QUICK GUIDES FOR POLICY MAKERS

housing the poor in African cities

UN-HABITAT
FOR A BETTER URBAN FUTURE

Cities Alliance
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5

HOUSING FINANCE:
WAYS TO HELP THE POOR PAY FOR HOUSING

Quick Guide 5: Housing Finance

United Nations Human Settlements Programme (UN-HABITAT)
PO Box 30030, Nairobi, Kenya
Tel: +254 2 621 234
Fax: +254 2 624 266
www.unhabitat.org

HS Number: HS/184/10E
ISBN Number:(Volume) 978-92-1-132320-7
ISBN Number(Series): 978-92-1-131926-2

Cover photos ©: A Grimard

The publication of the Housing the Poor in African Cities series was made possible through the financial support of Cities Alliance.

Published by
United Nations Human Settlements Programme (UN-HABITAT)
Training and Capacity Building Branch (TCBB)
E-mail: tcbb@unhabitat.org
Printing and Prepress: UNON/Publishing Services Section/Nairobi, ISO 14001:2004-certified

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ACKNOWLEDGEMENTS

This series of Quick Guides has been inspired by and prepared on the basis of a similar series on Housing the Poor in Asian Cities, which was published jointly by UN-HABITAT and UNESCAP in 2009. The series is the adaptation of the Asian version to the realities and contexts of the sub-Saharan African countries, and will be available in English, French and Portuguese. This has been made possible through the financial contributions of Cities Alliance and UN-HABITAT.

The guides have been written by the team of experts from the African Centre for Cities (ACC) led by Edgar Pieterse, with the substantive contributions of Karen Press, Kecia Rust and Warren Smit. The experts in the team who have contributed to invaluable background reports for the guides are:

Sarah Charlton, Firoz Khan, Caroline Kihato, Michael Kihato, Melinda Silverman and Tanya Zack. Project management support was provided by Bruce Frayne, and design by Tau Tavengwa.

A number of colleagues from UN-HABITAT's Training and Capacity Building branch, Shelter branch, and the Regional Office for Africa and Arab States, have contributed to the design, development, and review of the guides. They include Gulelat Kebede, Cynthia Radert, Claudio Acioly, Jean D'Aragon, Rasmus Precht, Christophe Lalande, Remy Sietchiping and Alain Grimard.

The guides have benefited from the contributions made by a range of experts who participated in the Expert Group Meeting held in November 2009 in Nairobi, Kenya: Benjamin Bradlow, Malick Gaye, Serge Allou, Barbra Kohlo, Ardelline Masinde, Esther Kodhek, Jack Makau, Allain Cain, Sylvia Noagbesenu, Kecia Rust, Babar Mumtaz, Alain Durand Lasserve, Alan Gilbert and Tarek El-Sheik.

All these contributions have shaped the Quick Guides series, which we hope will contribute to the daily work of policy makers in the sub-Saharan Africa region in their quest to improve housing and access to land for the urban poor.

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Land is central to urban development: "Secure land and property rights for all are essential to reducing poverty, because they underpin economic development and social inclusion".

FINANCING URBAN HOUSING IN AFRICA

QUICK GUIDE FOR POLICY MAKERS NUMBER 5

The two extreme outcomes of current shelter systems that are being witnessed today are affordable shelter that is inadequate, and adequate shelter that is unaffordable.[1]

Housing finance is a tool we use to pay for housing. Because a house is a relatively expensive product, costing many times a family's annual income, the most useful way of financing it is with a large loan from a bank, which the family pays back over a number of years. In Africa, however, less than 15% of urban households can afford or access a mortgage loan. These households finance their housing in different ways, such as with smaller loans from formal and informal lenders, savings, and even subsidies from employers or the government. Housing finance also includes the money that homebuilders use to build houses, which they then sell to buyers. If a country doesn't have a comprehensive housing finance system that responds to diverse needs of its population, its ability to ensure that their housing needs are met is seriously compromised.

Of course, the housing finance system is inextricably linked to the housing delivery system. The way we pay for housing depends on the way the house was built – for example, all in one go, or step by step – and vice versa. It is also tied to the way in which the broader macroeconomy in the country functions. Investors, whose money makes it possible for housing finance providers to operate, will only invest if they see the housing finance sector as more profitable than other investments they could make. Without access to investments, housing finance providers are limited in their ability to offer loans for housing. Macroeconomic policy can therefore have an important impact on the availability of housing finance for the population.

The objective of this Quick Guide is to introduce some of the key concepts of housing finance and to provide a quick overview of how a housing finance system works, from the way lenders get the money to lend, through to the loans that builders use to build houses, and then the loans or savings used by families trying to meet their housing needs. The guide presents information about both the formal and informal systems of housing finance and suggests ways in which the two can be better integrated. It sets out the different kinds of housing finance, and illustrates how African households currently finance their housing. Finally, this Quick Guide offers tips for policy makers to enhance access to affordable housing finance especially by the urban poor.

Across the world, policy makers are grappling with the two extreme outcomes of current housing systems: that in Africa, Asia, Europe, America or Australia, housing is becoming less and less affordable for significant proportions of the population; and increasingly, that housing which is affordable is inadequate. Well designed housing finance systems can help policy makers address this challenge so that all households have access to adequate, affordable housing, the world over.

This guide is not aimed at specialists, but instead aims to help build the capacities of national and local government officials and policy makers who need to quickly enhance their understanding of low-income housing issues.

THE COST OF ADEQUATE HOUSING AND THE NEED FOR HOUSING FINANCE

Everyone needs somewhere to live, and where they live is often a function of the money they have to pay for what is available. If a family does not have enough money to afford the cost of a formal dwelling available for sale or rent, they will have to find somewhere else to stay. There are various options, all of which are evident across African cities today. Poor families often squeeze into the homes of friends or family, or live in rooms rented from existing housing; or they find a place far from work on the edge of town that may be cheaper, but which involves higher transportation costs. Some families build their own homes, often temporary housing in the form of a shack or hut that offers some privacy and basic protection from weather and natural hazards, in an informal settlement or slum with limited or no access to water, sanitation and other services; or they may rent someone else's informal dwelling. Some people sleep rough, under highways or in alleyways, because this is the most they can afford. Across African cities, it is estimated that more than 50% of households live in inadequate housing, often in slums or informal settlements. *(See Quick Guide 2: Low-income housing.)*

Surprisingly, inadequate housing is expensive. Overcrowding can put a terrible strain on the families concerned, and may impact on their health. Transport costs are much higher for those who live on the urban periphery, and the time they use to get to places where they may find income-earning opportunities could be spent more productively if they lived closer. Living and sleeping on the streets or in overcrowded and inadequate housing in informal settlements and slums not only involves health costs, there are also fees and charges involved: a slum dweller may have to lease the land on which he builds; he pays the informal water seller for access to water; he pays building material suppliers for the materials he needs, and he needs these often to keep on repairing his home. Even though households are forced into this situation because they can't afford otherwise, it is not a cheap option. Informal housing development is more affordable, and because of its incremental nature, the costs are spread in small amounts over a long period of time. Over time they often add up to an expensive total, but in the short term, the amounts are small enough that a poor person can afford to pay.

The role of housing finance is to make adequate housing affordable in the same way that informality is: by spreading the relatively large cost of the house over a long period of time so that each monthly instalment is something that the household can handle within the scope of its resources.

Housing finance can also be used for more than buying or building a house. A house has a value that in some cases can be used as security to access a loan, and this can then be used to build a business. Enhancing access to housing finance is therefore an important poverty alleviation strategy.

To accommodate a wide range of housing needs and a growing population over time, a city needs to provide a steady supply of new housing and expand the existing housing stock by providing housing opportunities at scale for different segments of society. If it does not do this, city residents will end up living in less formal, often very poor housing, share accommodation with their family and friends, or live in rented rooms as in Accra, Bissau and other African cities.

HOW DO PEOPLE FINANCE THEIR HOUSING IN AFRICA TODAY?

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

- Very minimal amounts of finance (small mortgages, over shorter terms) are available to very rich clients through a handful of banks.
- High-income earners usually buy formal housing with cash.
- The middle classes 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.[2]

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 is stimulated to scale for all income segments of society.

THE GLOBAL HOUSING FINANCE SYNDROME

The small amount of mortgage finance available goes for the purchase of new, commercially built units of upper-class and some middle-income households. Most households cannot afford the monthly loan repayments required for even the smallest commercially built unit. Sometimes the central government attempts to bridge this affordability gap by creating a large subsidy system to drive mortgage finance downmarket. But these subsidies end up going disproportionately to middle- and upper-income households.

The remainder of the population must build and finance their own homes incrementally. Without support and guidance, this process generates enormous public costs. In particular, the reordering and extension of basic infrastructure (water, sanitation, roads, drainage, common facilities) to informal settlements typically costs three times the amount of extending infrastructure to formal-sector settlement. Thus, governments usually end up behind the curve of housing and urban demand and try to catch up at enormous public cost. Governments lack the subsidies to bridge the affordability gap necessary to satisfy new household formation, so households address their housing needs independently with the resources they have: through informal settlement (land invasion and informal subdivisions) and unsupported progressive housing, whose costly regularization further depletes government resources – thereby aggravating this vicious cycle.

No significant amounts of finance go to support the progressive housing process of the low- to moderate-income majority (three-quarters of the population), to rental housing, or to development finance (land/ infrastructure) or construction finance of formal sector housing. For this and other reasons, housing fails to fulfil its economic function – in particular, that of building household wealth and assets – and falls short in its social function, as too few and too low-quality units get built to house an expanding population.[3]

Why is housing finance so important?

1. **Housing is a fundamental human need and right.**

   Housing provides shelter for people to live in and space to carry on the various activities of their lives. Housing also provides a fixed point which allows people to get access to basic services like water supply, electricity, sanitation, house registration and citizen identification. Adequate housing is a human right and the access to housing, and terms under which they occupy that housing, are important parts of a household's social status and important aspects of its members' wellbeing.

2. **Housing is expensive and it makes sense to borrow to pay for the house we are living in**.

   In some countries, a decent house can cost up to ten times a household's annual income. Even under the most favourable conditions, formal housing will cost a minimum of two times a household's yearly income. Because the cost of housing is so high compared to what people earn, it would take too long to save up enough to buy the house with cash. Housing loan finance makes it possible for the household to get a loan and pay for their housing while they are living in the house. It makes the process of realizing adequate housing more efficient.

3. **Housing finance improves the performance of the housing asset.**

   Although the shelter a house provides is fundamental to its value, a house has other values as well. The house can give a family member a base from which to earn an income. For example, the household could borrow a housing loan to build an additional room on the property and rent this out to a tenant. Or, a family member could run a small shop from their home, or offer a service. When a house is used in this way, the income earned can be used to repay the loan. Another way that housing finance improves the performance of the housing asset is in a sale transaction. If the household needs to sell their house, the price they are able to sell it for increases if the buyer can access housing finance. If there is no housing finance available, the seller needs to settle for whatever cash the buyer can collect.

4. **No government can meet all the housing needs of its population.**

   While most governments would like to give all of their constituents houses for free, no country can afford such a large entitlement. Even in a country like South Africa, where the government has adopted a fairly widespread housing subsidy scheme, housing finance remains important for those who are not eligible for subsidies. In order to ensure that all of its people have access to adequate housing, a government must make sure that housing loans are available for all.

5. **Housing finance stimulates economic development**

   The role of housing finance in macroeconomic performance is something that the governments of developed countries understand very well. In Africa, housing finance has not been given much attention, as the proportion of the population that might access this has always been small. As financial access improves, however, the role of housing finance in stimulating wider economic development becomes more significant. The relationship is quite simple: the availability of housing finance stimulates the demand for housing and triggers housing developers to build more houses. This stimulates the local economy in particular as housing construction generally involves locally produced materials and labour. More houses encourage more people to buy them. Once these houses have been bought, they need to be filled with furniture, and many of these goods can also be produced locally. As the demand for more goods increases, the supply response creates more jobs, which creates greater affordability for more loans, more production and more consumption. This virtuous circle becomes possible, in part, because of housing finance.

THE HOUSING FINANCE SYSTEM: SUPPLY AND DEMAND

A housing finance system involves an interplay between:

1. the demand for and supply of formal housing units;
2. the demand for and supply of formal housing finance to pay for these units;
3. the activities of the government to help the process along; and then,
4. informal processes of supply and demand for people who cannot access formal products and services or government support.

These four parts of the system are explained below. It is important to remember that all four parts work together as a system, each dependent on the capacities and deficiencies of the others.

Demand and supply of formal housing

The first part of the system relates to the demand and supply of formal housing. In theory, it works like this: on the evidence that there are people who need housing (demand), a builder or developer decides to build housing units (whether freestanding, multi-family, high-rise or suburban, etc.) for sale (supply). Once he finds the land, he has to make sure there is infrastructure (water, sanitation, energy, roads), and then he can build the top-structure, the actual housing unit. He goes to the bank to request a loan. The bank gives the developer a construction or development loan, based on his track record (has he borrowed before and paid back on time?), his evidence of demand (the buyers that he imagines – can they afford the housing he is planning to build, and can they get finance?), and the general feasibility of his approach (does he have the capacity to do what he plans?). The developer relies heavily on the local municipality to facilitate the process – to approve the plans for construction, to ensure the availability of infrastructure, and to inspect the building process – in a timely manner. The developer also relies on the lender to provide loans to prospective buyers. In most cases, a developer will not start building until he is entirely certain that his buyers have been approved by the bank for a loan and they've signed contracts committing them to the sale.

This system depends on a number of conditions, including the following:

- The land must be available for formal purchase. This means that it must be already formally proclaimed and registered on the Deeds Registry. Alternatively, the developer needs to have a legally binding agreement with the person responsible for the land, that he can build on it and then formally sell the properties to buyers.
- The bulk infrastructure (water, sanitation, energy and roads outside the development, to which internal services will connect) needs to be in place. Usually, bulk infrastructure is something that a municipality provides, funding this with a long-term loan (commonly extending up to 100 years) that it then repays from its tax rates base and user's fees charges. Infrastructure finance should have a long lifecycle, but in many cities this is not achievable and houses for sale include the cost of infrastructure within their price.
- Lenders must offer development finance – that is, construction loans for housing purposes – at rates that are sufficiently affordable to keep the price of the housing low enough to be affordable to those wanting to buy housing.

- Buyers must be able to access loan finance to pay for the housing. This is what is known as 'effective demand'. It is not enough for a developer to know that people want to buy his houses – he also needs to know that they can afford to buy them, and that they have the finance to make this possible.

If any one of these conditions is not in place, then the developer may decide to address the condition on his own, or he may decide not to do the development just yet. For example, in many countries in Africa, long-term finance to purchase ready-made houses (also known as mortgage finance) does not exist. Without this finance, developers can only build for people who can afford to pay with cash. This limits the number of houses that a developer can plan on building. As a result, in most African countries, it is still common that housing is built on a one-by-one basis, financed by the prospective owner, and not as part of large-scale developments. This makes each individual house more expensive because the economies of scale that a larger development may achieve cannot be realized.

Financing housing development

The second part of the system involves the finance. Developers need to access loan finance to undertake the development, and the availability of this is dependent on the existence of buyers who either have the cash or finance to buy the developer's product. Unfortunately, because the mortgage business is not yet very substantial in many African cities, this is a difficult step to achieve. Developers are stuck with a challenge: they can't get finance to build until their buyers get access to loan finance, which isn't offered by banks because there aren't houses for borrowers to buy.

The developer responsible for the Lilayi Housing Development in Zambia described the problem this way: '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.'[5]

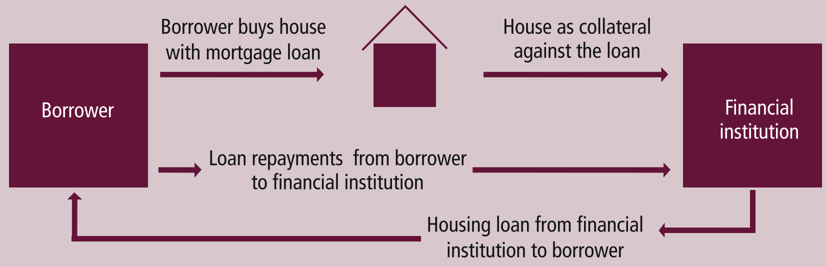
The most common and, in principle, useful form of housing finance is the **mortgage**

BREAKING NEW GROUND IN ZAMBIA: THE LILAYI DEVELOPMENT

Robin Miller owned 5 000 acres of land in Zambia just outside the capital city of Lusaka. One portion of that land was not suitable for farming, so in 2001 Mr Miller decided to develop it as a 5 000-unit residential suburb. To get to the point of turning earth on site took the extraordinary commitment of the key players over almost 10 years, 50 different legal agreements, a complex financing mechanism and the backing of a range of international players including the Dutch development financier FMO, USAID, OPIC and others.

The Lilayi Project involved a complete development solution, in which the developer drove every aspect of the project in the absence of other players. The project was structured from the beginning as a stand-alone suburb, with most of its services and facilities being developed as part of the scheme. In addition, it piloted a new, decentralized procedure for transferring title, which relied on local offices rather than the Department of Lands. Given the absence of housing finance players in the market, the Lilayi Housing Development took an alternative approach to ensuring loan finance for purchasers. The project raised its own capital for end user finance – becoming a special mortgage finance institution. Stanbic administers the home loans on Lilayi's behalf.[4]

FIGURE 1: **FINANCING A HOUSE PURCHASE WITH A MORTGAGE LOAN**



loan (see Figure 1). This is a large loan with a long repayment period that is secured by the property that it helps to buy. It works like this: a buyer wants to buy a house, but she can't afford it because the cost is many times her annual salary. She approaches the bank to buy the property, bringing along her proof of income and details of the house (where it is, what she thinks it is worth, and so on). The bank decides to grant her the loan if (1) the bank has enough money; (2) the borrower can afford the monthly repayment that the loan would require; (3) there is a reasonable expectation that the borrower will keep her job for the term of the loan; (4) the borrower will be able to get legal title over the property and it is worth the amount that the borrower has requested from the bank; and (5) the bank feels confident that it can repossess the property if the borrower defaults on the loan repayment. The bank will want to make sure that foreclosure laws are straightforward and enforced by government and legislation. If the bank is certain that all of these things are in place, and that there is legislation and law enforcement, it will usually offer the loan. If it is a little uncertain, it might still offer the loan but charge a higher interest rate to cover the risk of default. If it is certain that these conditions are not in place, it is unlikely that the bank will grant the loan.

Each of these five conditions involves a host of other factors:

1. **The bank has enough money**: The bank needs to be certain that it has enough money to grant the borrower a loan and that it can afford to part with that money for as long as it takes the borrower to pay it back. This second part is the most difficult one, and it is around this challenge that different kinds of housing finance systems have emerged. (See the section of this guide 'Where do lenders get the money for housing loans?')

2. **The borrower can afford the monthly repayment that the loan would require**: This depends on the borrower's income and expenditure, and how much is left over to use for housing purposes (see the section of this guide 'How do banks assess affordability?'). In many cases, the bank will only issue the loan if it can organize for repayments to be paid directly by the employer, before the salary is paid to the borrower. This is called a payroll-deductible loan. It makes sure that the borrower doesn't spend her money on other things before paying the bank. The monthly repayment is a factor of the principle loan amount (which itself depends on the cost of the house and how much money the borrower was able

to save towards the deposit), the interest rate, and the term of the loan. These factors are substantially influenced by macroeconomic policy.

3. **There is a reasonable expectation that the borrower will keep her job for the term of the loan**: The bank is very interested in the borrower's job security, because this will ensure that the borrower will be able to afford her repayments for the full loan term. This means that the bank will think about whether the borrower's employer is likely to go out of business, and if so, if the borrower herself has good chances of getting other work. It is for this reason that banks in many African countries especially like to lend to civil servants: governments never go out of business! It also means that a bank is unlikely to grant a loan if the borrower is close to retirement. The bank wants to make sure that the loan is paid off before the borrower stops working – so usually, banks don't like to lend 20-year mortgage loans to people who are over 40 years of age. If they do agree to lend, they reduce the loan term so that it ends when the person is due for retirement.

4. **The borrower will be able to get legal title over the house and it is worth the amount that the borrower has requested**: The main feature of a mortgage loan is that it is secured by the property that it is used to buy. This means that when the borrower takes the loan, she signs her legally recognised rights to the property over to the bank, redeemable if she defaults on his loan. If the borrower loses her job, for example, and fails to honour her promise to pay, the bank has the right to take possession of the house and sell it to recoup the amounts outstanding on the loan. For this reason, the loan arrangement only works if the borrower has legal title to the house that she can pass on to the bank. If the borrower doesn't legally own the land, she cannot offer it to the bank as security for her loan. Of course, this is a rather anxious-making agreement, but it is only with this security that the bank will feel comfortable about giving such a large loan to the borrower and allowing her to repay it over such a long time. For this reason, it is also important that the house is worth at least as much as the loan amount: if the bank has to sell the house it has to be sure to get back at least what it is owed.

5. **The repossession of the property is straightforward and supported by foreclosure laws that are enforced by the judiciary system**: The bank also wants to make sure that it will be allowed to repossess the property, and that, if necessary, the judiciary system is called upon to enforce law and evict the defaulting borrower. In some countries the process of repossession is politicized, the judiciary is slow or not willing to enforce foreclosure legislation, and/or governments are reluctant to enforce laws that will bring social unrest in case the borrower is to be legally evicted from the property and become homeless. When this happens, the bank loses faith that its mortgage loan agreement will be honoured. When the bank feels that, in the event of foreclosure, it will have difficulty in repossessing the property, it might decide not to lend at all. A 2007 study showed that over 50% of companies in Angola, the Democratic Republic of Congo, Guinea and Swaziland did not trust the judiciary system to uphold property rights. Over 30% of companies in Botswana, Burundi, Rwanda, Cameroon, Mauritania, Uganda and Tanzania also did not trust the judiciary system to uphold property rights. This becomes a serious barrier to lending. While governments are usu-

ally concerned with homelessness, banks and financial institutions are more focused on the enforcement of property rights and foreclosure legislation that will enable them to recover the money that they have lent. Risks will cause banks to charge absurdly high interest rates or to provide no housing loans at all.

There is a very small proportion of the urban population in Africa that can meet all of these conditions. Affordability is one problem. Even though the mortgage loan spreads the large cost of housing over a long period of time, monthly repayments remain too high for over 85% of the population. Banks also cannot lend mortgage loans to people who are informally employed. Finally, one of the greatest constraints to mortgage markets is the poor land administration and registration systems that coexist with customary systems of land holdings in many African countries. For example, in Rwanda, out of 7.7 million plots, only 80 000 have formal title. This seriously limits the number of properties against which banks are prepared to provide a mortgage loan.

Government support for the housing finance system

The third part of the housing finance system involves the activities of the government to help the process along. All over the world, governments provide support to make their housing finance systems work for a larger proportion of their population. In the United States, housing subsidies for both rental and ownership are a fundamental part of the finance system. In Scandinavia, the Netherlands and England, high levels of state subsidization made it possible for the vibrant social rental and cooperative housing sectors that exist in those countries to come into being and be sustained. In principle, government can play an important bridging role, extending the affordability of low-income households further so that, with finance, they can access adequate housing provided by the private sector.

Currently, South Africa has the most extensive housing subsidy system on the continent with the government playing a very dominant role. The relative wealth of the South African economy, supported annually by growing tax revenue, has made it uniquely possible for

HOUSING FINANCE IN UGANDA

Uganda's housing finance sector has grown substantially from one government-owned institution to five commercial banks (Housing Finance Bank, DFCU Bank, Stanbic Bank, Barclays, Standard Chartered) and one microfinance deposit-taking institution (Uganda Microfinance Limited). The sector is, however, small in relation to the housing needs of the country and it has principally been serving the middle- and higher-income earners. The average mortgage loan size issued by commercial banks is between UGX60 million (USD34 000) and UGX80 million (USD46 000), an amount too high for the low-income earners.

Absence of adequate housing finance for the last 30 years and the weak foundations put in place by consecutive governments for building the country's housing industry have greatly crippled the formal private sector, to such an extent that their contribution to housing delivery has been relatively insignificant.

Non-bank housing microfinance is new, supported in part by the Stromme Foundation (a wholesale lending institution) and Habitat for Humanity Uganda (working with UGAFODE).[6]

the government to provide fully subsidized housing for free to the poor and low-income earners, who together comprise the majority of the South African population. The post-democracy context of the country created a political situation in which the South African state needed to respond to a demand for entitlements for those previously excluded from home ownership by the apartheid regime. However, this was a unique situation. The degree of fiscal capacity present in South Africa is not found elsewhere in Africa.

The challenge that government faces, in Africa and elsewhere, when it wants to provide support is that it must ensure that its efforts don't crowd out the private sector. Government support should make it easier for the private sector to provide access to affordable housing finance – it shouldn't discourage the private sector from participating at all. Ultimately, government needs banks and other financial sector players to participate because it doesn't have enough money to do the job all on its own. Government's interventions can make a difference directly, through the provision of subsidies, different types of incentives (e.g. fiscal, production, income, etc.), or even the imposition of regulations; or indirectly, through broader macro-economic policy.

Households turning to informal housing finance

The final part of the housing finance system involves those households that address their housing needs informally because formal, developer-built housing and mortgage finance is inaccessible, and government assistance isn't helpful enough. Although referred to as 'informal', this is the dominant part of the housing system in most African countries. With less than 15% of the population able to access mortgage finance, the remainder addresses their housing circumstances outside the formal system, on their own, one-by-one.

Owner-built housing is the most common form of housing production in Africa, and the inhabitants of African cities have themselves been the major sources of finance for housing production. The situation found in Malawi is typical across the continent.

MARKET SEGMENTS IN MALAWI

There are three clear segments of the population who each have very different housing demands and housing finance needs:

- Middle- to high-income earners who buy land and self-build or buy finished houses within planned, regularized urban locations. These people typically qualify for mortgages or will save and build incrementally until they have a mortgage-able structure.
- The lower-middle and low-income earners living in urban areas who rent accommodation in high-density unplanned settlements or who secure a plot of land (often not regularized) and build incrementally over a period of time. These individuals require unsecured housing loans since their land tenure is unlikely to be regularized, or access to smaller-sized loans (home improvement loans) to build their homes over a period of time.
- The low-income earners or subsistence farmers in rural areas on customary land who also build incrementally, based on their seasonal income flow. These people need access to material loans since their housing needs are more basic, and they will need to build incrementally in line with their seasonal income flows.[7]

In the absence of any effective, large-scale response to housing shortages by the state or the private sector, households themselves are addressing the urgent housing needs in African cities. With the least resources, low-income earners build their housing in informal settlements. More than half of the population of many African cities is now living in informal settlements. The enormous stock of affordable housing which these settlements provide may be insecure, poorly built, of poor quality and badly serviced, but by housing their workforces it has enabled cities to grow and prosper. There is an urgent need to upgrade these informal settlements and transform them into better serviced and legally secure neighbourhoods, fully integrated into the cities where they are located.

There are many lessons to be learnt from this people-produced housing delivery system. These include how to understand better the housing needs of the urban poor, and how to help their informal housing supply systems work more efficiently and equitably. *(See Quick Guide 2: Low-income housing.)* These processes reveal vitality in mobilizing resources, assembling basic inputs to housing and building over time a housing unit that fits the needs and affordability levels of large parts of the population. The process, which is incremental, resource- and time-bound, depends on the availability of land, building materials and financial resources. Therefore, the development of non-mortgage housing finance is an important part of bringing this to scale and making it happen in a way that supports people-produced housing delivery systems. This is something that governments should focus their attention on when they consider financial sector development, and particularly housing finance, in their countries. (See the section of this guide, *'What to do when the mortgage isn't possible'*.)

The goal of a comprehensive housing finance system is to reduce the number of people who need to address their housing needs informally, entirely outside the official systems, by providing broad options with competitive alternatives. Government support is critical to making it happen. A good housing finance system makes the financing of housing more efficient – that is, simpler, better, faster – than the informal route.

WHERE DO LENDERS GET THE MONEY FOR HOUSING LOANS?

Housing loans are particularly difficult loans for lenders to offer because they're bigger than most other loans, requiring a longer repayment period. Lending money over a long period of time is a lot riskier for a lender because the chances are greater that a borrower might default on the loan, that the property value may drop so much that it no longer matches the value of the loan outstanding, or that inflation may make the loan worthless. Long-term loans also tie up relatively large amounts of capital for long periods of time, which means that the lender can't lend that money out to other people. One of the biggest challenges facing any housing lender is getting together enough money to be able to offer loans in the first place.

Lenders are defined by the way in which they get money to lend. There are broadly four different approaches:

- As deposit-taking institutions, banks lend other peoples' money.
- Contract savings institutions are deposit-taking institutions that specialize in housing loans, similar to building societies.
- Mortgage banks fund their loan portfolios by issuing securities to investors.
- Less common in Africa, securitization is an important way that lenders raise funds and transfer risk. It is most commonly used in countries with a mature and well developed financial sector, such as the United States, England and countries of the European Union.

These different approaches are explained below.

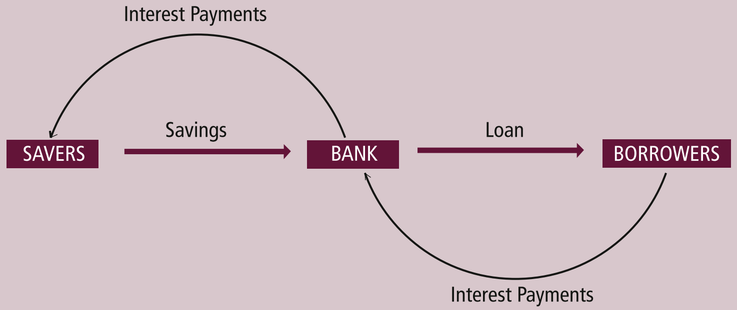
Banks lend other peoples' money

A financial system relies on the fact that within an economy some people (savers) have more money than they need, while other people (borrowers) have less money they need. A financial system channels funds from savers to borrowers *(see Figure 2)*.

When a saver deposits their money in the bank, the bank pays them a fee for keeping their money there. This is called interest. Similarly, when a borrower takes a loan from the bank their repayment comprises the capital amount, divided into smaller amounts payable on a monthly basis, and interest. Interest is the fee charged for the use of the money over time. The bank charges borrowers a higher interest rate than it pays its savers, so that it can cover its costs and earn an income. Banks need to make sure that borrowers repay their loans so that savers can access their money as they need it. If a saver didn't feel that their money was safe with the bank, they wouldn't put it there. And if savers didn't deposit their savings into the bank, the bank would have nothing to lend. Banks lend other peoples' money so they have to make sure that they can get that money back.

Housing finance takes this whole process to another level, because housing is expensive. The purchase of a complete dwelling can cost as much as between two and ten times a household's annual income – far beyond the savings capacity of most households. For this reason, most complete dwellings are paid for with loan finance (usually a mortgage) that borrowers then repay in manageable, monthly amounts, over time. Again, the bank has to make sure that the

FIGURE 2: **BANKS CHANNEL MONEY FROM SAVERS TO BORROWERS**



borrower repays their loan so that savers' deposits are protected. If a household can't afford to pay even the small repayment amounts that a lender defines, then they have to change what they buy. They can either buy a smaller, less expensive house; or they can rent accommodation; or they can decide to build their own housing step-by-step as quickly or as slowly as they can afford. Different forms of housing finance are designed to facilitate each of these different processes.

INGREDIENTS OF A LOAN

Capital amount: this is the amount that the borrower borrows from the lender.

Interest: This is the fee paid for the service of borrowing the money. It is calculated as a percentage of the outstanding loan amount and payable on a monthly basis, together with a portion of the capital amount. In countries where inflation is high, interest rates will be higher so that the money paid back is not worth less than what it was at the time of borrowing.

Security or collateral: This is something that the borrower offers to the lender to hold in security in the event that the borrower is unable to repay the loan. In some cases, the security or collateral is the house being financed. In other cases it could be furniture, or a car, or some other valuable, durable good. The important feature of security is that it should be redeemable in the event of the loan defaulting. So, if someone defaults on a housing loan for USD10 000, the collateral should be at least the value of the outstanding loan amount, so that the borrower is covered for their losses.

Deposit: This is the amount that the borrower pays from his savings towards the cost of the loan. It proves to the lender that the borrower has some financial capacity, and that he is committed to the investment for which he is borrowing money.

Risk: This is uncertainty, or the possibility that the expected returns from an investment will be less than what has been forecast. When risk is high, lenders raise the interest rate associated with a loan. Risk can be mediated with security, however, which brings the interest rate down again.

Contract savings institutions specialized in saving and lending for housing

Building societies were founded in England in the 18th century, to mobilize the savings of lower- and middle-income households specifically for use for housing construction. In that early model, a community got together to form a savings club – like the stokvel or ROSCA that is common in communities in Africa – in which all members would actively save for housing. Once in a cycle, one of the members was entitled to take the savings of the group and use it on housing. Over time, the model evolved and formalized, and some building societies grew into fully fledged banks focusing on very many products, not just housing. Building societies were popular during the post-independence period in many countries in Africa, but most of them did not survive. The Botswana Building Society (BBS) is an example of a thriving building society in Africa that has not transformed itself into a bank. In 2010, the BBS had a total of 4 912 mortgage account holders and 104 785 savings account holders.

The current contract savings institution model has been popular in Austria, France and Germany, as well as in parts of Africa and Latin America. In terms of the model, savers enter a contractual agreement with the institution to save for a specified period or up to a specified amount, generally at a below-market, fixed rate of interest. Once the saver fulfils the contractual obligations, he or she is entitled to a below-market fixed interest rate loan. In many cases government supports the operations of the contract savings institution, by offering savings bonuses and favourable tax treatment. The building society model continues to exist in a few countries – the Botswana Building Society, for example.

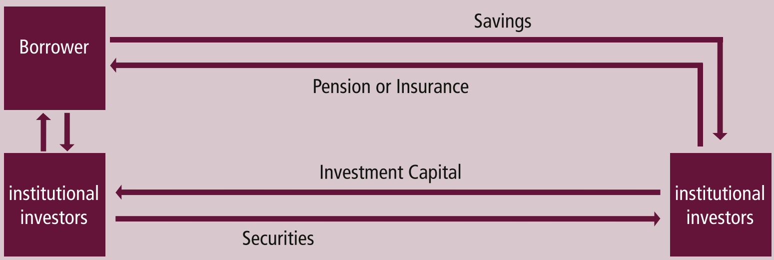
Singapore has an interesting model, where contributors to its Central Provident Fund are entitled to use their mandatory savings for down payments and mortgage payments (but not rent payments). When the amount they are entitled to borrow is insufficient for their housing purposes, borrowers sometimes get a second mortgage from a commercial bank.

Of course, the challenge with this sort of scheme is that the pool of savers is the same as the pool of borrowers, meaning that not everyone can borrow at the same time. Also, the approach limits the saver's choice – if their circumstances change and they need the money they've saved for something else, it's very difficult to get their money out of the system.

Mortgage banks fund their loan portfolios by issuing securities to investors

Mortgage banks are lending institutions established expressly to offer mortgage loans. They do not take deposits, but rather raise capital by selling securities to investors (see Figure 3. The investors are usually long-term financial institutions themselves, like pension funds or insurance companies. They receive savings from ordinary people who buy insurance or pension products. Because these products only mature after a long time, the fund or insurance company knows that they can invest the money in an institution that also has long-term obligations. Generally, mortgage banks offer long-term, fixed-rate mortgages.

FIGURE 3: **MORTGAGE BANKS CHANNEL MONEY FROM INVESTORS TO BORROWERS**



Although pension funds are an important source of domestic savings (sometimes the only significant one), and ideal for the long-term funding requirements of mortgage banks – as in many countries of the European Union – pension funds across Africa are generally reluctant to invest in housing finance. Trustees who manage pension fund assets and decide on what investments to make, believe that low-income housing is a high-risk, low-return business inappropriate for their investment plans. They think that housing finance investment is the government's job, and therefore never consider the kinds of returns that can be made.

One of the problems undermining trustees' interest in investing in housing is the interest rate offered on government Treasury bills. When governments set the interest rate payable on Treasury bills too high, pension funds invest in those Treasury bills rather than making other investments.

Some countries have addressed this challenge directly by reducing Treasury bill rates, as a mechanism to shift investment towards more productive opportunities such as housing. Some countries have also implemented legislation that actively directs investment into opportunities that stimulate the local economy. In Namibia, the government recently amended its regulations to stipulate that pension funds must invest at least 5% of their assets in unlisted, local assets. Zambia's National Pension Scheme is negotiating with commercial banks to deposit a large portion of funds with the banks on condition that they develop a range of financial products suited to the pension fund's members.

Mortgage banks can also raise capital in the capital markets. This is less prevalent in Africa, however, as African stock markets are small by international standards.

Securitization is another way that lenders can raise capital

Securitization takes the mortgage bank funding model one step further, by pooling a collection of mortgages together and selling securities on these pools to institutional investors. The system gained popularity in the USA and the UK, and is the dominant mechanism for funding housing loan books in those countries. It works like this: a bank issues a series of loans, and pools these together. The bank then sells the loan pool (including the repayment obligations of all the borrowers with loans collected in that pool), to an intermediary institution – a special purpose vehicle – which then invites investors to buy securities in the pool. This

AN EXAMPLE OF A SECURITIZED LOAN POOL

Bank ABC enters into loan agreements with 50 families across the province. Each loan is for USD20 000 and promises a monthly payment of USD2 000.	Bank ABC pools the 50 loans and sells these as a package to a special purpose vehicle. Now ABC Bank has no more rights to the repayment stream from any of the loans, but they have money from the sale of the package to go and make new loans.	The special purpose vehicle invites investors to take out securities in their loan pool. Each security gives an investor a right to a portion of the loan repayment stream every month.	To encourage investors to make investments and facilitate this process, some governments guarantee investors their returns.

invitation is called the 'secondary mortgage market'. The securities that investors buy are known as 'mortgage-backed securities' and promise them a portion of the collections from the loan package.

The beauty of the arrangement is that a lender can originate loans without worrying about the term: they just on-sell the loan as part of a package to the special purpose vehicle. This solves the liquidity challenge that banks often face with long-term mortgages, and gives the lender a steady cash flow to originate more loans, while the special purpose vehicle gets all rights to the repayments on the loans in that pool. Of course, the risk to the investor is that the borrower won't pay their loan. This means that the investor is very keen to know all the details about the quality of the loans in the pool before agreeing to buy the pool. In the USA, the government developed a system of guarantees to protect investor capital and ensure that they kept on feeding the system with their investments.

In principle, securitization does work beautifully when it works, because it deals with the two largest concerns any bank might have: liquidity (i.e. enough funds to be able to keep on lending) and risk (the possibility of non-payment). In the securitization arrangement, the lender becomes an originator, selling loans on behalf of the special purpose vehicle and the investor. The special purpose vehicle takes on the risk of the mortgage book, and this makes it possible for investors to offer funding. Of course, in order to securitize loans, a lender needs to have originated enough of them to create a pool of sufficient health and diversity to attract an investor. This means that only established lenders with a good track record can take the next step to securitization. Securitization does not provide a source of funding for new lenders. The funding that securitization provides is for growth, once a loan book has been established.

The system is not without risks. Between 2007 and 2010, problems with the American and British securitization industry threatened to bring down the entire global economy, and have pushed very many countries into an extremely serious recession.

SECURITIZATION AND THE SUBPRIME CRISIS

While securitization was an important and useful tool for dealing with liquidity and risk challenges, it also laid the groundwork for the subprime crisis that then led to the global economic crisis in 2009 and 2010.

Possibly the most important part of the lending process, what makes it possible for a lender to offer a loan, is the lender's confidence that the borrower will pay the loan back. To become confident, the lender interviews the borrower, reviews his documentation that confirms his income and his expenses (that he can afford the monthly repayments), and also sometimes inspects the house for which the loan is to be used to make sure that it is equal to or greater than the value of the loan. Only on the basis of all of this information can a lender be confident that the borrower can honour his repayment obligations.

However, some people argue that a borrower's capacity to repay is not always visible on paper. A borrower may have family members who regularly send money (remittances), or may have an informal or cash-based business. The borrower may be able to afford the loan with this informal income – but without written proof, his loan application process may be declined. To overcome this problem, a policy was adopted in the USA in which lenders were permitted to grant loans without all the information normally required, and to charge a higher interest rate for such loans.

Normally, because lending depends on repayment, lenders would not have accepted such a risk – no interest rate could be high enough to cover the risk that someone might lie about their income and not be able to afford a loan that is granted. However, because lenders could securitize their loan books, they could hide the riskier loans within the wider, healthier pool of loans that had better risk profiles. After a while, lenders became less and less careful about the borrower's ability to repay because they weren't responsible for the collection of the repayments. As securitization pools became riskier, however, lenders didn't notice because they didn't experience the risk. By the time the investors who bought the mortgage-backed securities noticed, it was too late: the loans had already been extended and the borrowers were defaulting.

The risk of securitization is that it makes the lender less concerned about the long-term repayment capacity of the borrower, because they sell the risk of non-payment to the investor.

HOW DO BANKS ASSESS AFFORDABILITY?

The most important factor in determining whether or not a bank will grant a loan is household income: is it enough, and is it regular? In a situation where most household breadwinners are employed in regular jobs in the formal sector, determining current and even future incomes is easier. But in most African countries, the informal, irregular incomes of urban poor households can be quite difficult to assess. In many poor households, there is more than one income-earner and more than one source of income. Some of this may come from informal sector jobs and small businesses, and there may be no documentary proof (such as a payslip) of the income. Also, it is the nature of informal sector employment (and of poverty in general) that incomes fluctuate and crises come up which can make a household's available resources highly unstable. All these things make it difficult for formal finance institutions to determine a household's income.

Lenders generally have three ways to determine how much a household is able to pay:

- By using a percentage of their monthly income. The rule of thumb for low-income households is to estimate that between 20% and 30% of monthly household income is what the household can afford to pay towards their housing loan. The lower the income of the household, the smaller the percentage they can dedicate to housing, as all households have fixed costs (food, water, clothing, school fees) that they cannot avoid.
- By subtracting actual expenditure (including current rental or housing expenses) from monthly income. This method is more accurate, since it takes into account a household's income and expenditure, and therefore better reflects their particular economic realities. It is also not straightforward, however. Expenses can vary from month to month, and there are often unexpected costs that cannot be planned for.
- By testing affordability with a probationary savings period before offering the loan. Some lenders have realized that household income and expenditure is neither regular nor transparent, and that households often manage creative ways to afford loan repayments. To establish loan affordability, the lender agrees on a savings plan with the household, which they must stick to for a period of at least six months. During this time, the lender monitors the household's payment performance: do they pay on time every month? Do they pay the full amount every month? Do they seem to be managing with this regular payment obligation? At the end of the period, if the household has managed fine, the bank can offer the loan with the added security that the household has saved up a nice deposit.

WHAT TO DO WHEN A MORTGAGE ISN'T POSSIBLE

The problem with the mortgage instrument is that it only works for a small minority of the population. Research commissioned by the FinMark Trust in 12 countries across Africa found that less than 10% of local populations are eligible for mortgage finance, and this is before housing affordability is considered. Problems undermining access to mortgage loans across Africa include the following:

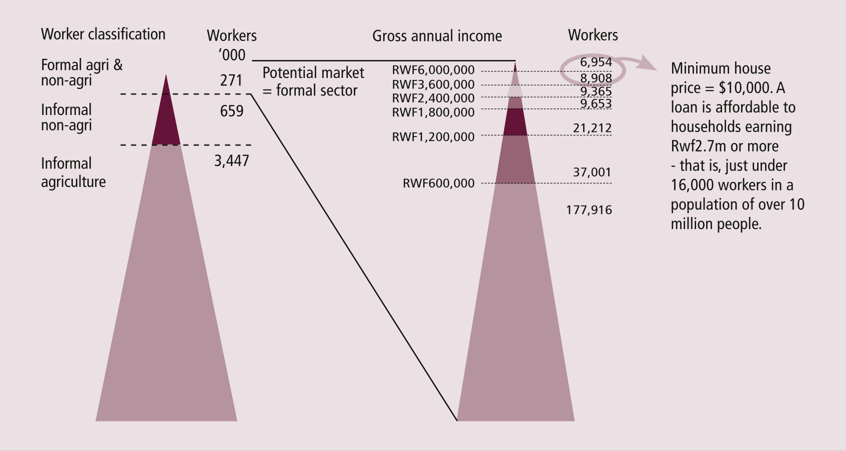
- Borrowers must have stable, formal employment. Across sub-Saharan African cities, only 64.5% of the population over the age of 15 is employed.
- Those formally employed must earn enough to afford the loan size required to buy the house. Over 50% of households across Africa earn less than USD1 per day. Only about 3% of the total population across Africa earn a sufficient income to afford mortgage finance.
- For a mortgage loan to work, the property must be legally able to perform as security. In most African cities, the land management system is only now developing and many properties are built on land that neither has a title deed nor is properly recorded in a public registry. In Rwanda, for example, out of 7.7 million plots, only 80 000 have formal title. Where title is available, the systems in place to enable transfer are so complex and time-consuming that formal transfer becomes very expensive and out of reach of the majority. Zambia, for example, has a single land registry based in Lusaka. All transfer documents must be signed by the Registrar in Lusaka, no matter where else in the country they relate to. A study done by the World Bank showed that the time and cost of registering a mortgage and transferring title in sub-Saharan Africa is the highest in the world. It takes an average of 95.6 days to register land legally, and costs just over 8% of the property's value. In Angola, it takes 334 days and costs 11.6% of the total cost of the land to register property legally. In the Nigerian state of Lagos, transfer charges (including capital gains tax and registration fees) are set at 19% of the property value, down from the earlier rate of 30%. In Egypt, on the other hand, the costs for registering a mortgage and title transfer are set at 0.7% of the property value, and mortgage registration fees are capped at about USD360.
- Borrowers must be banked. Although growing, financial access throughout Africa is still limited. In middle-income southern African countries (Botswana, Namibia, South Africa) about 50% of adults are banked, whereas in low-income East African countries (Kenya, Tanzania, Uganda, Zambia), the percentage banked is below 20%. The reported use of credit products is much lower than these percentages.
- Banks must offer mortgages. Because of the challenges of mortgage lending (banks must be able to lend out large loans that get repaid over a long period) there are only a few providers of mortgage finance in Africa. While this is also growing, the spread remains thin, concentrated in national capitals, and not universally present across all countries. South Africa and Namibia have the largest mortgage markets in Africa, with mortgage debt accounting for just over 40% of GDP in South Africa and about 20% in Namibia. Mortgage debt as a

AFFORDABILITY OF HOUSING FINANCE IN AFRICA

Zambia: 'Few self-employed people earn sufficient to qualify for a home loan. This leaves the 16% of all Zambians that are formally employed (2.2-million) as the potential market… Of these, 40% are currently un-banked.'[8]

Kenya: '… less than 10% – have traditionally qualified for mortgage loans from HFIs [housing finance institutions], with the majority ruled out by their low incomes. Borrowers generally consist of high net worth individuals...'[9]

Rwanda: '… of the 270 000 formally employed, only around 50 000 people earn above RWF1.2 million (USD2 000) per month. … the income of the bulk of the population will fall below the level where they can secure mortgage financing in the formal market.'[10]



Mozambique: '… a household would require a monthly net salary of 48 000 MZM(USD1 900) to borrow USD40 000 over a 20-year period to purchase a small apartment in the less attractive areas of the cement city of Maputo. … This is more than the net basic salaries of a couple of senior doctors working for the national health system.'[11]

Tanzania: '…nearly 70% have monthly incomes below TZS200 000 (USD150) and cannot therefore afford conventional, mortgage housing loans; and it is unlikely that the 47% with monthly incomes below TZS50 000 (USD38) can afford housing loans of whatever kind if only current income is taken into account. A full 28% of the adult population do not or cannot make reliable statements about their personal income.'[12]

Ethiopia: '… for the three lowest income groups (all those under ETB700 per month) comprising at least 60% of the population – it is not possible to afford the construction price of a very small, modestly constructed home, even with a no-down payment loan at 5% over 20 years. Only the top-third of the population could afford the actual cost of a modest home or better. The exception to this is that a low-income household might be able to self-construct a small home on a serviced plot. For most of the low-income households, rental is really the only option, and even that will only be affordable if there is significant subsidy of the actual cost of housing.' [13]

percentage of GDP is 15% in Morocco, and about 12% in Tunisia. In all other countries, however, mortgage lending is negligible – less than 5% – and is an industry poised for growth but not yet developed.

Studies commissioned by the FinMark Trust found that in Angola, the formal banking sector has been reluctant to enter the housing finance market, and a national study published in 2005 showed that less than 2% of households' investment in housing comes from banks. Housing finance lending in Ethiopia is only a small proportion of lending: currently only 4% of the national loan portfolio is for this purpose. Mortgage lending in Ghana is extremely limited: only 85 new loans were made in 2004. In Uganda, less than 1% of the population has access to mortgage loans from commercial banks. Mortgages in Rwanda are currently provided to an estimated 3 000–4 000 people, whereas estimates suggest that around 25 000–30 000 people can afford the mortgages on offer from the banks.

With the vast majority of African populations being unable to access mortgage finance for one reason or another, other forms of housing finance must be provided (see Table 1). Too often, governments make the mistake of thinking that when mortgage finance is available in their country, their housing finance problems will be solved. Mortgage finance is important, but it will only serve a fraction of the population in any country.

'Less than 30% of households in most emerging countries can afford a mortgage to purchase the least expensive, developer-built unit because:

- *house prices are high;*
- *high real interest rates of 10% and more, amortised over a few years, creates high monthly repayments that low-income earners often cannot afford;*
- *the unavailability of long-term funding creates interest rate risk and limits the supply of mortgage credit;*
- *costly formal sector systems for property rights, land use development and property transfer taxes push families into the informal sector and contribute to limiting the demand for mortgage money;*
- *instability of household income makes long-term debt risky to lenders and unattractive for many families; and*
- *so, most households build step-by-step, room-by-room.'*[14]

	MORTGAGE LOAN	PENSION-BACKED LOAN	HOUSING MICROLOAN	INFORMAL FINANCE
DEFINING FEATURES	- Large loan secured with the property it buys - Long repayment term – as much as 30 years	- Medium-sized loan secured with the borrower's pension fund savings - Medium repayment term – up to 20 years	- Small loan, generally unsecured - Short repayment term – up to 5 years - High interest rate because loan is unsecured	- Very small loans, or savings, generally unsecured - Indefinite repayment term - Very high, or no interest rate, depending on lender
TARGET MARKET / CLIENT REQUIREMENTS	- Adults, over 18 with a sound credit history - Proof of income: 6 months bank statement - Stable employment: loan must be repaid by retirement - Minimum income applicable - Borrower must be able to get legal title over property	- Adults, over 18 with a sound credit history - Member of a pension fund with sufficient savings where 60–80% is enough to guarantee desired loan - Proof of income - Stable employment – loan must be repaid by retirement	- Adults, over 18, no maximum age - Proof of income: salary, pension, or other	- Relationship to the lender
ADVANTAGES	- A large loan repaid over a long period becomes affordable on a monthly basis - The property as security reduces the interest rate that is charged. - The borrower gets the full house up front.	- Available in situations where tenure isn't legally registered - The pension as security reduces the interest rate that is charged - On default, borrower does not lose the house. - House built in stages	- Highly flexible and responsive to borrower's needs and capacities - Housing process can be undertaken in stages, according to borrower affordability - Cheaper than a small mortgage loan if borrower can handle incremental building process	- Highly flexible and responsive to borrower's needs and capacities
DISADVANTAGES	- The interest portion of the loan repayment becomes significant over the extended repayment period. - High down-payment requirements can make the loan unaffordable.	- Loan size dependent on pension savings by member: older members therefore favoured - On default, borrower loses pension savings. - Housing process must be undertaken in stages.	- Unsecured loans incur relatively high interest rates. - Housing process must be undertaken in stages. - Absence of building advice could undermine building process.	- Unregulated lenders have the potential to exploit borrowers with high interest rates, unsavoury collection practices, etc. - Housing process must be undertaken in stages.
AVAILABILITY IN AFRICA	- Limited to less than 10% of urban population throughout.	- Limited to a few countries	- Widespread, either explicitly or in the form of general microloans	- Widespread

Non-mortgage loan products are generally smaller than mortgage loans, and repayable over a shorter period of time. Because they are not secured by property, non-mortgage loans also generally have higher interest rates. Higher interest rates and shorter repayment periods can make non-mortgage loans seem more expensive than mortgage loans, but this is balanced out by the smaller size of the loan.

There are generally two kinds of formal, non-mortgage housing loan products: pension-backed loans, and housing microloans.

Pension-backed loans are loans where the collateral or security is the withdrawal benefit of the borrower's pension fund. Only borrowers who have saved for some time in their pension fund are eligible for this kind of loan, and the loan value is dependent on the amount that they have already saved. This kind of loan works well in areas where there are limitations to formal property title: a pension-backed loan can be used on a property that isn't legally registered because it doesn't depend on the property as collateral.

However, it is only relevant for formally employed borrowers who are members of a pension fund. This reduces substantially the number of people who can access the pension-backed loan.

Unfortunately, the pension-backed loan is not a common product in Africa. While it is fairly widespread in South Africa, and offered also in Namibia, it is not offered in many other countries.

Housing microloans are unsecured loans issued by microlenders or other financial institutions that are used for housing purposes. Very common in Latin America and south Asia, formal housing microlending is an emerging sector in Africa. Housing microloans are used to fund the incremental, step-by-step improvement of a household's housing circumstances. Housing microloans can be as small as the borrower's affordability may require, and while there is a limit to how large a housing microloan can be (because it is unsecured, the lender cannot risk lending out too much), there is generally no limit on how often a borrower can take out a microloan once having paid back the previous one – and so they are relevant to a very large segment of the population. Housing microlenders also generally have a good sense of how informally employed people earn their incomes, and they have developed systems and processes to enable them to enter into relationships with informally employed people. Finally, housing microloans are generally unsecured, so they do not require the household to legally own the property in which they are investing. This overcomes the problem of title that exists in most African cities.

Because the mortgage loan is such a difficult product to develop and offer, many lenders across Africa are branching out into the housing microloans market. Even established microlenders who have developed their track records in the small, medium and micro-enterprise industry through the provision of enterprise finance are branching out into housing microfinance as a new product stream.

Informal finance is the expression of households making a plan. Where formal finance is either not available or inaccessible, households still have to find a way to finance their housing needs. The incremental financing approach is very similar to the housing microloan approach, except that the finance available, whether through savings or borrowing from family or friends, is usually even smaller than what a formal housing microloan product can offer. In some cases, households save materials rather than cash. When they have small amounts available, they may buy a few bricks, or a bag of cement, a window frame or a tap, and keep this until the next time they have money. Over time they'll be able to gather enough building materials to start construction. Of course, this is a more risky process: the household needs to guard the building materials to make sure they're not stolen – or more importantly, protect them from the weather.

Understanding interest rates

Lending money is a service. In order for lending institutions to be able to offer this service, they must charge a fee. This fee covers the costs the lender has to pay for accessing the money that it will lend, the administrative costs of running the lending business, and an estimated amount to address the risk that the borrower will not repay the loan. This is called **interest**.

Interest is expressed as a rate – calculated as a percentage of the total capital amount of the loan, payable on a monthly basis. The interest charged on a loan is an important part of whether it is affordable to potential borrowers.

Governments sometimes try to force housing finance institutions to keep interest rates low, so that loans will be affordable for low-income borrowers. This becomes a problem when the interest rate is pushed so low that banks can't cover their costs and make enough of a return to warrant offering the service. If, for example, government imposes a restriction on banks to offer lower interest rates to low-income people, banks might decide to operate in a different segment of the market that they find more profitable.

One way that governments can reduce the interest rate is by reducing what the bank has to pay in order to get access to the money that they lend. When banks collect savings, or deposits, the law requires that they hold some of this in reserve. This is so that they will always have enough to give a saver back their money if they need it. Because of this requirement, banks have to borrow money from the Central Bank when they want to issue loans. The Central Bank, a public institution, also charges interest on its loans – this is called 'the Central Bank rate'. When the government reduces the Central Bank rate, this makes it cheaper for a lender to access the money needed to offer a loan. The interest the bank then charges on that loan can also be lower.

Interest rates often change during the course of the loan's repayment. Generally, it is macroeconomic policy and decisions at the Central Bank that lead to such changes, and most banks watch the activities of the government's 'monetary policy committee' carefully. The chances that an interest rate will change are, of course, greater for a long-term mortgage loan than they are for a short-term microloan. When an interest rate decreases, this is great because the borrower's monthly obligations are reduced. However, when an interest rate

THE ECONOMICS OF MICROFINANCE FOR HOUSING

Mrs Khumalo is a teacher in Kimberley, South Africa. She takes home ZAR1 316 per month (USD188). In 1992, she took a ZAR25 000 (USD3 571), 20-year mortgage loan at 15% per annum on average, with a ZAR330 (USD47) per month instalment from a large bank, to build a house. She decided to pay ZAR380 (USD54) per month (29% of her take-home pay) to pay off the loan faster and save on interest charges. Seven years later, by 1999, she had repaid 40% of the capital amount and still owed ZAR15 048 (USD2 150). She had also paid ZAR21 968 (USD3 183) in interest charges.

Mrs Maseko is also a teacher in Kimberley, with the same monthly take-home pay of ZAR1 316 (USD188). Rather than taking out a mortgage loan, Mrs Maseko chose to take out five successive microloans of ZAR5 000 (USD714) each. These loans were repayable over 18 months at an interest rate of 40%. She also chose to pay ZAR380 (USD54) per month (29% of her take-home pay) to repay these loans. By 1999, she had repaid all five microloans and owed nothing more. She had paid ZAR6 920 (USD988) in interest (31.5% of what Mrs Khumalo paid on the R25 000 bond, and only 27.7% cumulatively on the ZAR25 000 capital she had borrowed).

	MORTGAGE	MICROLOAN (UNSECURED)
Loan Size	R25 000	5 x R5 000 – successively
Term	20 years	18 months per loan = 7.5 years
Average interest	15%	40%
Monthly instalment	R330	
Amount paid monthly by 1999	R380	R380
Amount of capital repaid	R9 951	R25 000
Amount of capital still owing	R15 048 (60%)	R0
Total paid in interest	R21 968	R6 920

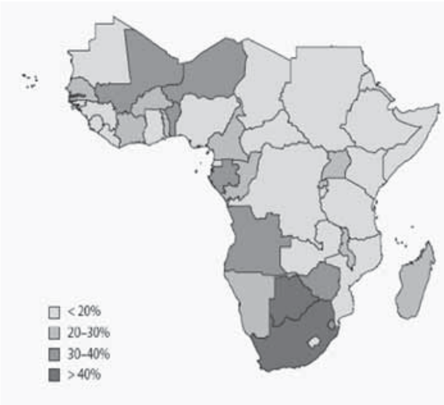
Today, Mrs Maseko's house is fully paid off, and she continues to improve it every year, borrowing small amounts. She did the construction with the help of her son and spent capital on materials and specialists such as an electrician and a plumber. Her house today is 20% bigger than the house Mrs Khumalo built for R25 000 in 2002 with a contractor.[15]

increases, this can cause terrible problems, as the borrower suddenly has to find more money to meet his monthly payment obligations. One way that banks deal with this risk is by offering a fixed-interest rate loan. At the start of the loan, they agree with the borrower that the interest rate for that particular loan will remain fixed for a specified period of time – no matter what happens in the economy. In this way, the lender takes on the risk (and reward) of interest rate fluctuations, rather than the borrower. In principle, this is a good idea because the lender generally has more capacity to manage financial shocks than the borrower.

FINANCIAL ACCESS IN AFRICA

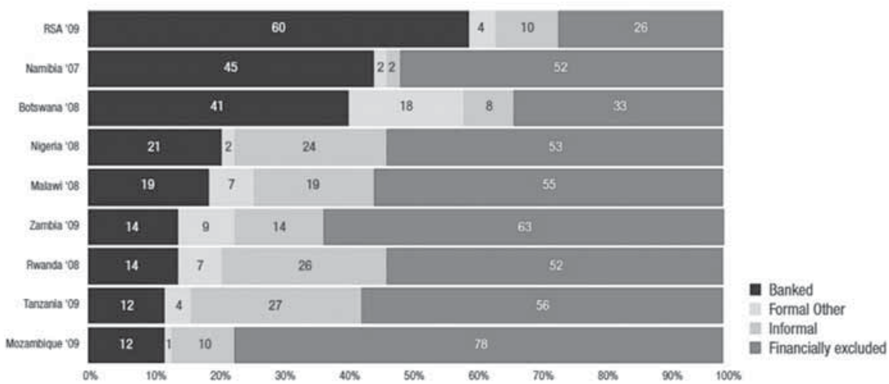
A key challenge for new investors and the growth of business is access to financial services. A recent book published by the World Bank shows how access to finance in Africa is limited to less than 40% of the population in all but two countries: South Africa and Botswana (see Figure 4).[16]

FIGURE 4: **ACCESS TO FINANCE BY HOUSEHOLDS IN AFRICA**[17]



Levels of financial exclusion have been found to be over 40%, even when access to informal financial services is taken into account. In Figure 5, 'banked' refers to anyone using at least one of the services of a formally regulated deposit-taking entity (i.e. bank and building society); 'formal other' refers to anyone who is not banked but uses at least one of the financial services provided by a formal registered entity, although the entity may not be regulated as a financial service provider (i.e. insurers, large retailers, employers); 'informal' refers to anyone who is not banked or formally included but uses at least one financial service provided by an informal, unregistered entity as part of an intentional financial service relationship (i.e. informal, group-based savings and credit; loans from unregistered money lenders); and 'financially excluded' refers to anyone not in the categories above, who may manage their finances on a personal basis, i.e. leaving money with family or under the mattress, or borrowing from family or friends.

FIGURE 5: **ACCESS TO FINANCIAL SERVICES – COUNTRY COMPARISON**[18]



The 'landscape of access' illustrated in Figure 6 shows that transaction services are more popularly used than savings and insurance for the three southern African countries (South Africa, Namibia and Botswana) as well as for the four lower-income countries (Kenya, Uganda, Tanzania, Zambia) surveyed. Access to credit services is limited to about 25% across the board.

FIGURE 6: **LANDSCAPE OF ACCESS**[19]

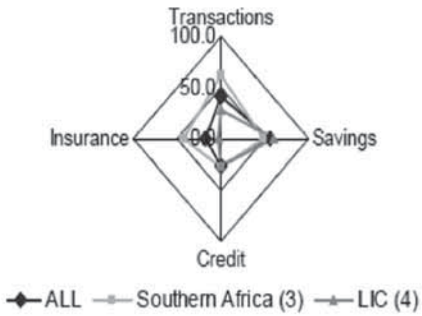
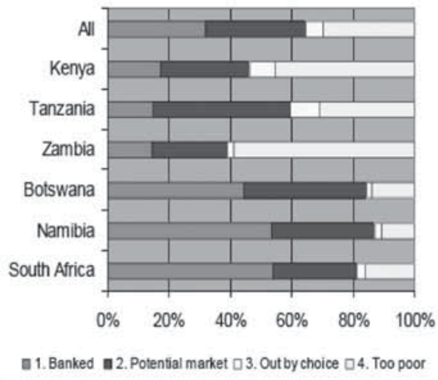


FIGURE 7: **THE POTENTIAL MARKET FOR FINANCIAL SERVICES**[20]



A further analysis considers the extent of the potential market for financial services that are currently not banked (see Figure 7). While some people may not access financial services by choice, and others may be too poor, a substantial untapped market for financial services does appear to exist.

At the same time, investors and financiers look at the data regarding the rate of urbanization in African countries, the need for basic water and sanitation services, and the need for shelter, and the opportunity for a housing-focused financial product that also serves longer-term developmental objectives becomes very attractive. The challenge they face is the creation of appropriate products that are both affordable and relevant to this large potential market.

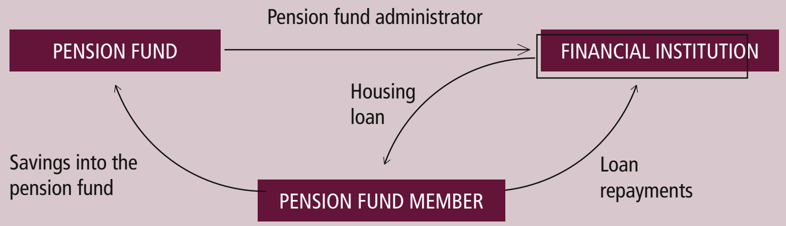
UNDERSTANDING PENSION-BACKED LOANS FOR HOUSING

A pension-backed loan is a loan secured by the withdrawal benefit of a pension fund member. The arrangement works like this: a member of a pension fund amasses a certain balance in the fund which will mature when the member retires. Until the member retires, however, the money is sitting in the fund, attracting interest. The member decides he wants to buy a house, so approaches a lender for a loan. The lender has a pre-existing arrangement with the pension fund (or the pension fund administrator) that member savings can be used to guarantee loans for housing purposes. The pension fund administrator issues a guarantee for the loan to the financial institution, which then grants the loan to the member (see Figure 8).

If the member defaults on the housing loan, the financial institution can access the guarantee from the pension fund, and the member's savings in the fund are eroded by the amount claimed. However, the house remains untouched. While the borrower may lose his pension, he does not lose his house. Because the pension fund administrator is responsible for protecting the integrity of the pension fund, he or she is quite strict about the use of member savings for guarantee purposes. Where pension-backed loans are offered, their use is generally restricted to either education or housing. The interest rate is generally negotiated and set by the scheme so that all members are eligible for the interest rate. Because this is such a secure method of lending, the interest rate is generally set at the prime rate, or just below. This makes pension-backed loans especially affordable and much more attractive than housing microloans for those who are eligible.

Pension-backed loans are common in South Africa, Namibia and Mauritius. In Botswana, the law permits pension funds to provide guarantees to a third party, but the wording of the act is reportedly confusing insofar as it implies that the loan money still has to come from the pension fund (it would seem that this would mean that pension-backed loans can only be issued by the fund itself – that is, the fund would have to operate also as a lender). In Zambia, the law neither permits nor prohibits pension-backed lending, but banks are reportedly offering loans to individuals on condition that they are pension fund members. New regulations recently issued in Kenya allow retirement benefit schemes to guarantee loans to approved lenders (including microfinance institutions) for up to 60% of the member's accumulated benefits. In Tanzania, the Public Service Pension Fund can now arrange for members to take out guaranteed loans from Azania Bank, in which the Fund owns shares. Beyond these countries, however, the pension-backed model appears rare.

FIGURE 8: **PENSION-BACKED LOANS FOR HOUSING FINANCE**



HOUSING MICROFINANCE: SMALL LOANS FOR HOUSING PURPOSES

Housing microfinance (HMF) is a small loan used for housing purposes. Sometimes referred to as a home improvement loan, HMF may be used by the borrower to do anything which improves his or her housing circumstances.

Housing microloans can be used to:

- *build additional rooms for storage, sale or production related to home enterprises;*
- *build rooms to rent, to supplement income or to host family members;*
- *improve the security of the home through, for instance, the installation of security bars and doors, or building external walls or fences;*
- *repair the roof and other areas, or undertake routine or ad hoc maintenance;*
- *improve fittings, such as in the bathroom or kitchen, or install windows;*
- *finance the acquisition of municipal services such as water sanitation and electricity; and*
- *compensate for the lack of municipal services through purchase of tanks for water harvesting, pre-fabricated ventilated pit latrines, solar panels and composting toilets.*

HMF is a microfinancial tool that allows poor and low-income clients to finance their housing needs through microfinance methods. Broadly, it has the following characteristics:

- Loans are for relatively small amounts compared with mortgages, based on the client's capacity to repay; but are larger than general microloans.
- Repayment periods are relatively short (between 2 and 5 years) in comparison with mortgages, but longer than for general microloans.
- Loan pricing is intended to cover the real long-run costs of the operation.
- Loans are generally unsecured, or at best, collateral substitutes and sometimes co-signers are used – critically, the property itself is not necessary to secure the loan.
- Loans finance habitat needs incrementally, related to their size, payment periods and low monthly instalments.
- Often, HMF grows from conventional microfinance lending, and this is often utilised to link the loan with a past history of borrowing by the loan beneficiary.

Loan sizes vary greatly. Internationally, figures range from USD100 to as high as USD5 000. HMF lending in Africa is generally for small amounts, used for incremental housing improvement by lower-income earners. However, new players are beginning to offer larger, longer-term products that extend beyond the traditional USD5 000 threshold. They are still defined as housing microloans because they are smaller than mortgages, they are not secured by the property, and they use traditional microlending methods for loan origination and servicing.

The outputs of successful HMF loans include better, improved, more habitable and sometimes income-generating homes. It is also possible that these improved homes become mortgageable through this investment process, offering a financial asset to the household. Further, the loans create a credit history for the borrower, which is important for his or her incorporation into the financial system and further access to financial services.

Broadly, there are two kinds of HMF lenders: housing niche market lenders, and more general microlenders offering an HMF product. The first type provides HMF on a stand-alone basis, independent of other microfinance services or housing finance products. This kind of lender has an explicit expectation that the loan will be used for housing purposes. Generally, the lender does not rely on prior borrowing history as an assessment of capacity to pay. Instead the borrower is assessed on eligibility criteria such as financial profile and habitat needs; and for some, also on savings capacity. The second category of HMF lender is one that offers the loan as part of a wider suite of products, not all of which are housing-related. In this case, loan eligibility is often a reward for a good borrowing track record. This track record also serves as a risk assessment for loan performance.[21]

It is interesting that many of the microlenders offering housing loan products today developed these products after having watched their borrowers simply 'make a plan' to solve their housing circumstances. Habitat for Humanity believes that between 20% and 30% of all generic microfinance loans are currently being used for housing purposes. In Angola, KixiCredito found that 30% of their loans were used for housing improvement, and this encouraged them to develop a housing loan product, known now as KixiCasa.

Across Africa, microfinance institutions, banks, NGOs, community-based shelter funds, savings and credit cooperatives, and even newly established, dedicated housing lenders are together creating a growing sector. They operate in different forms. Unregulated microlenders operate in the largely informal market at a community level. Lenders regulated as non-banks include cooperatives and credit unions, as well as non-bank microlenders. And banks are also beginning to offer housing microloans as an explicit product. Table 2 sets out the variety of these loans and suggests some African examples.

Possibly the biggest challenge facing the growth of housing microloans is the housing delivery environment. As housing microfinance becomes more explicitly available, a key constraint to the growing use of this financial product relates to limitations in the systems that are necessary to facilitate the incremental housing process that HMF finances. Access to secure tenure – a plot of land on which a borrower can safely build without fear of eviction – is a key condition. Even with this, however, the construction process is not an easy one. Building processes vary from one locality to another, involve multiple parties and service providers, and demand complex decision-making and fairly detailed expertise on the part of the borrower. There is often little support available for households to undertake the housing construction process independently.

SAVINGS AND CREDIT COOPERATIVES IN KENYA

The National Cooperative Housing Union of Kenya (NACHU) was registered in 1979 to facilitate the development of housing cooperatives. NACHU currently has about 120 primary cooperative housing societies as active members. Informal settlement dwellers make up over 60% of NACHU's members. These members are primarily interested in the microfinance products it offers, and particularly in loans for upgrading their housing.

NACHU finances housing through microfinance methods, using solidarity sub-groups of five people to exert peer pressure on repayments, which are handled through the primary cooperatives. Since 2003, NACHU has so far facilitated the construction of several hundred housing units and the acquisition of close to 1 000 plots for members. To be eligible for a loan, member households must save with NACHU for at least six months. NACHU faces a greater demand for loans than it can meet from available resources, however. Thus far, it has relied on capital funds from donor grants and some small loans, and has built up a revolving loan fund which in 2007 stood at KES37.7 million (US$563 000), up from KES25.2 million in 2005 (USD348 000).[22]

HOUSING MICROFINANCE IN ANGOLA

Development Workshop is an NGO that has been working in Angola since 1981, developing approaches to post-conflict shelter challenges. The long civil war in Angola led to an estimated 60% of the population now living in the cities, three-quarters of them in informal settlements. They have no clear legal title to the land they occupy, and lack the resources to improve their housing circumstances.

In 1999, Development Workshop, through the Luanda Urban Poverty Programme (LUPP), launched the Sustainable Livelihoods Programme (SLP), Angola's first large-scale microfinance programme. The programme adapted Grameen Bank solidarity group-lending methods to Angola's wartime reality. It focused initially on supporting the microbusinesses of the thousands of poor people who were eking out subsistence incomes in the informal settlements and markets of Luanda. It also realised that up to 30% of its microfinance clients' loans were invested in their housing – buying land, building start-up homes, adding rooms, or making household improvements. In 2005, it decided to experiment with housing loans to some of its micro-entrepreneur clients to test the market for a microhousing product. A housing product loan, 'KixiCasa', was made available to 50 of its best clients in Huambo – clients who had successfully completed four or five incrementally increasing loan cycles without default or late payments. At the end of the first year of operation, the KixiCasa experience was evaluated and lessons drawn. Of the 50 clients involved in the pilot phase, 41 (80%) were women. A repayment rate of 97% was maintained, and based on the success of the pilot it was decided to open up the KixiCasa programme to a further 250 clients. The programme is also being linked with Development Workshop's advocacy programme for secure tenure to land and housing rights.[23]

PROVIDING HOUSING SUPPORT TOGETHER WITH HOUSING MICROFINANCE

Select Africa provides housing microfinance in Kenya, Lesotho and Swaziland, and has plans to open up offices in Malawi and Botswana. When borrowers take out a housing microloan, they also get a set of incremental building plans at no additional cost. The plans were specifically designed by an architect to enable the incremental improvement and expansion of a house from an initial one-room house to a four-room house after several loans are granted and utilised. The plans cleverly minimise disruptions to the existing dwelling as new rooms are gradually added according to the availability of finance in the household. Over time, Select Africa's clients are able to develop a house that meets their needs in a way that is also affordable.[24]

CATEGORY	ESCRIPTION	EXAMPLES IN AFRICA (NOT A COMPREHENSIVE LIST
Third tier (generally unregulated)		
Informal, locally established (susu, umpato)	Savings-based, locally defined. Approach and use of funds defined by group: individual or collective loans.	All countries
Community-based shelter funds	Usually donor supported (e.g. Shack / Slum Dwellers International) largely collective loans, targeted at most poor.	* Trust Fund of the Housing People of Zimbabwe * Mata Masu Dubara of Niger * WAT Human Settlements Trust in Tanzania * other examples in Angola, Namibia, Kenya
Second tier (regulated as non-banks)		
Cooperatives and credit unions (SACCOS) Non-bank microlenders (credit-only)	Individual loans for housing often a coincidental focus; or else explicitly established for housing. Origins in housing delivery / local shelter NGOs that saw housing microfinance as the next progression. Origins in micro credit for SMMEs; housing the next progression. Individual loans for those with secure tenure.	* NACHU in Kenya * WAT SACCOs in Tanzania * other examples in Namibia, Zambia * Kuyasa Fund in South Africa * Zambia Low Cost Housing Development Fund * Uganda Microfinance Limited * Jamii bora in Kenya * PRIDE in Tanzania * Blue in various countries; * Malawi Rural Finance Company * FAULU Kenya; * other examples in Angola, Ghana, Namibia, Tanzania, Zambia
First tier (regulated as banks)		
Microfinance banks (deposit-taking and lending to members and sometimes non-members)	Usually, when microlenders convert to banks to access capital – a focus on housing loans usually comes later.	* Kenya: Equity Bank, K-Rep * Zambia National Building Society * Pulse Holdings in Zambia * South Africa: Teba Bank, Capitec Bank, African Bank
State-owned banks offering microloans	Trend is now moving away from these as many sustained losses.	* examples in Ghana, Tanzania, Guinea, Uganda
Commercial banks offering microloans	South African banks have offered unsecured loans for some time. The National Credit Regulator in South Africa, for example, estimates that 10–30% of these are used for housing.	* South Africa: ABSA , Standard Bank, First National Bank, Nedbank * Zambia: Indo-Zambia Bank * Angola: Banko Novo

HOW CAN A USD1 000 LOAN BUY A HOUSE? STEP-BY-STEP

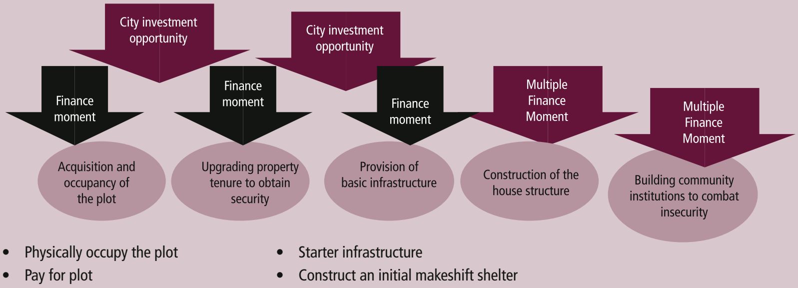
Policy makers like to think that the way people get housing is by buying it ready-made. While this is perhaps what most people would like to do, very few can afford to get their house in this way. Rather, the majority of people in African cities, and especially the poor, get their housing over time, step-by-step, in what researchers have called an incremental, or progressive housing process.

The incremental housing process is not that different from the more traditional, whole-house delivery process – except that it is divided up into separately financed steps. Each step adds to the value of the ultimate housing product. The household uses a combination of savings, borrowing from friends and family, rotating savings groups and informal loan providers, as well as income from businesses, to finance these progressive steps. Housing microfinance can make the process more efficient – allowing the household to realise adequate housing that meets its needs, more quickly and often more affordably.

AN EXAMPLE OF INCREMENTAL BULDING THROUGH HMF: SELECT AFRICA, SWAZILAND

Mr Esau Maxwell Kunene is a 52-year-old Swaziland government employee and the breadwinner of his family. He is employed as a teacher in one of the rural settlements in the Western Hhohho Region. He previously lived in a government house, and harboured the dream of owning his own home. In 2005, he began to search for a small plot of land on which to construct a house. He quickly encountered the problem of obtaining finance for this endeavour, as conventional loan products were too costly for him on a monthly salary of SZL3 510 (approximately USD530). He then approached Select, a housing microfinance institution in Swaziland, where he qualified and was approved for a loan of SZL20 000 (about USD3 000). This he chose to repay over a period of 24 months. He used this first loan to build a foundation and to purchase some building materials such as cement. The loan was not enough at the time to finish his house, and once he had finished paying the loan off in August 2005, he rolled over the loan, which he did repeatedly a total of ten more times, making the grand sum of money borrowed SZL57 000 (about USD8 500). With this, he has finished building the walls, roofing, and wired and connected his five-roomed home to the electricity grid. A further loan in July 2008 of SZL9 590 (about USD1 400) was used to purchase fencing materials, build a gate and plant trees around his home. Mr Kunene is very pleased with the housing product and intends to borrow more to complete tiling his home and also build on a one-room flat he intends to rent out.[25]

FIGURE 2: **BANKS CHANNEL MONEY FROM SAVERS TO BORROWERS**[26]



The various steps in the housing process, illustrated in Figure 9, can happen in almost any order. Unlike the formal housing process, the incremental housing process usually involves someone occupying property before they have legal rights to be there. Then, as they secure their temporary dwelling, they try and regularize their rights. Over time, they may improve their structure, seek to legally secure their rights to the property, and access services. This works better in some cities than others *(see Quick Guide 3: Land)*. Research has found that when the city confirms the household's right to occupy the property (and they can do this by just providing basic services to the area), the household becomes more confident and starts investing in improvements. When city administrations see sprawling informal settlements, therefore, they don't need to despair about the enormous job of turning the settlement into a sustainable neighbourhood. If all other planning and environmental conditions are met, and no conflict exists about land rights, governments can provide basic infrastructure and ensure security of tenure, and then slowly, step-by-step, people will begin to build their homes and improve their living environments independently. It is when households and city governments work in cooperation with one another, each investing in the local neighbourhood in a way that makes sense to them, that sustainable human settlements are realized.

SUPPORTING THE HOUSING PROCESS OF THE POOR

For all its benefits in terms of flexibility and choice, the incremental housing process is not an easy one. No one is a builder by nature, and building takes experience. However, self-builders usually just build their own house. Their inexperience can lead to costly mistakes that could be avoided if they had a little support.

A new area of research and market development involves the provision of housing support services in this incremental market, much in the same way that the housing construction sector operates at scale in the high-income markets. A few providers are beginning to explore ways in which they can maximize the sale of their loans by providing services that make it easier for borrowers to negotiate the housing process.

Different kinds of support are relevant at each step of the housing supply value chain.

- **Acquisition of land with secure tenure and basic services**: In many African cities, the acquisition of land with secure tenure, and available basic services, is a major undertaking. It often involves the ability to lobby and engage with politicians and local governments. There is a cost element, as the land may have to be bought, and funds sought to bring services to the individual plots. Professional services of surveyors, engineers, town planners and lawyers are also often necessary if the property needs to fit into the official planning framework.
- **Construction and building**: To ensure that a quality housing product is provided, there is a need for a wide range of construction support services. These include advice on housing design, con-

THE 20,000 PLOTS PROJECT

The 20,000 plots project was initiated by the government in Dar es Salaam, Tanzania (it is now working in Mwanza and Mbeya) in 2002 following a realization that at least 70% of the population resided in informal settlements, without formal tenure and many without basic services. The intention was to curb squatting and corruption in land allocation and to reduce poverty. The metro population is growing fast and is expected to reach 5.12 million by 2020. Compared to many other cities in Africa, many parts of Dar es Salaam are virtually rural.

The Lands Ministry identified land (located in various sites) with a low-density of occupation mainly under customary tenure. They negotiated with land 'owners' to subdivide the land into plots of varying sizes ranging from 600 to 2 000 m2. Residents were allocated a plot where they resided, as resettlement was seen as a last resort. Compensation was provided for buildings and productive assets (e.g. trees, crops planted or inherited by the owner) on the land, but not for the land itself. This exercise was funded by the Treasury.

Applications were invited for plots to be allocated, with the process managed by each of the municipalities making up Dar es Salaam, and there has been a large demand. New applicants have to pay a fee on receipt, and TZS4 billion (USD3 million) had been recovered in this way by 2007.

Besides plot demarcation and allocation, no infrastructure services apart from basic roads are provided. Some people suggest that the lack of infrastructure services has delayed household building on the land.[27]

struction and improvements, costing, exploring the possible use of appropriate and inexpensive technologies and materials, sourcing of materials, screening of local contractors, supervision of the works and many more aspects of the process.

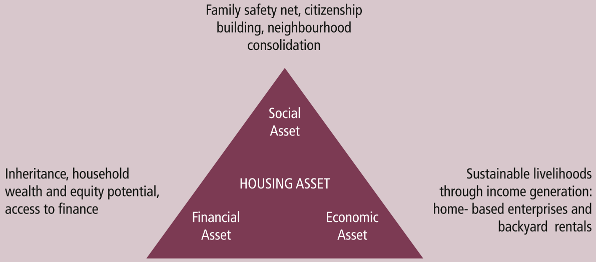
- **Financial and legal education**: Potential loan recipients have to be made aware of their legal rights and obligations with regard to housing loans. They also need to understand the financial implications of the debt undertaking and its implications for the household expenditure and cash flows.
- **Post construction support**: No one's house is ever finished! There are always changes that could be made: an additional room to run a business from, the installation of energy-efficient fittings and services, an improved kitchen or bathroom, and so on. Advice on how to continually improve their home would help households maximize the investments they have already made and make their housing work better for them. (See 'Understanding the housing asset' below.)

Interestingly, the incremental housing process also offers opportunities for city governments to invest in the human settlements in their jurisdiction. As their residents are incrementally improving their own housing and adding to the general value of settlements, city governments can invest in the bulk and connector infrastructure servicing those households, and in the community facilities that build settlements into neighbourhoods.

UNDERSTANDING THE HOUSING ASSET

A person's housing is valuable. The nature of this housing asset is not one-dimensional, however. The Centre for Affordable Housing Finance in Africa explains that the housing asset can be understood in three ways: as a social asset, a financial asset, and an economic or productive asset (Figure 10).

FIGURE 10: **THREE WAYS TO UNDERSTANDING THE HOUSING ASSET**



Housing is a social asset, in that it provides a social safety net for family members, it contributes towards citizenship-building by offering the resident household an address and linking them in with the local governance system, and around housing units neighbourhoods consolidate, providing access to all sorts of other social benefits including networks, community support, and so on.

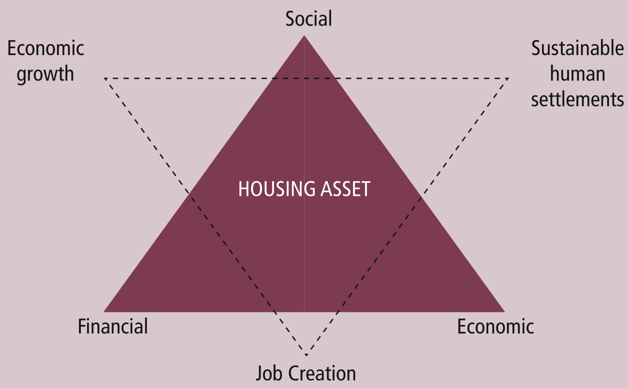
UNDERSTANDING THE HOUSING ASSET (CONTINUED)

Hernando de Soto has popularized the notion of housing as a financial asset, as something which can be traded or against which mortgage finance can be accessed. When traded, the value of the transaction contributes towards a household's actual wealth and can then be reinvested in better quality or more appropriate housing for the family's individual circumstances. De Soto emphasized the potential of using housing as security against a loan for business purposes, and suggested that this was an important strategy for low-income households to improve their overall wealth.

The financial asset is not realisable, however, until it is either sold, or leveraged to access finance. When the market is thin, or when households are nervous to take on mortgage finance and risk losing their homes, the financial asset is little more than a virtual concept. The house may be worth money, but the household will never feel that value unless they sell their home or take out a loan against the value of the home.

How, then, can low-income households maximize the value of their housing asset? How does housing address poverty alleviation if the financial asset is not realizable? It is in this context that the third corner of the triangle is so important. Housing can be an economically productive asset when it is used to generate income. The home is commonly used as a base from which economic activity is undertaken. Research conducted by FinMark Trust in 2006 found that small-scale landlords in South Africa are offering well located, affordable rental housing to over 1.8 million low-income people with an average income of ZAR1 800 (USD250) per month, and collectively earning an estimated ZAR420 million (USD58.3 million) per month, or just over ZAR5 billion (USD694 million) annually. Home-based entrepreneurs were estimated to be generating about ZAR476 million (USD66 million) per month, operating in residential areas, enhancing access to services and products to resident low-income households.

These three corners of the housing asset triangle relate to how the house performs as an individual, or private asset (see Figure 11). The impact of the housing asset is also felt more widely, as it performs within the context of the national economy and contributes towards the sustainability of human settlements. In this way, housing is also a public asset, again, with three elements.



UNDERSTANDING THE HOUSING ASSET (CONTINUED)

The role of housing in economic growth is significant. Housing sits at the centre of a chain of backward and forward linkages with other parts of the economy – backwards to raw materials (wood, cement, iron), land, infrastructure, and financial services; forwards to so-called 'white goods' (fridges, TVs, ovens), furniture, construction materials for home improvement, and so on. In a recent book on housing finance, Chiquier and Lea report that 'residential investment is a major component of GDP, typically amounting to 4–8% of GDP and 20–30% of total investment'. In South Africa, the construction sector comprises 3.5% of GDP, while the finance, real estate and business services sectors make up 20.6% of GDP. The construction, sale and ongoing maintenance of residential housing are critical components of national economic performance.

Of course, job creation is a fundamental output of a healthy housing sector – at all skill levels. Housing construction is a labour-intensive exercise and an increase in housing delivery can lead to substantial job creation, both skilled and unskilled. The potential for small, medium and micro-enterprise (SMME) development in the home improvements industry is also significant. This in turn contributes further to economic growth as working individuals become consumers with their additional income, creating greater demand for goods and services, and so on.

Finally, it has long been understood that housing plays a critical role in the production and maintenance of sustainable human settlements. When housing is well integrated with the services and functioning of municipalities, it serves both to integrate individuals into the community (social inclusion) and as a point of engagement with governance structures (citizenship). Residents in sustainable neighbourhoods pay rates and taxes and contribute to their municipality's capacity to deliver more services.

Of course, these various ways of understanding the housing asset apply differently over time, and variously from one household or one government to the next: households may start with an expectation that their housing fulfil their social and economic goals, and only develop an expectation that the house also perform as a financial asset over time. A government may wish to support the development of sustainable human settlements in the first instance, and see job creation or economic growth in relation to their housing policy as secondary. When policy makers understand the housing asset in this multi-dimensional way, as both a private and a public asset, they can better formulate their interventions to relate to the specific deficits that exist in their system. Failure to acknowledge any one facet of the housing asset may mean that its potential is squandered, or worse, undermined.[28]

BRIDGING THE GAP: WHAT ROLE SHOULD GOVERNMENT PLAY?

The global debate on the role of the state in housing and housing finance has changed quite considerably over the past few decades, and housing policies found throughout Africa are a reflection of this. The enabling strategy, embedded in the Global Shelter Strategy for the Year 2000 adopted by the United Nations General Assembly in 1988, remains relevant in many parts of the world, including Africa. Most countries have moved or are slowly moving away from an emphasis on government provision of housing to government facilitation for housing developed and financed by non-state actors such as the private sector, community groups and cooperatives. Even in African countries with a well developed economic sector like South Africa, housing systems rely on the participation of the private sector to meet the need. In many countries where state-led housing corporations or institutions do exist, the policy debate is on how to make these more productive in their local contexts.

Two of the reasons for a shift away from direct government provision of housing have to do with the targeting problems that often arose, and the sustainability of the intervention. In Uganda, for instance, the 1992 housing policy had the unintended effect of advantaging middle- and upper-income earners while the most poor were left to live in inadequate housing, with no policy support. A new policy is pending in that country, which promises an enabling environment for private sector developers and financiers, as the state withdraws from the direct provision of housing. Botswana's 1999 housing policy also shifted government's role from that of provider to facilitator – even so, its commitment to guaranteeing bank loans only benefits those who can afford a bank loan.

Another problem experienced in the past has to do with scale. For example, the state-owned National Housing Corporation (NHC) has been Kenya's main financier for formal housing targeted at lower-middle- and middle-income groups. Between 1965 and 2004, Kenya's NHC has financed just under 6 000 units for tenant purchase, 4 000 units for rental, about 8 250 sites-and-services plots, just under 2 000 mortgage units and just under 1 000 other units – all in, a total of just over 30 000 units over a period of 39 years. Botswana's Self-Help Housing Association has also not been the success imagined by policy, and in Zambia there has been no new delivery targeted at the poor for over 10 years.

A further issue facing policy makers as they deliberate an approach is the cost of housing, which is rising faster than inflation in most countries. The cost of housing relates both to the availability of land (and the concomitant tenure issues), and the cost and availability of building materials. The affordability challenges faced result in the adoption of informal housing solutions: informal settlements, backyard housing extensions, rental rooms, overcrowding in formal housing, and so on. While there seems to be an acknowledgement of the need for subsidies, how these should be structured, afforded, targeted (whether at land and services, or also at housing) and implemented is a subject of much debate.

Finally, in the context of growing private sector interest and limited public sector capacity, governments are struggling to define the respective roles and responsibilities of the players when considering specifically the housing needs of the poor. In Botswana and Kenya, the issue of poor coordination between programmes has been raised, and the failure of the system to meet the needs of the most poor is usually the outcome. In Zambia, a housing developer recently piloted an approach at the scale delivery of housing, in which local government services such as land registration, infrastructure investment and management were all privatized as part of the implementation process.

At the same time, targeted government subsidies to encourage lenders to extend their loans further downmarket, and to encourage builders to develop appropriate products for this market, can be effective. Governments should meet with lenders to determine precisely the constraints to access, and then establish what kinds of support would help them to offer their loans more widely.

In conclusion, governments should:

1. **stimulate and create conducive institutional, legal and policy environments** to enable non-state actors to play an active role in housing finance and supply;
2. **promote the supply of a variety of affordable housing solution**s in terms of quality, size, price and location for all the different income segments, and ensure that the private sector matches these options with appropriate housing finance products;
3. **enable the development of different housing outcomes** by various public, private and community-based actors, such as serviced land, incremental land development schemes, housing micro-loans;
4. **establish a policy dialogue** with lenders, builders, developers and community-based housing developers to capture good understanding of different types of constraints faced by them when designing policy interventions;
5. **promote savings for housing** as a national-level priority.

THE HOUSING FINANCE ACCESS FRONTIER

The access frontier methodology developed by Porteous (2005) is a useful analytical tool for assessing levels of access to a particular product or service.[29] Melzer (2006) has developed the tool further for the FinMark Trust[30] , to apply specifically to housing finance, so that policy makers can explore the actual barriers to access in their jurisdictions.[31]

Essentially the tool makes it possible for policy makers to understand why housing finance isn't available to everyone. It does this by looking logically at specific housing loan product features and requirements, and comparing these with the profile of the population. For example, loans are only available to borrowers who can get to the bank and ask for them. Borrowers who live more than 20 or 50 km away, therefore, are excluded from that service. The analysis generates a market map, made up of a number of market zones corresponding to various levels of access:

- **Current market**: This zone includes those who currently have or use a housing loan (who by definition have access to the housing loan).
- **The market redistribution zone**: This consists of those people who cannot access a housing loan because they are too poor. Households in this zone will require non-market interventions such as subsidies to enable them to meet their housing needs.
- **The market enablement zone**: Those people who are within reach of the market but who do not currently have a housing loan lie in the market enablement zone. This zone can be further sub-segmented into those who actively choose not to borrow and therefore lie beyond the natural limits of the market, and those who have not yet accessed a loan but are candidates for doing so. Reasons why they do not have a housing loan may include inertia or a lack of awareness – or, it could be simply that there is no house available to buy.
- **The market development zone**: This zone comprises those who cannot access a housing loan, given their location or income profile and the product's current pricing structure, but who are likely to be able to access the product in the near-term, given the likely trajectory of product innovation and / or market dynamics.

By defining these market spaces, policy makers can clearly identify where markets can currently function, where they are soon likely to be able to function, and where non-market interventions are needed.

The challenge of using this method to understand access to housing finance is that borrowers will never ask for a loan if there is no house to buy. So, even though there may be an increase in the number of mortgage products targeting low-income households, if there are no affordable housing units to buy, real access to mortgage finance will not increase. Another barrier to access is the lack of formal title to property. The banks may be offering mortgage finance, but if the properties in the city aren't legally registered, the mortgage becomes inaccessible. These reasons are then listed for policy makers to address, so that access to finance becomes real also for those in the 'market enablement zone'.

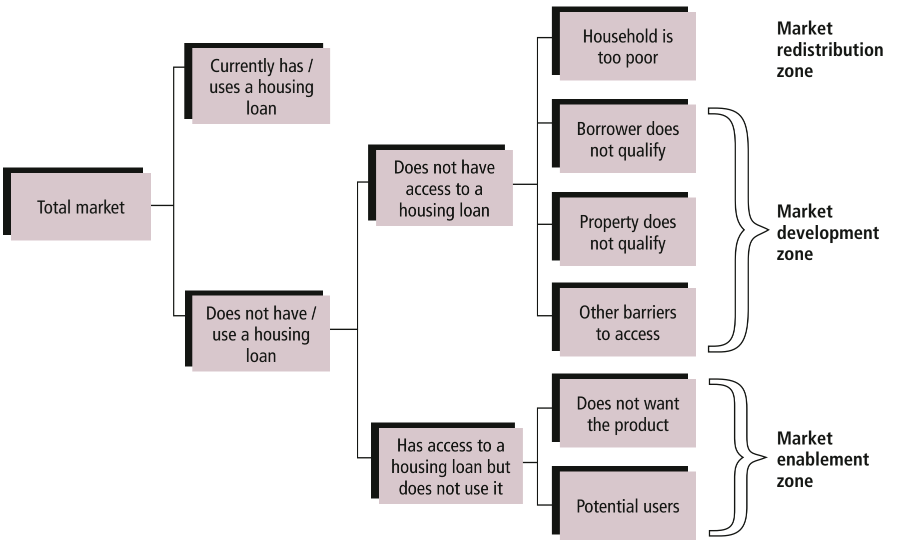
1. **Getting the data**: The first step in using this tool is to get the data that relate to the supply side and the demand

side. On the supply side, it is necessary to gather all the descriptions for how particular housing loan products work: eligibility criteria, geographic spread, interest rate and other fees, term, and so on. Data about the current prices of houses in the market – both new and used – should also be gathered. On the demand side, it is necessary to gather demographic data about the population: income, employment, geographic distribution, housing conditions, and so on. In some countries, demand side data will be difficult to get. To begin to address this problem, the FinMark Trust has developed a demand-side survey which has been implemented in 14 countries in Africa. FinScope (available at www.finscope.co.za) is a nationally representative study of consumers' perceptions on financial services and issues, which creates insight into how consumers source their income and manage their financial lives.

2. **Building the segmentation**: Once the data have been gathered, the next stage is to segment the market by slowly identifying those who can access the product, those who cannot, and most importantly, why. The segmentation follows the diagram shown in Figure 12.[32]

   The real work is in defining the percentage of the population that 'does not have access to a housing loan' and identifying why this is so. As a first step, information must be collected on all the housing loan products available. Lenders generally list qualifying criteria in the brochures that describe their housing loan products. This list can be used to exclude members of the population who do not qualify – for example, the proportion that is informally employed, the proportion that does not have a bank account, the proportion that is older than 60 years of age. There may also be legislation that acts as a barrier

FIGURE 12: **SEGMENTATION OF THE MARKET**



– for example, in some countries the government sets a limit on the proportion of a person's income that can be committed to debt repayments. People whose debt picture is at or beyond this threshold must also be excluded. Or, there may be property-related barriers. Banks often have specific standards that they require for the houses they finance. Housing that is not formal cannot therefore be included in the potential market for mortgage loans subject to this condition.

3. **Defining responses to the access barriers**: The third step is to think carefully and logically about each zone, and what can be done to address the problems that keep the population of that zone out of the current market. The first area of focus should be on the market enablement zone: those who have access to the product but who do not use it. Why don't they use the product? Could it be that there are not enough houses to buy? This could suggest to policy makers that they need to focus on housing supply – and they could work with lenders to provide construction finance for this purpose. The next area of focus is on the market development zone: how can the different barriers be overcome? If informal employment or age have been identified as a barrier, perhaps new housing loan products should be developed. The last area of focus is on the market redistribution zone.

In using this tool, policy makers can think about their market in a focused way, understanding the nuances of why different segments of their population can or cannot access housing finance products. The overall goal of the method is to identify and then remove barriers to access, so that over time, more and more of the population falls into the current market and the market enablement zone, and fewer people are in the market development and redistribution zones.

SIX WAYS TO REDUCE HOUSING COSTS

The majority of people living in Africa's cities cannot afford formally built housing as it is currently provided. Reducing the cost of producing housing, therefore, is one way of enhancing access to adequate housing. The main components of housing are land, the house itself, and infrastructure services. There are many ways of providing these different components, or reducing their costs – altogether or separately. (*See Quick Guide 3: Land*).

1. **Reducing housing costs through design**

One of the best ways of reducing the cost of housing is to use a variety of design and construction strategies, which lower the unit construction costs and make more efficient use of the land. For example:

- Design tight housing layouts that allow as many households as possible to occupy a limited amount of land. This also saves on infrastructure connection costs because the distance to connect (metres of pipe, road, wire, etc.) is less.
- Design housing units of a smaller size, or units that can be expanded incrementally.

- Use community and household labour to build the houses, to reduce labour costs.
- Use alternative, recycled or cost-saving materials to bring down materials costs (like community-made blocks or building components, recycled doors and windows).
- Buy materials collectively to get bulk discounts on bricks, blocks, cement, steel, roofing sheets and sand.
- Build housing collectively to make use of 'economies of scale' to bring down per unit costs.

[photo brief – and see caption below: members of an informal settlement working as a group on a house-building activity, if possible with some indication that they're using cost-saving materials – e.g. recycled doors and windows, or self-made bricks, etc.]

[extended photo caption: There's nothing new or innovative about building as cheaply as possible, within one's available means, as a way to avoid the need to borrow or go into debt for housing. The poor have been building their housing like that all along. But even these old techniques can be improved upon, and when poor communities are organized and supported, they can come up with all sorts of new ways to bring down the cost of their housing projects.]

2. Mass-producing housing units on a large scale

There are many variables in any housing construction process, and the amount of cost-saving in a mass-produced housing process will depend on the current availability and costs of land, labour, materials and equipment. In addition, the time it takes for a developer to make the development happen, getting the necessary government approvals together, can have a surprisingly significant impact on the cost. Most mass-produced, developer-built housing falls into two categories:

- High- or mid-rise blocks of apartments, where land costs are brought down by building more units on a small piece of land, and by standardizing the housing units and reducing construction costs through economies of scale. However, the savings that might be achieved on land may be used up in the higher building costs that accompany multi-storey dwellings.
- Detached or semi-detached houses, where building the same standard unit many times reduces costs by making use of economies of scale.

Mass-produced housing projects can only proceed with the participation of the local city council or municipality. To promote this kind of development, municipalities could set up a fast-track approvals process and offer developers special support in making sure their development meets all the necessary regulations.

3. Reducing housing costs through internal cost subsidies

Another strategy that governments, developers and communities have used to make low-income housing affordable to the target market is to cross-subsidize the low-income housing through profits from the sale of market-rate housing units within the same development. This is not a way to address the housing backlog in the city: the cost of the market-rate units will never be high enough to subsidize enough low-income units. However, this approach, which has been tried successfully in South Africa and Zambia, can promote integration and socio-economic diversity in new settlements.

4. Self-building by people

Supporting people to build their own housing is one of the best ways of reducing costs, making housing affordable to low-income households, and creating a vibrant housing stock in the city. Self-building allows households to build flexibly and incrementally, as and when they have a need or have the funds. Self-building remains the chief means for poor households to bring down the costs of their housing.

Don't take the term 'self-built' too literally, though. Many urban poor households are too busy earning their living to build their own houses, or they don't have the skills to build a good house. So, thriving markets of small, informal contractors, masons, carpenters, plumbers, electricians and materials suppliers tend to blossom in every city to serve this low end of the housing market.

Even if they aren't doing the work themselves, the house-owners have to manage the process and remain in control of all aspects of their housing production. The house-building process is not an easy one, and even households who contract other service providers may struggle to manage the process efficiently. For example, they could miscalculate the materials required to finish a particular part of the construction process, or could run out of money. This could lead to short cuts in the building process and ultimately could undermine the safety (and value) of the structure. In some cases, households may have to do the work over again, wasting their valuable resources to fix problems they hadn't imagined could ever occur.

Some governments have supported self-builders by providing core housing, or even developing sites-and-services schemes in which only plots are provided and the households can build and improve their housing gradually, at their own pace and using their own means. (*See Quick Guide 2: Low-income Housing*). Bringing the provision of serviced plots to scale will enable wide access to land and infrastructure that consequently can stimulate self-building and decentralized housing solutions.

City governments can help self-builders in other ways as well. They can provide free advice and building support – an advice office, for example – where self-builders could go to solve problems they've encountered in the building process, or get tips to pre-empt problems from occurring. They can also provide approved, sample house plans so that self-builders don't have to hire an architect to get a formal plan for their construction.

5. Introducing more practical, more realistic and more flexible building standards

Many argue that one of the reasons why housing in our cities is unaffordable to so many is because housing and building standards are too high: roads are too wide, plots are too big, setbacks eat up too much space, engineering standards are too conservative, and service levels are too high. If all these well intended regulations were actually followed, housing of a very high standard might result, but it would be too expensive for most people in the city to afford.

Many of the urban housing standards in African cities are based on those in developed countries, and date from the colonial era. Some people joke, for instance, that roof pitch requirements in African cities are the same as those in European cities that suffer snow for half of the year! While it is reasonable to have standards that ensure the health and safety of the people who use the building, standards that are too high simply exclude more people from accessing adequate housing, because the meeting the standard becomes too expensive.

Of course, what happens in many cases is that when the rules are inappropriate, people don't follow them. In cities like Lagos, Abidjan, Nairobi or Luanda, settlements are built incrementally with little or no attention to the requirements of the official building standards. This can put them at risk of flooding, fires, or other disasters that the housing was not designed to withstand. Some authorities also use failure to meet building standards as a reason to evict people and destroy their housing. The land is then reallocated to those who can afford new housing built to higher construction standards, and the poor are excluded again.

One way to reduce housing costs is to introduce more appropriate and more flexible building standards which better match the needs and realities of poor households and the topography and climatic conditions in which they live. City and national governments should think more carefully about the minimum health and safety requirements that their country's climate, topography and other conditions require. Then, they should consult with local communities about how they address health and safety in their building, and identify where local solutions might replace the standards of the past. They will also need to meet with the banking industry to ensure that building standards for mortgage loans are also set appropriately for the local context.

Another way is to replace the conventional system of strict building inspection and control mechanisms with a system of facilitation and support. It is important to remember that the purpose of building standards is not to punish households but to improve their housing and make it more safe and productive.

6. Introducing standardized building components and appropriate technologies

Another way to reduce building costs is to introduce and help popularize the production and use of standardized building components, such as pre-cast beams, column piles, roof tiles, ceiling panels, door frames and septic tanks in the construction industry, so that a household can purchase them off the shelf and assemble them on the site. These components are mass-produced and enjoy similar economies of scale to mass-produced housing. This kind of mass production of simple building components can also be set up on a smaller scale, within poor communities themselves, by local entrepreneurs, with a little bit of training and technical assistance.

FIVE WAYS GOVERNMENT CAN SUPPORT ENHANCED LENDING DOWNMARKET

Making the housing finance sector work for the entire population is a critical job for government. Governments who do this stand a much better chance of seeing their populations enjoy access to adequate housing. The housing finance sector does not exist in isolation, however. It sits within a much wider macroeconomic framework that is subject to market forces. Policy makers would do well to understand these forces, so that they can guide them appropriately to enhance the development of the sector.

1. Get the macroeconomic environment right

The development and prospects of housing finance sectors across Africa are inextricably tied up with the development of the specific countries' economies. Macroeconomic factors are fundamental determinants of the structure and health of housing finance sectors – choices made by a country's macroeconomic decision makers influence choices available to lenders, investors and housing finance practitioners.

One of the most important things a government can do is reduce the interest rate it pays on Treasury bills. When Treasury bill rates are high, investors put their money in Treasury bills to get the high return. When Treasury bill rates are low, investors look for other ways to get a high return, and become more likely to consider investment in housing finance.

2. Get the housing supply picture right

A second, critical factor in the development of housing finance sectors is the structure and scale of the housing supply sector: housing finance is only useful if there is something to buy. If the housing supply sector is not operating at scale, or if it is not delivering housing goods that are affordable and adequate to the population, there will be less demand for housing finance and fewer people will have access to adequate housing. 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. In Uganda, housing demand has been constrained by inadequate financial resources for both real estate developers and borrowers wanting to buy finished products. Understanding that housing finance is about finance to the developer to build the house, as well as to the end user to buy the house, and ensuring that the environment is conducive for both, is one way governments can support sector development.

3. Encourage existing lenders to extend their mortgage loans downmarket

While the income distribution in cities across Africa may suggest that non-bank, non-mortgage options are most appropriate, attention to the better targeted structuring of the mortgage market is also critical. As it currently stands, middle- and high-income earners in most African countries must still finance their housing with cash. This means that property markets are not functioning as they should. Only very rich clients are able to access mortgage finance. Extending access to mortgage finance to a wider range of earners, even if this is still the minority of the entire population, 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. Governments can encourage lenders to go further downmarket by subsidizing the elements that normally undermine participation, such as the high administrative costs involved in working with lower-income clients.

4. Promote alternative forms of housing finance

The vast majority of the populations in cities across Africa are not and will never be able to access mortgage finance, however. For this population, other forms of housing finance must be developed so that they, too, are able to access adequate housing. There are various strategies for doing this:

- Community-based self-finance. With the help of NGOs and some government organizations, many poor communities are increasingly building and managing their own collective finance mechanisms through community savings and credit activities. Besides saving for livelihood, emergencies and housing, these savings groups have also

URBAN POOR FUNDS OF SHACK/SLUM DWELLERS

Once Federations of the urban poor begin to negotiate with local governments around secure tenure and basic services, the next step is always to find the finance for the actual implementation and delivery. Very often the lack of access to funds delays projects and results in a loss of morale for the communities involved.

These constraints have prompted many SDI affiliates to build new institutions, called Urban Poor Funds, which monetize the social and political capital of savings groups to leverage additional resources from formal banking institutions, the state and international donor agencies. By combining the savings of the poor with external contributions, Urban Poor Funds gear up capital for large-scale construction and infrastructure development.

The SDI's Urban Poor Funds are meant to reinforce cooperation between Federations and more powerful players in the development sector. Through the participatory design and implementation process, communities learn to build transparent, accountable finance systems, create responsive allocation mechanisms, and accommodate increases in scale and volume.

When external partners see that these Federation-led financial facilities have the capacity to resource target groups (which have been unreachable by other mechanisms) and recover costs, then mutual trust is built and ongoing relationships are established for future investments. Urban Poor Funds, therefore, fulfil a critical monetary gap for Federation communities and, more importantly, begin to build more equal relationships between external partners and the poor.

Some of these Funds have emerged 'bottom up' from the communities: uTshani (South Africa), Twahangana (Namibia), Guungano (Zimbabwe), Akiba Mashinani (Kenya) and Phnom Penh Urban Poor Fund (Cambodia); and others have come 'top-down' from the state: CODI (Thailand) is an example. All, however, have given communities a chance to have a voice in the development politics of their cities. As the South African Federation of the Urban Poor says: 'Power is Money and Knowledge.'[33]

strengthened the communities they operate in by providing people with a simple, regular mechanism for building collective management skills, cooperation and mutual assistance. This is while they build the community's own financial resource base and support enhanced access to adequate housing. Some of these initiatives have become members of a global NGO, known as Slum/Shack Dwellers International (SDI). SDI is a confederation of country-level organizations or federations of the urban poor, from 28 countries of the Global South. It was launched in 1996 and became a formally registered entity in 1999. As a global network, SDI promotes the cause of local savings groups at an international level. It also helps federations to establish Urban Poor Funds.

- Housing microfinance and other non-mortgage products. The potential for non-mortgage products is substantial, given the scope of demand across African cities. However, the methods that lenders apply must be different, to suit their particular contexts. For example, in a context where a substantial portion of the population is informally employed, paperwork should be kept at a minimum, and repayment requirements should be kept flexible. Loan products that understand and work with this reality can tap into an otherwise unserved market. A key challenge that non-mortgage lenders face, however, is access to capital. Governments can help build this market by developing appropriate and enabling legislation (as has been done in Morocco), providing wholesale finance directly through a revolving fund (as has been done in South Africa), or otherwise supporting investor participation in this market (for example, through the provision of guarantees).

5. Data, data, data

A relatively simple, but critically important thing that governments can do, is collect, analyze and distribute data about the housing needs and affordability parameters of people in their country. All private sector players depend on data to make decisions about where they are going to invest their money and where they are going to target market development. The more they work in a particular market, the more data they have, and this makes it easier for them to modify their products to suit demand, and to price their products appropriately. Lenders don't have data for new markets, however, and this lack of data translates into risk. Risk translates into cost, or an access constraint. If a lender doesn't have data about a particular market it will either avoid that market altogether, or price its products in that market higher to make sure that it isn't exposed to loss.

The kinds of data that lenders would need include household income and expenditure, employment and wage data (segmented by region and city), levels of indebtedness, income tax revenues, and even data on the levels of rates and services payments at suburb level. Data on current housing situations, and macroeconomic planning information on areas of growth and development, are also needed.

Governments can encourage lenders to go downmarket by providing them with data regarding the opportunities and risks of that market. Too often, governments feel that data are things that should be horded and protected. By sharing the data that it does have, government can encourage market development.

Another way governments can promote the availability of data is by subsidizing others to provide this. In many countries, NGOs and community-based organizations already collect data. The compilation, analysis and distribution of such data could be subsidized as a way of contributing to market development.

The ultimate goal of government is to create a housing finance system that will manage challenges and maximize opportunities as efficiently as possible. Across Africa, housing finance systems are still in their infancy, and are dependent on the traditional housing finance instrument, the mortgage, notwithstanding the affordability limitations of the majority of their populations. This will change over time, as governments and housing finance practitioners develop new and innovative approaches to meet the desperate and diverse need for housing finance on the continent.

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The pressures of rapid urbanization and economic growth in Africa have resulted in growing numbers of evictions of urban poor from their neighbourhoods. In most cases they are relocated to peripheral areas far from centres of employment and economic opportunities. At the same time over 500 million people now live in slums and squatter settlements in Africa and this figure is rising.

Local governments need policy instruments to protect the housing rights of the urban poor as a critical first step towards attaining the Millennium Development Goal on significant improvement in the lives of slum-dwellers by 2020. The objective of these Quick Guides is to improve the understanding by policy makers at national and local levels on pro-poor housing and urban development within the framework of urban poverty reduction.

The Quick Guides are presented in an easy-to-read format structured to include an overview of trends and conditions, concepts, policies, tools and recommendations in dealing with the following housing-related issues:

(1) **Urban Africa**: Building with untapped potential (2) **Low-income housing**: Approaches to helping the urban poor find adequate housing in African cities (3) **Land**: A crucial element in housing the urban poor (4) **Eviction**: Alternatives to the destruction of urban poor communities (5) **Housing finance**: Ways to help the poor pay for housing (6) **Community-based organizations**: The poor as agents of development (7) **Rental housing**: A much neglected housing option for the poor (8) Local government: Addressing urban challenges in a participatory and integrated way.

Housing finance is a tool we use to pay for housing. Because a house is a relatively expensive product, costing many times a family's annual income, the most useful way of financing it is with a large loan from a bank, which the family pays back over a number of years. In Africa, however, less than 15% of urban households can afford or access a mortgage loan. These households finance their housing in different ways, such as with smaller loans from formal and informal lenders, savings, and even subsidies from employers or the government. If a country doesn't have a comprehensive housing finance system that responds to diverse needs of its population, its ability to ensure that their housing needs are met is seriously compromised.

The objective of this Quick Guide is to introduce some of the key concepts of housing finance and to provide a quick overview of how a housing finance system works. The guide presents information about both the formal and informal systems of housing finance and suggests ways in which the two can be better integrated. It sets out the different kinds of housing finance, and offers tips for policy makers to enhance access to affordable housing finance especially by the urban poor.

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United Nations Human Settlements Programme (UN-HABITAT)
PO Box 30030 GPO 00100
Nairobi, Kenya
Fax: (254-20) 7623092 (TCBB Office)
E-mail: tcbb@unhabitat.org
Website: www.unhabitat.org