3.5%
Lending by banks to the private sector	
Credit % of GDP^	23.6% (2008)
Mortgages % of GDP	Not available
Cost of building indicator	
Cost 50 kg bag cement	US$10.9

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° All Africa.com
▲ IMF (2010)
■ FinScope 2003

Overview

Swaziland is a small, mainly rural country, with a relatively high GNI, making it a middle-income country. The country nevertheless suffers from high inequality and recurring drought, which adversely affects nearly 75 percent of the population who are subsistence farmers. The economy is largely based on agriculture, forestry and manufacturing. Swaziland has had a difficult economic period in the recent past as earnings on it main exports, sugar, coal, cotton and wood pulp, fell and its GDP growth remained marginal. Over 2010-2011, however, exports will be buoyed by the economic recovery in South Africa, which is the destination for most of its exports. Major challenges remain to the economy. Swaziland is one of the few Sub-Saharan countries to have recorded declining per capita incomes in the recent past. The textile and clothing industry, one of its main manufacturing sectors, is also in decline and employment has halved to 15 000 (roughly four percent of total employment) from a peak of 30 000 in 2005 (roughly 8.5 percent of total employment). Preferential treatment by the European Union for its sugar exports could be reformed, and this poses a threat going forward.

Access to finance

The Swaziland banking sector consists of three commercial banks, Nedbank, Standard and FNB, a mutual building society, Swaziland Building Society, and a statutory bank, the Swaziland Development and Savings Bank (Swazibank). The Swaziland Building Society (SBS) is a viable and self-financing development and housing finance institution. The SBS is also major provider of long-term mortgage lending. It provides loans mainly for buying vacant land and housing construction but also for commercial mortgages. A rural housing scheme it runs has also enabled borrowers to build on Swazi National Land (SNL, where the land is held by the tribe), by mobilising pension and provident funds as collateral. Through a pioneering project, it also lends to residents of informal settlements by working with savings groups. Through this scheme, it is providing loans to buy small plots and for house improvements. Swazibank provides normal commercial banking services with a particular focus on business and development finance. It has been the most pro-active of the banks in serving lower-income households. The bank has historically obtained interest-free deposits from the government, channelled to, among others, its mortgage programme for public servants. According to its 2009/2010 financials, this will change as the Government Fund that funds the Civil Service Housing Loan Scheme is converted into an interest bearing deposit. The Swaziland Development and Savings Bank also has a significant mortgage portfolio. Commercial banks provide a few mortgages for the upper- and middle-income settlements of the market. Another government-affiliated institution, the Swaziland National Housing Board (SNHB), apart from being a developer and owner of housing, also provides housing finance as well as developed land for sale. The Growth Trust Corporation – the financial arm of the Swazi Business Growth Trust – has also extended its lending programme from small and medium businesses to housing. It has financed mortgage loans and also loans for building on SNL provided the borrower can provide sufficient guarantee.

While Swaziland has a relatively well-developed banking system, over the long term there has been a worrying trend of it becoming shallower. Private sector lending, money supply, and bank deposits as a percentage of GDP have all declined since 1995. Some positive short-term indicators point to a change in this trend; expansion of credit to consumers has remained buoyant from January 2010 rising from 11.3 percent in January to 13.7 percent in February, and falling marginally to 10.6 percent in March. Banks have also seen credit lending rise. Swazibank, for instance, had its net loans and advances grow by more than 21 percent between 2009 and 2010, although the number of loans to the agricultural industry has decreased. The bank also approved 164 housing loans, an increase of 5.1 percent in loan numbers over the previous year, and a 10.8 percent increase to E24.9 million (US$3.5 million) The value of the housing loan portfolio is, while increasing, also fairly modest at E282 million (US$39.7 million) in 2010. Swaziland has a vibrant microfinance industry with more than 100 institutions. Among them are Select Africa, which offers housing lending as part of its stable of products. The country also has a rapidly growing industry of SACCOs. Swaziland has a small capital market with almost no market liquidity. Credit information is readily available through its private credit bureaus, which could still improve their coverage.

Affordability

Mortgage loan products such as those offered by Swazibank have terms of 20 years for urban loans and 10 years for SNL, and require no more than 40 percent of income be used to service the loan. In terms of housing products, the SNHB has low-cost offerings priced at E280 000 (US$39 351) to E450 000 (US$63 243). This requires an income of E6 486 to E10 422 (US$913-US$1 468) a month to qualify to service the loan. This is beyond the reach of the vast majority in a country where more than 81 percent of the population is classified as earning less than US$2 a day. Even employed people such as teachers who typically earn less than US$600 a month would find it difficult to afford this product. The SBS has established lending for plot acquisition among low-income earners. The scheme has less onerous income eligibility criteria than mortgages and provides a starter property for incremental building. Loans are partly guaranteed by the state. Loan uptake has been modest, however, due to among other reasons a reluctance to use plots as collateral among poorer households, reluctance to be taxed, general risk aversion by the SBS to lend more, and insufficient targeted marketing. The concept is, however, pioneering and offers a platform for greater lending, taking lessons learnt into consideration. NPLs have been a perennial problem, especially with Swazibank which has some dating 15 to 20 years ago still on its book. In the 2009/2010 financial year, it wrote off almost E85 million (US$11 950 000) for its NPL portfolio, making the portfolio now stand at 12 percent down from 20 percent in 2009. Swaziland has a huge HIV/AIDS problem. According to UNAIDS (2008) between 25.1 and 27.1 per cent of the adult population infected. This poses challenges to housing demand, affordability and the associated risks and costs of lending.

Housing supply

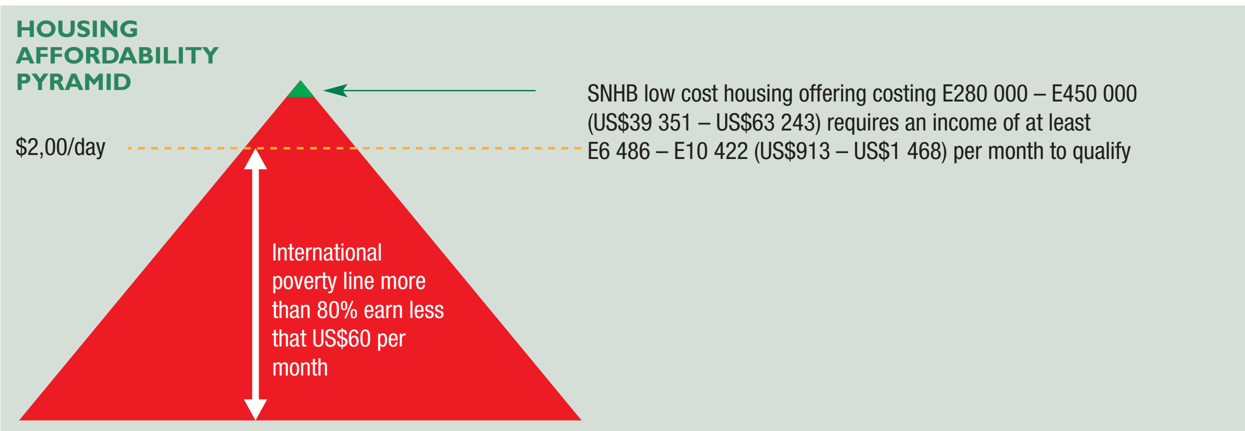
Self-build is the predominant method of housing supply. Poor people source funds from social support networks like family and friends, moneylenders and other finance sources such as business income and rental revenue. There is a general problem of formal supply of lower- income housing in the country. The SNHB primarily caters for middle- to higher-income earners. It also has a rental portfolio of over 1 000 units and rentals range from E500 (US$70) to E1 800 (US$253). Providing a sufficient supply of serviced plots especially for lower-income earners has also constrained housing supply. This is because, among others reasons, local government does not have sufficient capacity to do this. Also, supply of land in urban areas is limited, given that peri-urban land is SNL land. Cities growing through urbanisation and creating greater demand for plots for housing cannot incorporate land within the jurisdiction of the chiefs. Servicing and land-use management regulations have generally overwhelmed the chiefs in these peri-urban areas, creating sprawling informal developments and making future upgrading and planning difficult. Further, conversion of SNL land to leasehold requires the consent of the king and does not happen frequently.

Property markets

Higher-end property markets have been traditionally driven partially by second and third home buyers from South Africa. In 2009, the market saw residential sales fall by 20 percent and auctions go up in 2009. Ezulwini, which is fast becoming a tourist hub, has been the exception where despite the recession the cost of property rose. The area is seeing a strong migration of middle-class buyers into the area.

Policy and regulation

In general, the Swazi legal system effectively enforces property and contractual rights. The court system is considered free and fair. The country performs relatively well on different indicators including the time necessary to register land (46 days), and the Strength of Legal Rights Index (six out of 10). There have been some reforms to the land tenure system. The World Bank-funded Urban Development Project pioneered the introduction of a 99-year lease on urban land. This made it easier for land to be used as collateral for mortgages and housing improvement. Nevertheless most land, including peri-urban land, is SNL land, which lenders find a problem to use as collateral. This means

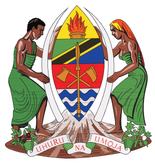


additional security such as pensions is necessary to provide sufficient comfort levels for banks. The leasehold system can, if carefully applied, be extended to SNL land although it may in practice halt the allocation and use rights administered by chiefs. There has been some financial regulatory reform. The implementation of the Retirement Funds Act of 2005 targeted greater liquidity for capital formation through the Swaziland Stock Exchange, although the exchange remains largely inactive with small market capitalisation. Liberalisation of the insurance industry through the Insurance Act of 2005 also led to growth in non-bank financial institutions. The legislation has led to impressive growth in foreign direct investment in the sector especially from South Africa.

Opportunities

Housing for lower- to middle-income earners remains a challenge. The activities of a number of microfinance institutions such as Select and building societies such as the SBS, which provide products that allow starter plot acquisition and incremental build, point to a possible solution to the problem if done at scale. The high levels of tenure security and the availability of housing microfinance products create an adequate platform for this. With greater understanding of the advantages of credit for housing purposes among lower-income groups and better marketing by housing microfinanciers, HMF can flourish. Real estate development related to tourism is another area of high potential especially in towns that draw on the South African tourist market.

Tanzania



Key figures	
Population^	42 million (urban 26%) (2008)
Population growth rate urban^	4.5% (2008)
GNI per capita^	US$1 260 (2008)
GDP % growth rate ■	5.5% (2009)
Main urban centres	Dodoma (capital), Dar-es-Salaam, Arusha
Currency	Tanzanian Shilling (TZS)
Employment†	
Wage and salaried workers	10.5%
Informal sector	22%
Poverty levels	
Population less than US$2 per day	99.13%
Population below national poverty line†	35.7%
Financial Services Access	
Bank branches per 100 000 *	1.8
Access to housing finance	Not available
FinScope financial exclusion ■	54% excluded (2006)
Macro economic financial indicators	
Central Bank Discount Rate	3.7% (March 2010)
Average bank lending rate°	14.3% (January 2010)
Rate on deposits°	2.61% (January 2010)
Lending by banks to the private sector	
Credit % of GDP^	16.3% (2008)
Mortgages % of GDP★	<1%
Cost of building indicator	
Cost 50 kg bag cement	US$8.8 (March 2010)

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° Bank of Tanzania
▲ IMF (2010)
■ FinScope 2007
★ Roy (2007)

Overview

From a legacy of socialist Ujamaa policies until 1985, market reforms are transforming Tanzania into a modern economy. It has registered strong GDP growth, on average seven percent per annum from 2001-2006. The construction industry is growing and, as of 2010, comprised 6.7 percent of GDP. These positive economic indicators and reforms, as well as stable political leadership, have resulted in substantial multilateral and donor support for the country's development agenda. Some of this support is specifically targeted at developing the housing finance sector.

Access to finance

After two decades of liberalisation, more than two dozen commercial banks and many other private financial institutions have developed. This has resulted in credit to the private sector expanding by 30-40 percent. Nevertheless, access to credit is low by comparable standards continentally and worldwide. Mortgage lending is minute and the estimated value of home mortgage loans outstanding at the end of 2009 was US$100 million. The main providers of mortgage finance are Commercial Bank of Africa, Stanbic Bank, Azania Bank, and most recently, International Commercial Bank. In mid-2008, Tanzania's first dedicated mortgage lender T-Mortgage Limited was established. None of the loan portfolios of these banks exceed a couple of hundred loans, however. Banks in Tanzania struggle with a lack of long-term financing, and rely heavily on retail deposits to fund mortgages. Further, the capital market is in its early stages of development and value of shares traded as a percentage of GDP is less than one percent (compare to 145 percent for South Africa). A World Bank project underway is expected to lead to the establishment of a Mortgage Liquidity Facility. This is intended to expand access to affordable housing finance under market-based conditions for the purchase, construction or upgrading of residential housing. It is expected that an initial International Development Agency loan of US$40 million will be extended, but this could be increased through follow-on loans depending on take-up rate. A credit reference bureau failed to take off due to the banks' failure to disclose. There is also no system of citizen identification in Tanzania, although this is being developed.

Affordability

Mortgage financing institutions demand a deposit equivalent to as much as 25 percent, and loan terms range from five to 15 years. One bank requires a deposit of three instalment payments, a savings account with the bank, and title deed indicating remaining leasehold of not less than 12 years. In another bank, to qualify for a typical mortgage product, a salary of TZS800 000 a month (US$525) is needed. In perspective, more than 70 percent of Tanzanians have incomes of less than US$150 a month. There are NGOs that cater for the lower-income categories. These include the Tanzania Women's Trust which benefited from a guarantee from UN Habitat for US$100 000 deposited with a local commercial bank, intended to incentivise issuing of loans. Tanzania also has a well-developed microfinance sector suggesting high potential for housing microfinance. WAT SACCO, for example, is expanding to include housing microfinance by piloting a project in Dar-es-Salaam's informal settlements with technical support of Rooftops Canada and NBBL of Norway. The Financial Sector Deepening Trust (Tanzania) is meeting the costs of technical assistance in addition to availing guarantees. Another player is Habitat for Humanity with the Makazi Bora home improvement loan targeting urban and peri-urban households with incomes of US$1-US$5 a day, at interest rates of 2.5 percent a month. The Presidential Trust Fund is a microfinance institution established by the Office of the President with 19 branches, 23 000 clients, and a loan portfolio of US$3.3 million. It is intended to operate commercially.

Housing supply

Most Tanzanians self-build rather than rely on formal housing suppliers. This has, however, been hampered by a shortage of plots. Between 1990 and 2001, a mere five percent of applications for plots received were allocated. This was the reasoning behind the government led 20 000 residential plot programme rolled out first in Dar-es-Salaam and later in Mwanza and Mbeya. The programme seeks to parcel out, survey and allocate plots to individuals. Anecdotal evidence suggests that building on the plots has been slower than expected because of limited infrastructure (which will only be provided when there is a certain number of people), lack of finance and the remoteness of the plots. There is limited formal housing delivery. The National Housing Corporation, a parastatal, builds less than 100 middle- and high-income houses a year. The corporation is negotiating joint ventures with private developers to redevelop some of its around 5 000 residential buildings for sale. The National Social Security Fund also develops houses for sale but they are also limited. Several state pension funds have undertaken a handful of single family residential subdivisions in peri-urban areas on a mostly speculative basis. These limited efforts mean that Tanzania sits with a housing deficit of three million houses.

Property markets

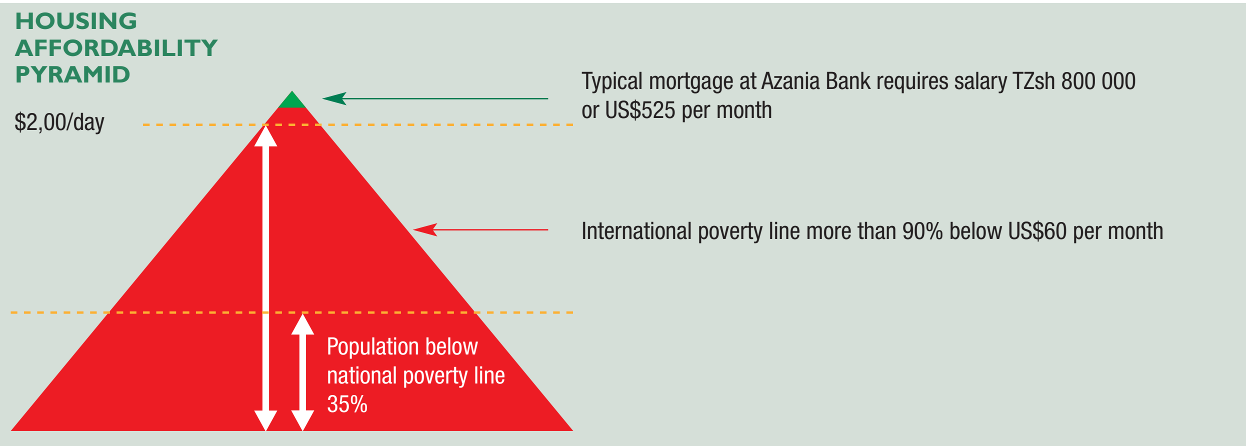
Lack of an adequate supply of mortgageable units makes it difficult for a vibrant property market to exist. As an illustration, 75-80 percent of the city of Dar-es-Salaam is considered a slum. This severely limits the amount of mortgageable stock in urban areas. A holistic approach is proving necessary whereby mortgage companies have to work closely with property developers to provide products and services that increase supply. The thin supply has also created a small and choosy formal housing supply sector that caters mainly for the upper end of the market.

Policy and regulation

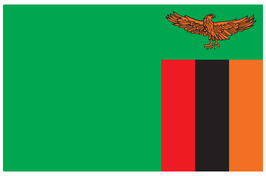
Land laws generally are considered one of the single largest impediments to the development of a vibrant mortgage industry in the country. Challenges include the lack of registered titles (it is estimated that about 80 percent of housing occupants lack titles at present), the difficulty of obtaining a title, and the difficulty of registering mortgages, among others. Limited human resources, a lack of modern management systems and equipment, the poor condition of facilities in particular archival facilities, inadequate orientation toward customer service, and excessive centralisation of facilities and functions at the land registry are among the factors that undermine the industry. Resolving this is progressing, however, with the tenure system reforming and residential licences being granted in urban areas. These can be converted to full title at a later date. The ICF is working with the Tanzania Minstry of Lands Housing and Human Settlements to generally improve the land registration process. The foreclosure process in Tanzania needs reform. All foreclosures require court action and there is a reported cautiousness by banks to lend because of the difficulties encountered with this process. These include long delays because of the backlog of cases in the courts as well confusion over which courts hold jurisdiction, allowing for "forum shopping" by litigants. One bank because of this lends mortgages as "relationship" banking, relying on its knowledge of the client rather than solely on the collateral, as the bank feels that the legal framework still has too many problems. Reforms to property law, including the Mortgage Financing (Special Provisions) Act 2008, which repeals certain sections of the Land Act, are an effort to ease the use of land as collateral. The ICF is also supporting a programme to modernise the judiciary. Prudential norms were created for microfinance institutions in April 2005. These reforms, among others, were intended to increase wholesale funding to MFIs and ensure their financial viability. Broader finance reform has also been initiated by the Bank of Tanzania through the Banking and Financial Institutions Act, Bank of Tanzania Act, and Companies Ordinance.

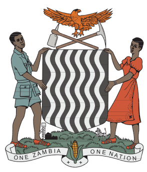
Opportunities

The mortgage market in Tanzania provides potential for growth, but only if crucial reforms around infrastructure for lending as well as land are implemented. The relatively healthy economic growth and good political management of the country provides an adequate platform for this. The World Bank's focus on expanding housing finance markets suggests important opportunities for growth in future. High levels of self-build coupled with a vibrant microfinance industry with good links to the formal banking sector, and experimentation with housing, mean that housing microfinance has enormous potential to contribute towards housing the majority.



Zambia





Key figures	
Population^	12.6 million (35% urban) (2008)
Population growth rate urban^	2.0 % (2008)
GNI per capita^	US$1 230 (2008)
GDP % growth rate ▲	6.3% (2009)
Main urban centres	Lusaka (capital), Ndola, Livingstone
Currency	Zambian Kwacha (K)
Employment†	
Wage and salaried workers	16% (2005)
Informal sector†	36% (2005)
Poverty levels†	
Population less than US$2 per day	81.5% (2004)
Population below national poverty line	68% (2004)
Financial Services Access	
Bank branches per 100 000 *	3.5
Access to housing finance ■	0.1% housing loan; 2.4% other (2006)
FinScope financial exclusion ■	66% excluded (2006)
Macro economic financial indicators	
Central Bank Discount Rate	6.6% (June 2010)
Average bank lending rate°	28% (June 2010)
Rate on deposits°	7.4% (June 2010)
Lending by banks to the private sector	
Credit % of GDP^	15.3 % (2008)
Mortgages % of GDP	Not available
Cost of building indicator	
Cost 50 kg bag cement	US$15 (November 2009)

^ World Bank (2010)
† ILO KILM 6th ed
* CGAP (2009)
° Bank of Zambia (2010)
▲ IMF (2010)
■ FinScope 2006
a Sacredoti (2005)

Overview

Zambia has achieved relative macroeconomic stability, resulting in the reduction of extremely high interest rates (46 percent in 2001). This has provided an enabling environment for investment although the country still often grapples with double digit inflation and a volatile currency. It has a rich mineral resource base which presents strong potential for growth of the mining industry, especially given the recovery of worldwide copper prices. An estimated housing shortfall of one million units further opens up opportunities for investment in the housing sector.

Access to finance

General access to financial services remains low, however, and more so with housing finance. Banking services have expanded with Ecobank, Access Bank and First National Bank invested in Zambia in the past year. Not all of these offer housing finance services; while there have been indications of intent to expand into mortgage business by banks, the dominant lenders such as Barclays Bank, the Finance Bank and Building Society, Pan African Building Society and Zambia National Building Society all have small loan portfolios. More recently, Standard Chartered Bank launched a mortgage product. Use of alternative forms of finance such as housing microfinance remain relatively low, partly explained by the fact that relative to other African countries, Zambia's microfinance markets are still young. Moves to remedy this include legislation specifically meant to encourage microfinance lending. Zambia also saw the establishment of its first credit bureau, formed by the bankers association in 2006. However, it provides only very limited coverage, 0.4 per cent of the population as at 2009.

Affordability

Affordability levels for conventional housing finance are low. Stringent terms such as high deposit requirements (as high as 20 percent) and relatively short loan terms, (for example four years offered by the Zambia National Building Society) make it difficult to afford mortgaged housing. Further, due to the general unavailability of mortgages, many finished units require payment in cash. The National Housing Authority (NHA), for example, typically requires 50 percent deposit and 12 months settlements of the balance for purchase of its units to the general public. Given a low-cost two bedroom unit is advertised at US$45 000, affordability of such a unit, even to a registered nurse typically earning less than US$4 000 a year, would be extremely difficult.

The government has made efforts to improve access and affordability. In 2007, it launched a programme to construct 7 200 housing units (100 low-cost housing units in every district) throughout the country using the NHA. An initial K2 billion (about US$408 000) was released for the construction of these units in five districts. While commendable, these numbers are modest given the backlog, and again are often too expensive. More promising has been the use of pension funds to fund more accessible and affordable housing finance products. Historically, the relatively small size of the pension industry (assets amounting to less than four percent of GDP), legislative framework ambiguity, and the risk averse nature of the industry has limited its activity in housing. This seems to be changing; the first housing bond on the Lusaka Stock Exchange was issued in 2008 by the National Housing Bond Trust, with the intent of harnessing capital from pension funds to channel into affordable housing development. The Trust has also helped to facilitate the process of obtaining land from City Councils (initially Lusaka, Kitwe, Chipata and Livingstone), Other efforts at raising capital for onward lending include Shelter Afrique's US$2.5 million line of credit granted the Finance Building Society of Zambia to on-lend for mortgages.

Housing supply

There is a definite shortage of housing supply in many urban centres in the country, but particularly in rapidly growing towns in the Copperbelt and North Western province where there has been a resurgence of mining activities. Resale housing stock is also limited; 80 percent of Zambia's total housing stock is classified as informal. Lower-income groups have a greater problem in obtaining affordable housing, as this end of the market has little formal development.

Property markets

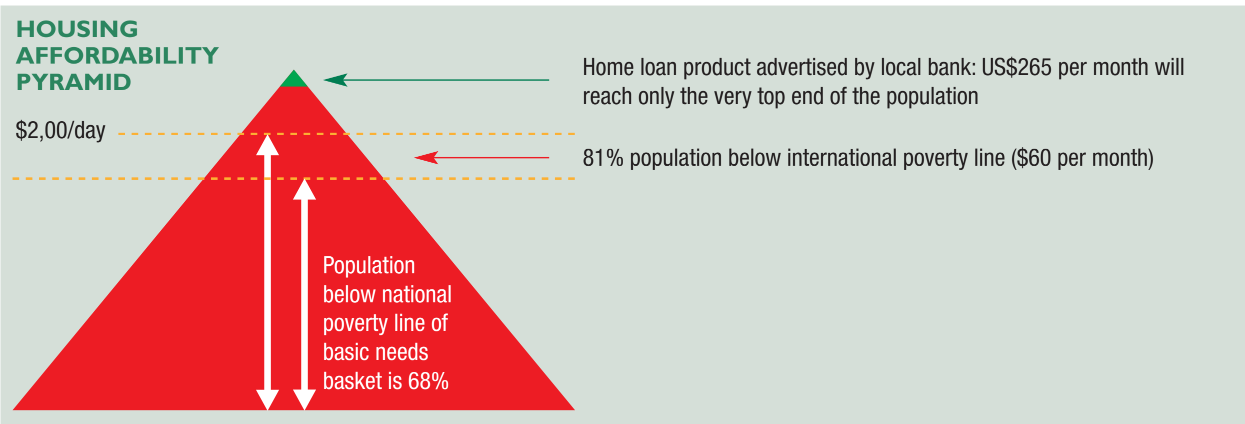
There is undoubtedly enormous potential for residential housing in Zambia and sentiment is positive. For example, Zambia was recently identified by a large cement manufacturer as a prime untapped market. The shortage of quality housing at the higher end of the market is also driving several developments of modern cluster-style homes particularly in the south of the city of Lusaka. Supply of affordable housing stock remains a challenge, and it rarely receives the attention it deserves from developers and financiers. There are few players; formal developers generally produce units that price out the majority of Zambians. Finally, NGO players such as Homeless International are involved in helping to fund housing efforts of the very poor (for example through its Financial Innovation for Housing project). While commendable, their efforts are small compared to the need.

Policy and regulation

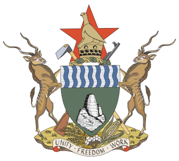
The limitations to mortgage finance are apparent in this country where more than 60 percent of the population hold only informal title. Zambia has targeted its land administration system to some success. Acknowledging this informality, the Housing (Statutory & Improvement Areas) Act is progressive land tenure legislation that allows for incremental and flexible housing development. This is especially suitable for building methods financed through housing microfinance. In fact, progressive land laws and the low reach of conventional forms of housing finance create enormous potential for housing microfinance. The planning legislation in Zambia's urban centres is also undergoing substantial revision and an Urban and Regional Planning Bill was presented to the Ministry of Local Government and Housing in late 2009 for final approval. This is especially important given the limiting effect of urban management legislation in allowing for sufficient supply of well-serviced land. The Zambian judiciary is undergoing substantial reform to ensure that it is faster, more secure and transparent. Significant challenges remain in reforming laws in other areas, however – in particular, the need to improve legislation around collateral and credit recovery.

Opportunities

Zambia's relative political stability, recent economic growth, spurred by a rise in mineral prices, and growing middle class means that housing demand should continue to grow in major urban areas around the country. Progressive legislative reform around the land sector suggests that mortgage markets should have a supporting land administration system to sustain their growth. Demand is especially unmet in the affordable housing segment, which presents good opportunities. Zambia has a relatively undeveloped microfinance sector by regional standards. HMF lending in the country needs specialised and dedicated institutions rather than merely using traditional microfinance institutions as a platform for this type of lending. Nevertheless, research such as Tradeways (2009) that examined potential demand for HMF in three less formal settlements in Lusaka suggests a ready demand for HMF.



Zimbabwe



Key figures	
Population^	12 million (urban (37%) (2008)
Population growth rate urban^	2.4%
GNI per capita^	US$170 (2005)
GDP % growth rate ▲	4% (2009)
Main urban centres	Harare (Capital), Bulawayo
Currency	Zimbabwe Dollar (Z$)
Employment	
Wage and salaried workers †	6% (2008)
Informal sector	Not available
Poverty levels	
Population less than US$2 per day [a]	80% (2002) Total Consumption Poverty Line (proxy)
Population below national poverty line	69% (2002) below food poverty line (indicator of hunger or extreme poverty) (proxy)
Financial Services Access	
Bank branches per 100 000 *	2.8
Access to housing finance	Not available
FinScope financial exclusion ■	Not available
Macro economic financial indicators	
Central Bank Discount Rate	Not available
Average bank lending rate°	15% (August 2010)
Rate on deposits°	7% (August 2010)
Lending by banks to the private sector	
Credit % of GDP^	27% (2005)
Mortgages % of GDP	Not available
Cost of building indicator	
Cost 50 kg bag cement	US$10

^ World Bank (2010)
† Klinkhammer (2009)
* CGAP (2009)
° Bank of Zimbabwe
▲ IMF (2010)
■ FinScope
[a] Mutandwa et al (2008)

Overview

After a prolonged period of poor economic performance, the Zimbabwean economy started to recover in late 2009, albeit from a low base. This recovery is expected to accelerate in 2010. A decade of hyperinflation eased off but not before the government moved to a multi-currency system, using the US dollar and South African rand in preference to the Zimbabwe dollar. Hyperinflation had made lending extremely difficult in the country. The country has significant gold, chrome and platinum production, and there are plans to hold regular auctions of diamonds. These resources are important for Zimbabwe's economic prospects. There is some uncertainty in the mining industry, however, following the announcement in February 2010 that a 51 percent stake of all Zimbabwean-based businesses should be sold to local investors. Growth in agriculture and food security can return to this once highly developed food processing economy. This will take time, however, as farms have been left fallow and irrigation systems destroyed. The formation of the Government of National Unity in February 2009 ushered in renewed stability in the country, although it is still fairly unpredictable on the political front.

Access to finance

By the beginning of 2008, Zimbabwe had a fairly diverse range of financial service providers including as many as 14 commercial banks and four building societies, the People's Own Savings Bank (POSB), credit unions and housing co-operatives. Housing finance in Zimbabwe had a strong tradition of financing through building societies including the Central African Building Society (CABS) (now part of the Old Mutual group), Commercial Bank of Zimbabwe (CBZ) Building Society (formerly Beverley Building Society), FBC (formerly Zimbabwe Building Society) and ZB Building Society (formerly Intermarket Building Society) although the commercial banking sector also offered mortgages. Building societies had also captured the largest share of deposits in the country exceeding commercial banks and even the POSB. Access to housing finance was generally confined to the middle- to higher-income earners through these building societies and banks. Nevertheless some, including CBZ had begun to make inroads into lower-income segments. Further, occasional projects with earmarked funds, for example form USAID, would be disbursed lower down the income pyramid creating greater reach. The financial sector had a difficult decade to the end of 2009, mainly because of the hyperinflationary environment. Only 6 315 mortgages were issued between 2004 and 2006 and, thereafter, loan disbursement declined further. By 2008, many lenders had suspended lending altogether. Some building societies rather than engaging in their core business of providing loans were providing only short-term credit for a couple of weeks. Appetite for borrowing had also become subdued because of high inflation and interest rates. Currently, trading conditions have improved following the reduction of inflation and there is a gradual turnaround in lending activities, although much more cautious, and with observance of strict lending criteria. Obtaining money for long-term financing by finance retailers is still difficult. This is because of a general lack of liquidity in the economy borne out of, among other reasons, low economic activity, insufficient foreign direct investment, the drying up of external lines of credit, and a generally low deposit base. The Zimbabwean credit markets have also been operating without a lender of last resort or a functioning interbank market, making banks more cautious when lending.

Zimbabwe had a vibrant and growing microfinance sector and SACCOs, whose services significantly dwindled, and for many ceased from 2004. Again this was because of the difficult economic conditions. Some operating in lower-income markets had their loan books completely wiped out. According to the Zimbabwe Association of Microfinance Institutions (ZAMFI), the decline began in 2007 by the end of which there were still 309 institutions licensed as microfinance service providers. By the middle of 2008, the number had dropped to 150, and again down to 27 by the end of 2008. In 2004, there were nearly 50 SACCOs operating; today only a handful remain. The outreach of all these institutions was also severely curtailed. The microfinance business has, however, regained profitability, and demand for microfinance is now high, including according to one investigation, housing microfinance loans of between US$2 000 and US$ 10,000. Owing to this, CBZ is diversifying its product range to include low-income housing finance for incremental housing as it resumes lending operations.

The government was traditionally involved in creating greater access to housing finance, including through the National Housing Fund. The fund is channelled to local authorities by the Ministry of Public Construction and National Housing. The authorities then use it to both build top structures as well as site infrastructure. This changed with local authorities providing only serviced sites and onwards selling them. This had affordability ramifications as the plots were sold on a cost recovery basis and were not affordable to the majority. Today, municipalities have seen their capacity to provide housing and plots with basic services significantly eroded and many are unable to provide land with installed basic services or access roads. The second financing institution used by the government is the National Housing Guarantee Fund, which provided guarantees for housing loans for civil servants. The considerable Zimbabwean Diaspora also plays an important part in funding housing locally. Products have been introduced to take advantage of this, for example the Reserve Bank of Zimbabwe's Homelink product. The country needs to build a credit information database. It has a zero depth of credit information index at present, with no functional public or private credit registries. The Zimbabwean stock market resumed trading on 19 February 2009 after it had ceased trading in November 2008. Trading, initially depressed, has picking up although it is still curtailed by the illiquid environment.

Affordability

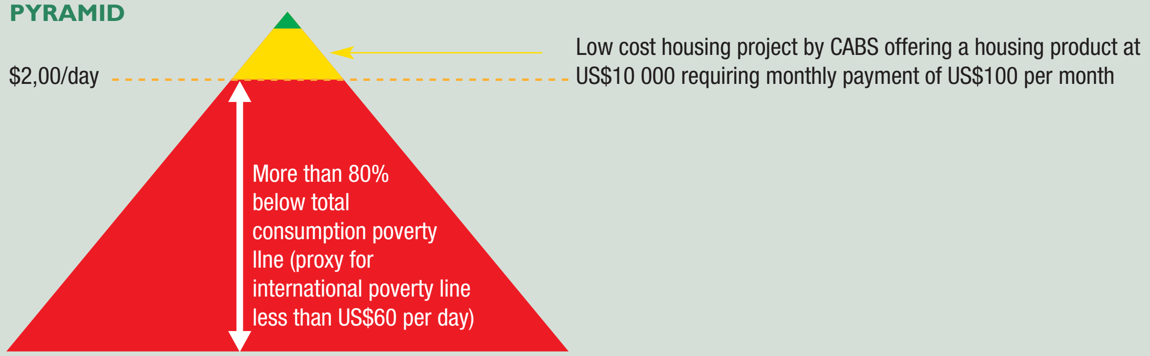
Living standards plummeted in the country and according to some estimates unemployment rose to 90 percent. It is one of the few countries on the continent to register falling per capita incomes in the last few years. This has affected affordability significantly. The cost of money has also been prohibitive for a long time. There has been a shortage of any form of long-term financing since 2008, and retail lending is only just resuming, a substantial part of it which still remains for short terms. Nevertheless, CABS has just resumed mortgage lending for terms of up to 10 years at 15 percent (August 2010), per annum for both medium to low-density borrowers and high density borrowers respectively with a threshold of 25 percent of repayment to income ratio required to service the loans. Lender deposit bases are still thin, which is limiting lending activities and directing their attention to long-term sources of funding outside the country.

Local authorities have a statutory responsibility to provide and administer low-income housing in their areas through the sale of fully built houses or plots. Product offerings range from a 300m^2 plot of two bedroom concrete house, which costs around US$4 000. Recently, CABS initiated a low-cost housing project where a basic unit costs US$10 000 requiring beneficiaries to pay slightly more than US$100 a month. This, while highly concessionary, is still out of range of most Zimbabweans, where 69 percent lived below the Food Poverty Line and 80 percent below the Total Consumption Poverty Line in 2002.

Housing supply

There are varying estimates of the housing backlog. One approximation puts it at 1.25 million houses as at 2005. Self-build is the most common method of construction as formal housing provision, mainly dominated by the public sector, has been unable to supply sufficient units. This is because state production generally fell short of the annual target of 162 000 units between 1985 and 2000. The relative housing supply to demand ratios for 1990, 1995, 2000 and 2005 were 7.5 percent 2.6 percent, 0.3 percent and 0.2 percent respectively. Self-build suffered a major setback with the large-scale evictions of Operation Murambatsvina in 2005, during which 700 000 people were evicted in urban centres. While many of the structures were indeed illegal, much including backyard accommodation that was of reasonable quality. This has also placed urban inhabitants in a dilemma because of the limited alternatives available. The government did embark on a reconstruction programme after the eviction, named Operation Garikai/Hlalani Kuhle, which sought to promote large-scale delivery of low-cost housing. Less than 4 000 units have been completed, however. Further, there is a problem of a lack of basic services in some of these houses. Tension has thus developed between local authorities and central government because properties have failed to come up to the required building codes and standards, making many of them illegal.

HOUSING AFFORDABILITY PYRAMID



Land, infrastructure and basic supply of services has become a major issue in urban areas. This shortage of serviced land continues to hinder housing development activities, including by the private sector. By 2002, only 5 500 plots were being released in eight major urban areas, compared to an estimated annual demand of 250 000. For example, CAB's US$15 million low-cost housing scheme has been stalled as the financial institution has failed to get land for housing development from local municipalities. It has also placed a major and unfair burden of infrastructure delivery on the poor, whose developments are not approved by the council if they do not have basic infrastructure. In Mutare, for example, co-operatives have been obliged to put in infrastructure (sewerage and water pipes) at high standards. Housing co-operatives are significant suppliers of housing. Originally, formed by low-income groups, they gradually gained relevance with middle- and high-income groups. About 2 000 co-operatives with over 200 000 members are registered, although in reality only around 500 are functional. The co-operatives were initially supported by the umbrella organisation, the Housing People of Zimbabwe, which provided technical assistance for institutional development and housing construction. Today, a more active umbrella organisation is the Zimbabwe National Association of Housing Cooperatives (Zinhaco) with more than 1 000 co-operatives. Among the things Zinhaco has been working to change is building standards which dictate that hook-ups to public services must be in place before an owner begins to build a home. Another player is the Zimbabwe Homeless Peoples Federation (ZHPF), which is a member of Shack Dwellers International (SDI). SDI is an international network of grassroots organisations created to assist the poor, whose basis is savings groups formed by individuals from low-income households. ZHPF with branches in Mutare, Harare, Gwanda, Victoria Falls and Karoi has been operating for more than 10 years and has about 30 000 families as members mobilised into 330 savings groups. ZHPF is supported by the Harare-based NGO Dialogue on Shelter. ZHPF and its supporting NGOs are involved in obtaining land for housing as well as secure tenure. While providing useful and needed help for low-income communities, none of these organisations have developed sustainable financial mechanisms to provide credit for members.

Property markets

The prevailing liquidity crisis has seen property prices stagnating despite rising demand. This is especially so at the higher end of the market. The sector will take time to recover, as the availability of money in the economy remains low as financial firms continue recapitalising operations. The significant levels of poverty will also keep the market subdued for some time. Zimbabwe has relatively good housing stock compared to other African countries. Almost 70 percent of this housing stock is made of durable materials, ranging from higher-end flats and townhouses to the detached and semi-detached housing found in lower-income communities. According the Central Statistics Office, shacks comprise only three percent of housing, although this has grown significantly because of rising poverty in the country. Nevertheless existing stock has decayed considerably.

Policy and regulation

Greater policy and regulatory certainty is required, firstly around rights over holding of property both land as well as other forms. Secondly, the general regulatory hostility towards self-build impedes incremental housing methods for the poor. The Town and Country Planning Act 1976, for example, was the legal basis for the enforcement of notices authorising organs of state to demolish structures and evict people during Operation Murambatsvina. Onerous urban housing standards have also been cited as a hindrance to housing affordability. The National Housing Convention in October 2009, which the government participated in, recognised this and highlighted that relevant laws need to be enacted to resolve this issue. Urgent measures to support the resumption of lending in the finance industry are needed, particularly lending that was reaching the lower end market such as microfinance. It's crucial that the government focuses on creating an enabling environment for housing finance including prudent macroeconomic management to get the economy going once again.

Opportunities

There is definitely a renewed sense of optimism in Zimbabwe after a protracted difficult period during which formal housing finance activities came to a virtual standstill. The microfinance industry was also severely affected, and there are currently calls for donor-driven recovery packages as well as deliberate government incentives to revitalise the industry. Zimbabwe had a history of a relatively substantial amount of mortgage lending to higher-income earners meaning the basic infrastructure is in place. This should work to its advantage. Already, a number of players in the industry have resumed limited lending, although constrained by liquidity levels in the country. There is an important opportunity for housing microfinance. The high levels of poverty, the established base of microfinance lending that historically took place in the country, and rising demand create the right conditions for this. A number of microfinance providers have already recognised this. Political buy-in for incremental building methods seems to be making some progress, and this needs to be backed up by regulatory reforms.

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