Financing for affordable housing

In many developing countries, housing finance often remains under-developed. It is unlikely that conventional sources of funds will be available for investment on the scale needed to meet the projected demand for urban infrastructure and housing. Most poorly-performing countries continue to face deficits in public budgets and weak financial sectors, and the contribution of official development assistance to the shelter sector is generally insignificant.

Affordability is one of the problems faced by housing finance institutions in Africa. While city authorities have started to seek finance in national and global markets, this practice is only in its infancy that countries and cities will have to rely mainly on the savings of their citizens. *Financing Urban Shelter: Global Report on Human Settlements 2005* examines the challenges of financing urban shelter development, focusing on the shelter needs of the poor and within the overall context of the United Nations Millennium Development target on slums.

The report shows that mortgage finance has been expanding during the last decade and is increasingly available in many countries, which was not the case 20 years ago. New mortgage providers have emerged, including commercial financial institutions and mortgage companies. However, the report emphasizes that only the middle and upper income households have access to such finance while the poor are generally excluded. The report further highlights the continuing and necessary contribution of the public sector towards financing shelter for the urban poor, as many households, even in developed countries, cannot afford home-ownership or market rents.

Recent estimates indicate that more than 2 billion people will be added to the number of urban dwellers in the developing countries over the next 25 years. If adequate financial resources are not invested in the development of urban shelter and requisite services, this additional population will also be trapped in urban poverty, deplorable housing conditions, poor health and low productivity, thus further compounding the enormous slum challenge that exists today.

The situation is compounded by the fact that many countries are suffering from a legacy of external borrowing. Some countries in Africa have a debt service to GDP ratio as high as 400 per cent. Developing countries also suffer from a lack of domestic savings within the national economies, with African countries only managing to have a savings rate of about 14 per cent as opposed to 21 per cent in Europe and 35 per cent in South East Asia.

Complete houses available through mortgage finance are well beyond the reach of the lower income groups, because they are unable to meet the deposit and income criteria set by conventional mortgage institutions. In this situation, the majority of urban poor households can only afford to build incrementally in stages, as and when financial resources become available. In response to this, microfinance institutions have started lending for low-income shelter development and have become very important in the last decade or so. The report also shows that guarantee schemes can, by providing credit enhancement, go a long way in broadening the appeal of microfinance institutions to lenders. Another important trend in the last decade has been increasing interest in shelter community funds, which are often linked to housing cooperatives as well as rotating savings and credit societies.

Community-based financing of housing and services has been used for both settlement upgrading and for building new housing on serviced sites. It has also been used to enhance the access of poor households to housing subsidies by providing bridge financing. The report concludes that, in light of the general success of small loans and the increasing urbanization of poverty, community funds have many advantages for low in-come households.

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Constraints to mobilizing financial resources for investment in shelter development are both financial and non-financial in nature. Non-financial constraints include land legislation that makes it difficult to use real estate as effective collateral, as well as inappropriate national and local regulatory frameworks governing land use, occupancy and ownership. In light of this, the report analyses the role of secure tenure in housing finance and highlights the need for legal and institutional reform designed to protect the rights of both lenders and borrowers as well as to enhance access to credit.

Housing delivery and population growth

- For the first time in history, the world's urban population will soon exceed its rural population. Already, about 50 percent of the world's population, about 3 billion people out of 6 billion are living in urban areas.
- Over the next 25 years, over 2 billion people will add to the growing demand for housing, water supply, sanitation and other urban infrastructure services. What is critical when considering this number is the order of magnitude.
- Close to 3 billion people, or about *40% of the world's population by 2030*, will need to have housing and basic infrastructure services. This translates into completing 96,150 housing units per day or 4000 per hour.
- In general, governments the world over have sought to encourage homeownership and have, in many cases, provided preferential financing to influence consumer choice. The sad reality is that today almost one billion live in slums and squatter settlements. If urbanization proceeds apace without the necessary financing and investment for the urban poor, by 2030, it is expected that there will be 2 billion slum dwellers.
- The UN Millennium Project estimates that to upgrade slums and meet Target 11 of the Millennium Development Goal on improving the lives of 100 million slum dwellers while also preventing the formation of new slums will require investing US$4.2 billion per year or $294 billion (US$440 per person) over the period 2005 to 2020. This could alter for the better the lives of 670 million people. Much of the funding for slum upgrading will have to come from subsidies, loans, savings, and self-help, donor contributions.
- 2004-2005 was a period of unprecedented economic growth at the global level. All Developing regions grew at a pace faster than their growth rates in 1980s and 1990s.
- Housing is becoming an increasingly expensive commodity in all countries. Between 1997 and 2004 average housing prices grew by 131 percent in Spain, 147 percent in UK, 90 percent in France and 60 percent in the US. In South Africa, it grew by 195 percent
- In developed countries, the cost of a dwelling can often be 2.5 to 6 times the average annual salary. However, the average cost of a decent low-income family house in Ghana is more than 10 times the average annual salary of most key workers in Ghana. In Algeria the cost can be as high as 12 times the annual salary. This has had considerable implications for the success of mortgage mechanisms and the desire for homeownership.
- There is little possibility that many developing countries will have the required finances to fund urban infrastructure and housing needed in the next 20 years.
- Though many developing countries now have access to market rate housing finance than they did 20 years back, only the middle and upper income households have access to mortgage finance.
- 70 percent and 40 percent of households in Sub-Saharan Africa and Latin America, respectively, cannot afford mortgage loans
- Small-scale landlords in informal settlement are a major source of affordable housing for a growing majority of the poor
- Formal privatization of municipal services in many cities has not benefited lower income groups.

CASE STUDIES

Home-financing in Africa

One of Africa's biggest challenges is home delivery. But except for South Africa, Ghana and a handful of East African countries, *Cas Coovadia*, Managing Director of the Banking Association of South Africa says, the home-financing sector in the rest of Africa remains in its infancy. In an article first published in The Banker, he highlights the good examples set by those countries leading the way.

South Africa

The mortgage market in South Africa is dominated by the banking sector, which is responsible for more than 90 percent of mortgage lending. Mortgage advances in South Africa grew by 29.6 percent year-on-year in September 2006. The total of mortgage advances as at September 2006 was R640.4bn ($91.5bn). The critical challenge for South Africa is the existence of a dual market.

The bulk of the mortgage advances are in a very well developed middle to upper income market. A significant part of the population is in the lower-income market, and this sector experiences challenges in housing delivery.

However, there is a very healthy engagement between government, its agencies and the banking sector to try to address these challenges. The South African government has been exemplary in its efforts to raise the issue of low-income housing to the top of the agenda in the country. The government has instituted a capital subsidy scheme that has benefited 2.9 million beneficiaries since 1994.

East Africa

A current initiative in East Africa is an example of the positive results of regional cooperation on the continent. Kenya, Uganda and Tanzania have cooperated to undertake a major housing project to address a shortfall of about 3.8 million units in the region.

The 20-year project will eventually lead to the development of about 28 million units. The East African Development Bank (EADB) is expected to raise $120m in the next two years for the project. It will expect the three countries to raise $20m each in the next two years for seed capital. The balance will be raised from the private sector in the region and offshore investors will be invited to subscribe to half of the capital needs.

The East African Development Bank estimates the region will need to invest some $12bn over the next 20 years to keep pace with demand. The project is a good start to meeting this need and will go some way towards addressing the severe problems of informal settlements in the region.

Ghana

There is a developing housing market in Ghana. The leading mortgage finance institution in Ghana is the HFC Bank, which offers a range of products, including: - home completion mortgages, home equity mortgages, home purchase mortgages, home improvement mortgages, buy, build and own a home, and non-resident Ghanaians loans.

These are just some examples of the developments in housing in Africa. The continent is beginning to experience relatively high levels of growth. The governance issues are being addressed, particularly those related to property ownership and protection of property. Issues related to the legal system are also being looked at. Africa is addressing the constraints on housing delivery and that will be of interest to housing actors from around the world.

FINANCING IN ACTION

The Jamii Bora Trust - Kenya

The Jamii Bora Trust is a registered charitable Trust established in 1999 at the initiative of 50 street beggar families in Nairobi, Kenya. In this article, the entrepreneur and social investor, Kibi Kariithi explains how it works as a microfiance organization and how by the end of June last year, it also had drawn 120,000 members with operations in 61 branches.

Many members are beggars or ex-street beggars, so no one is too poor to join Jamii Bora. Some members are on their way out of poverty, a few would even say they are not poor any more. They are now the mentors of those who are still very poor. Mentor members help a lot by being an example. They are living proof that however poor you are, you can get out of poverty if you are determined enough.

Claris Adhiambo, a Nairobi beggar for many years, is a proud member of Jamii Bora. She started her first steps out of the streets frying fish and chips for workers who needed an inexpensive lunch. Although her income was roughly the same as what she made as beggar, she regained her dignity and self-confidence. As her business grew, she was able to take larger loans. Today Claris has a wholesale business selling fish in Nairobi's Gikomba which serves many shops, hotels and restaurants. She has inspired others to join the trust and get out of poverty.

Another exemplary mentor is Beatrice Ngendo, a single grandmother who lives with her 12 grandchildren in Mathare Valley, the second largest slum in Nairobi. Her children and their spouses have died from AIDS. Now the grandchildren only have her to care for them. She joined the Jamii Bora in 2000 and today operates three successful businesses – a grocery store, butchery, a restaurant and a stone house which allows her to rent out rooms. Her grand children are in school and the oldest has just graduated as a qualified nurse and has joined the staff in Jamii Bora's out patient clinic in Mathare.

Jamii Bora Finance, the main arm of the trust, offers members savings accounts and the right to borrow double their savings. It offers loans for micro business, school fees, and housing. The loans, ranging from two to 1,000 dollars, are offered to members. The borrower pays 0.5% flat interest per week. The loan must be repaid within 50 weeks. The borrower decides the number of weeks they wish to keep the loan and many borrowers choose to repay the loan in 3-5 months, some will clear their loans in just a few weeks. It also offers larger business loans USD 1,000 and 10,000. Interest is paid at 0.5% per week on a declining loan balance. The loan must be repaid within two years. After one successful business loan, members can borrow for their housing or children's school fees on similar repayment conditions.

To help members realise their dream of better homes the trust purchased 293 acres of prime land in Kisaju, Kajiado District south of Nairobi for a new, planned settlement, known as Kaputei Town. The town being planned is expected to house some 2000 families.

Kaputei will be a green town rich with trees for beauty, wind protection and income earning from wood sales. Constructed wetlands will recycle wastewater and beautify the town at the same time. Jamii Bora will construct the three model homes for on-site demonstration.

The total cost of the 2000 houses is $3,750,000 and the infrastructure $3,750,000. Half of the cost of infrastructure will be charged to the residential area and half to the commercial and industrial area. The members will receive loans from Jamii Bora with 8.5%-10% interest for a 10-15 year repayment. Thus members will be able to live in a modern 3-room house at a cost of only $32 per month – the first of its kind in Kenya. The members in Kaputei town will be organised in neighbourhood management associations to develop and maintain their neighbourhood facilities and open spaces, parks and play grounds.

The town will have a Town Management Board with representatives of all neighbourhood associations and reporting to Jamii Bora Trust. The Trust will cover its cost for maintenance through monthly fees and charges of USD 6 from the homeowners.