Addressing the finance gap in low income housing: Initiatives in different African countries

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African Union for Housing Finance project

- Assist existing mortgage bankers (members of the AUHF) to understand the market better, and expand lending to lower income groups
- Assess housing finance needs of poor, especially residents of informal settlements
- Methods
  - Surveys
  - Housing Finance Forums
  - Pilots
- Test appetite for commercially viable products in this market
Project process

Qualitative surveys → Identify and characterise market → Define product and partners
Quantitative surveys
Legislative and regulatory obstacles

Market

• No titles
• Informal
  – Incremental – one room at a time
• Only lending by community based lenders at very high rates
• Real market especially in terms of rental
Diversity

• Swaziland

- Middle income country
- Low densities
- Strong community organisation
- Semi-legalised
- Single housing finance institution
- Highly regulated
- History of innovation
- Experienced building society which has been trying to expand its market into lower income groups with limited success
Diversity

- Ghana

- Wide variety of settlements from old to new
- Rapid peri-urban growth
- High rate of employment but low incomes
- Very poor sanitary conditions and high level of overcrowding
- Housing finance institutions lending to upper income group, but innovative HFC/CHF project, and HFC informal sector project are innovative and effective
- Micro-lenders very active
- Multi-dimensional problems with land and titling
Diversity

• Tanzania

– Very high percentage of urban growth informal
– World Bank funded upgrading programme improving infrastructure
– Intermediate land security (occupation licences) being provided
– No formal sector housing finance institution, but banks beginning to be interested
– Many very active micro-lenders, mainly using group lending
Diversity

• South Africa

– Extensive unemployment
– Very rapid urbanisation
– Government housing programme offers very high standards – shack mentality a consequence
– Banks committed to participate in the low income market
– Commercial (not NGO) micro-lenders very active and profitable
Diversity

• Morocco

Morocco

• Scale of micro-finance – over 1 million borrowers
• Micro-finance kick-started by USAID guarantees
• Reliance on community-based assessments
• Co-operation with commercial banks
• Micro-finance to raise deposit for formal sector housing
Findings - NGOs

• Many savings and credit unions exist
• Generally charge around 1% per month
• Problems of
  – Rate of financial return (money loosing value in high interest environment)
  – Inability to raise sufficient capital from member savings
  – Poor financial management

NGOs

• Formalised NGOs can work well, but
  – Require substantial support (e.g. PRIDE, Tanzania, Sinapi, Ghana)
  – Work better with small short-term loans for business
  – Group-based lending is unsuitable for some clients, and has been abused
Affordability and demand

• Surveys show that there are many people with the means to repay housing loans – a major market exists
• The demand is typically for incremental improvements and additions, not large sums
• Affordability varies substantially with family size
• Building for rent mitigates or eliminates the risk

Borrower’s attitudes

• Appetite for long-term debt is closely related to future employment/income prospects and income
• Fear of using house as security for debt
• Interest rate is assessed in terms of choices
  – Community based loan sharks charge very high rates
  – Interest rates are less important than availability
Adding value by lender

• Corporate social investment
• Life style
  – Health, Education
• Financial Management
  – Saving and borrowing
  – Saving in kind (Cemex case)
  – Terms and interest
  – Security
• Technical assistance

Lessons learned

• Importance of savings
• Relationship between borrower and lender
• Value of intermediary
  – To reduce fear factor on both sides
  – As safeguard
• Potential for more use of financial securities (pension funds etc)
• Need for good information about cost of development
Tanzania Pilot

- Pilot project being developed

Private banks

Community

Local government

Unfinished business
Recommended Structure

General structure

- Based on strong relationship with community, preferably through Savings and Credit Cooperative Society (SACCOS)
- Build on three Financial instruments
  - Six Month Savings Requirement as Security Deposit
  - Community Guarantee Fund
  - Loan Loss Provision Fund
Impact on bank risk

Bank Exposure

% exposure
Cash generated

% cash generated

Impact on the individual

- Security should lead to lower credit premiums
- Individual will effectively pay approximately 11% surcharge on base bank rate including insurance premiums
- As an example, on one set of assumptions, the monthly instalment will be approximately $60 on a loan of $2,000
- If no defaults at end borrower will receive 16% of initial loan amount plus deposit released