

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

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THE AFRICAN UNION
FOR HOUSING FINANCE

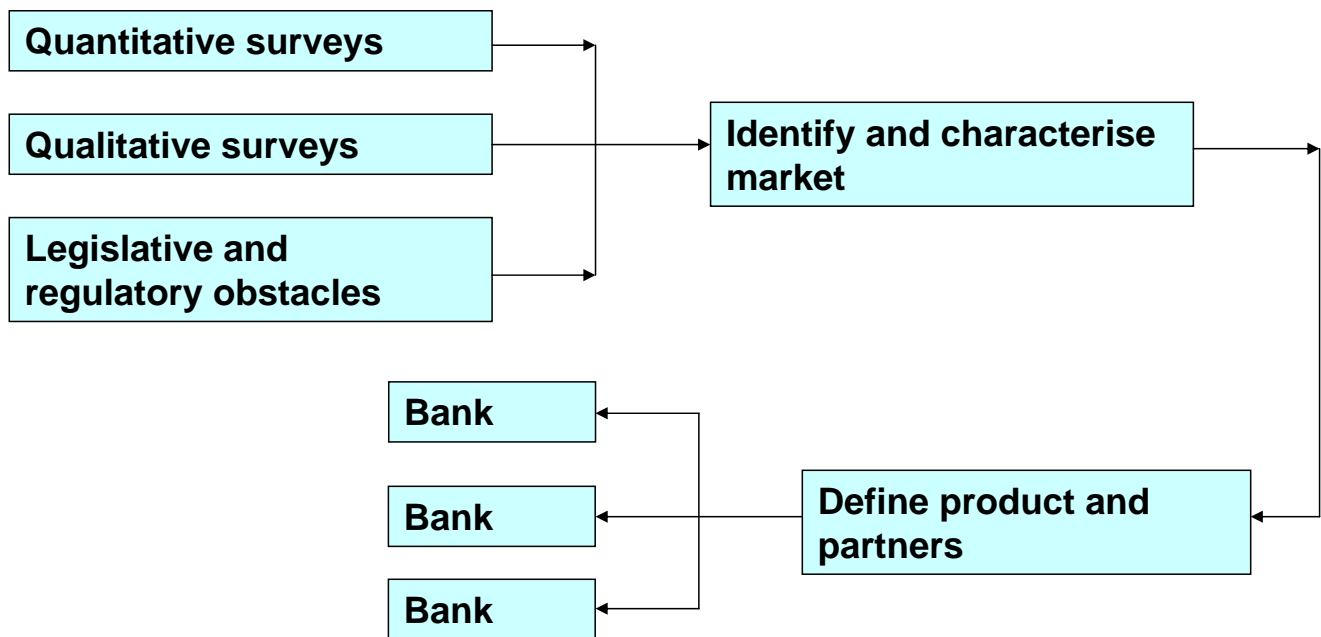
Cities Alliance
Cities Without Slums



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



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



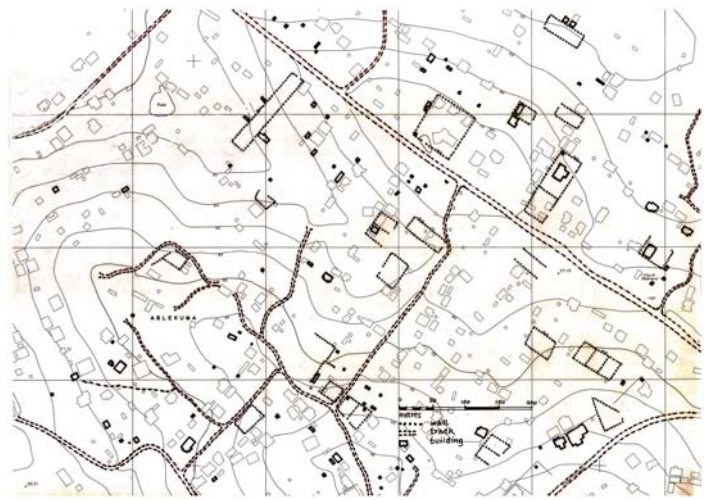
Diversity

- **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



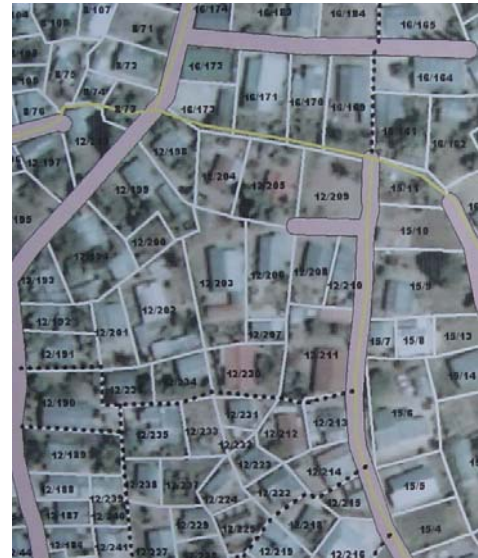
Diversity

- **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



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



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

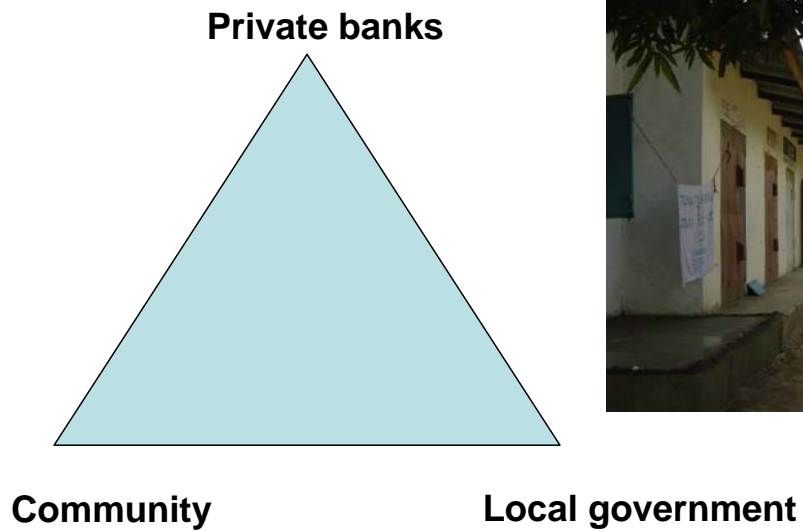
- Corporate social investment
- Life style
 - Health, Education
- Financial Management
 - Saving and borrowing
 - Saving in kind (Cemex case)
 - Terms and interest
 - Security
- Technical assistance

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

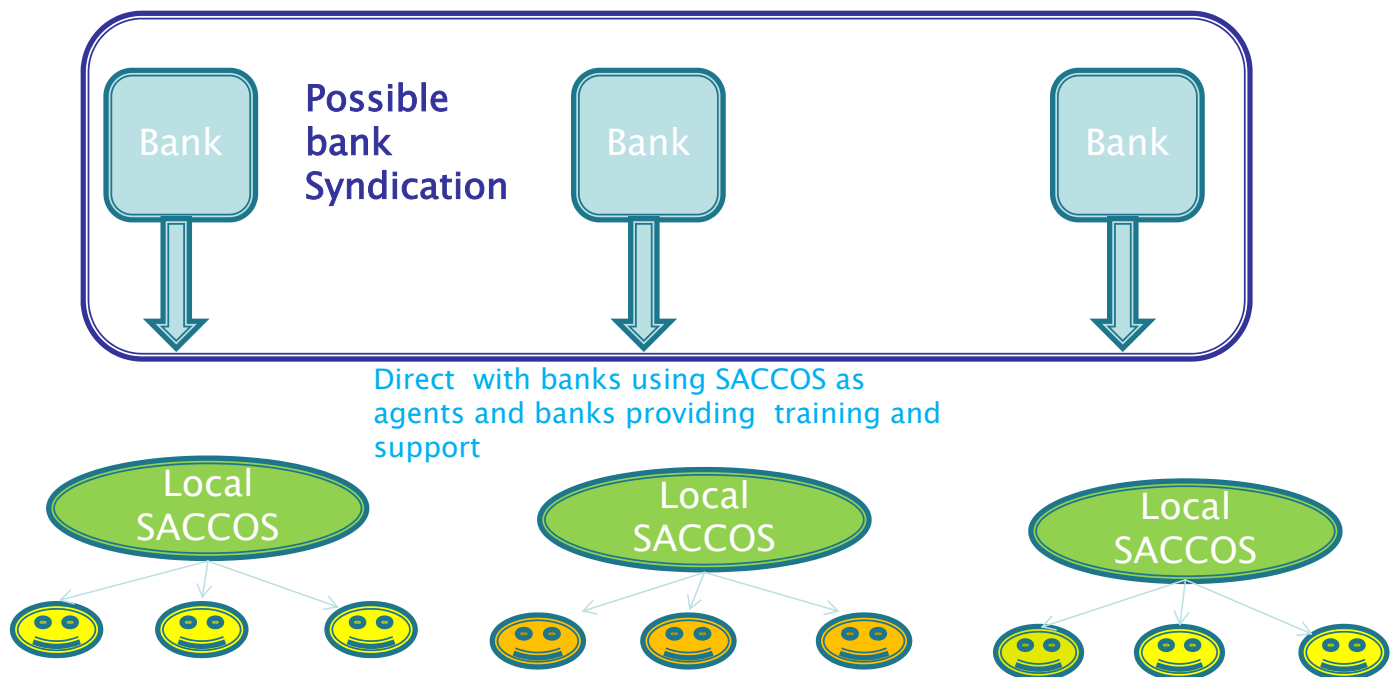
- Pilot project being developed



Unfinished business



Recommended Structure

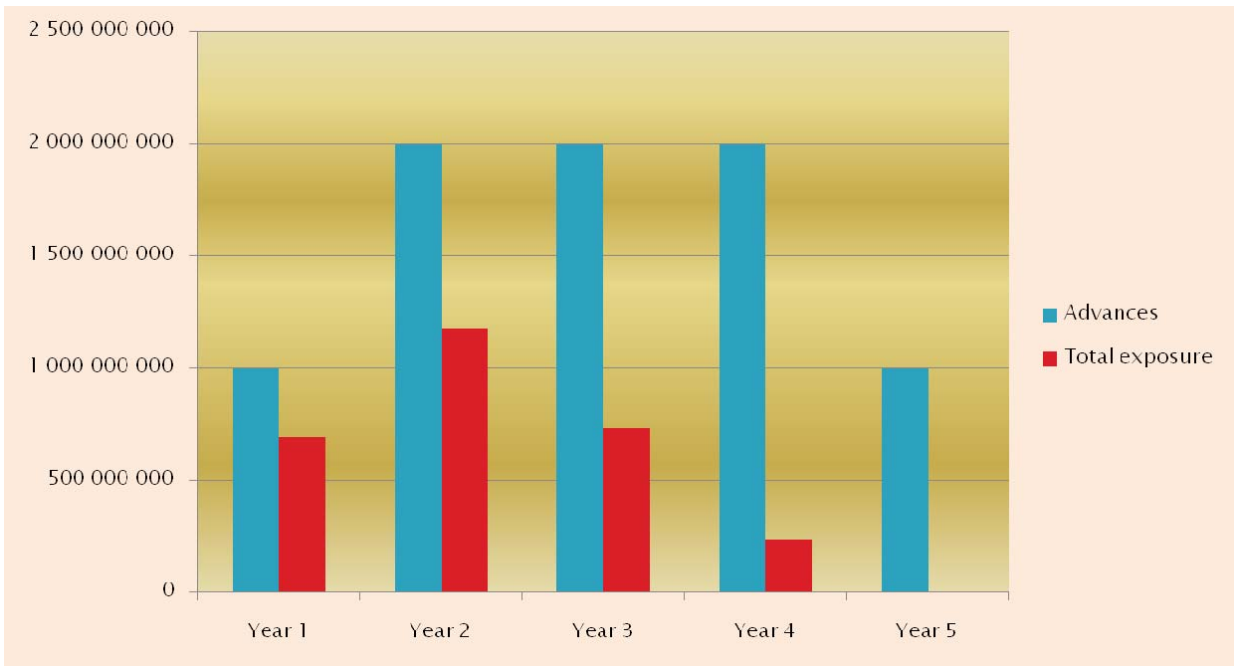


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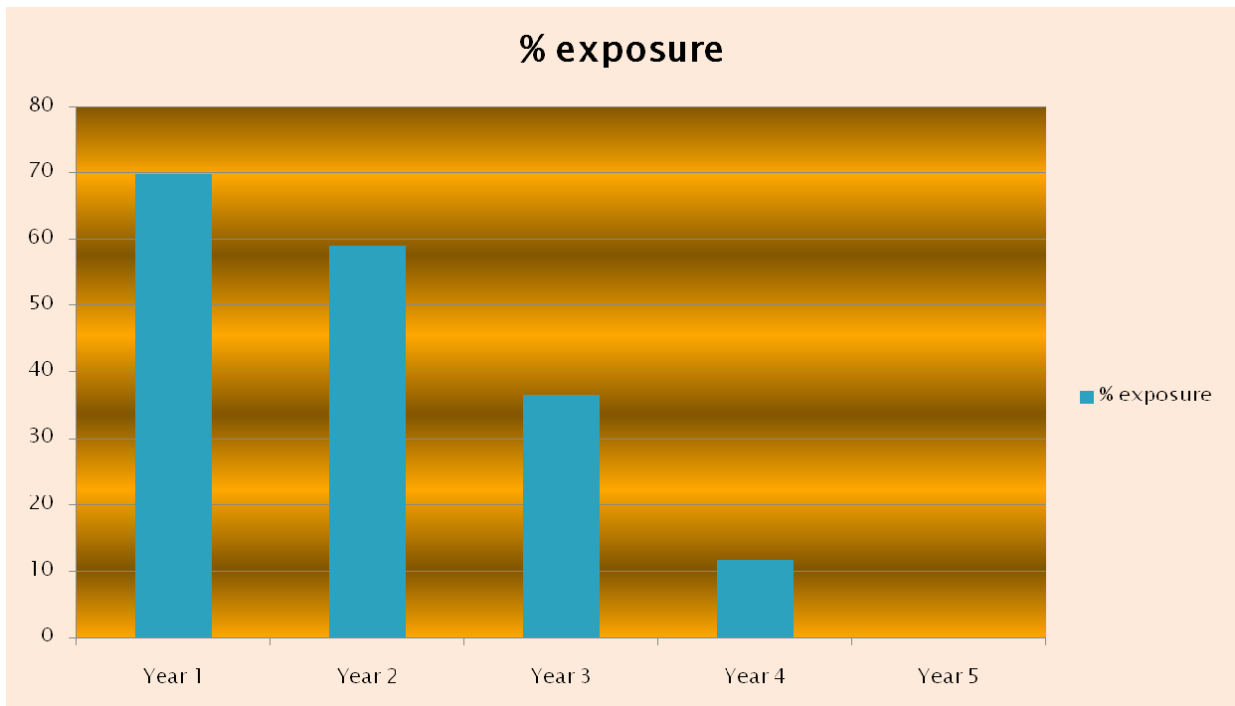
General structure

- 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

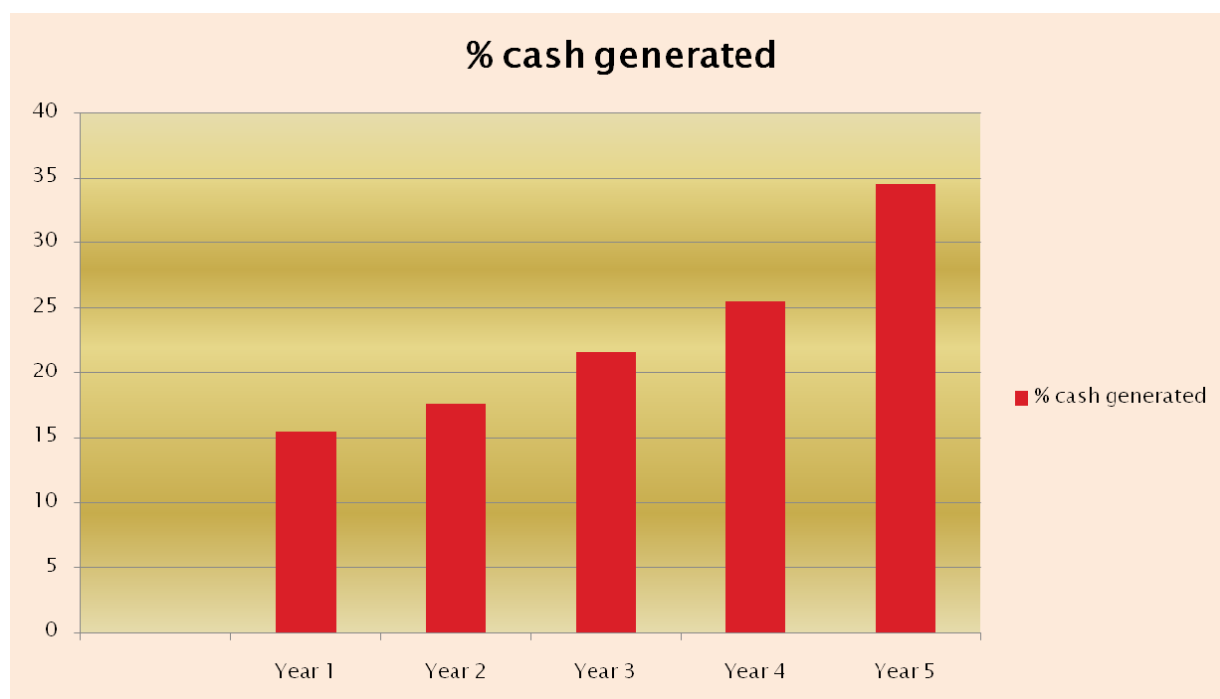
Impact on bank risk



Bank Exposure



Cash generated



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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