# FINANCING HOUSING IN AFRICA

ISSUE 7: JULY 2011

## In this edition



*FINANCING HOUSING in Africa is a monthly publication of the African Union for Housing Finance for its members. Please submit material for inclusion to Kecia Rust, at [auhf.kecia@iafrica.com](mailto:auhf.kecia@iafrica.com)*

**AFRICAN UNION FOR HOUSING FINANCE**

The AUHF is an association of thirty-two mortgage banks, building societies, housing corporations and other entities involved in the mobilization of finances for the development of shelter and housing on the African continent. The AUHF is a non-governmental association and has its presence in some fifteen countries across the continent of Africa. See www.auhf.co.za We are pleased to welcome Homemakers Malawi Ltd., and their representative Mr Dick Chagwamnjira, as a new member of the AUHF!

# GETTING READY FOR GROWTH

There is a sense of movement and activity in the housing finance sector across Africa. While the world struggles with successive crises in the capital markets and sovereign debt, African practitioners are looking local, seeking out new markets for investment and growth. There are clear opportunities in the real estate sector – African cities are growing and the demand for housing and infrastructure is enormous. In some cases, this demand has been spurred by developments in commodities markets, most notably oil, but also gold, uranium, and others.

The shortage of housing spans the breadth of income capacity. At the top end of the market, [Mercer's 2011 Cost of Living Survey]() ranks ten African cities as among the most expensive for expatriates in the world. Luanda, in Angola, is the most expensive city in the world, followed by N'Djamena, in Chad, which is the third most expensive city in the world. These two are followed by Libraville, Gabon (12th); Niamey, Niger (23rd); Victoria, Seychelles (25th); Ouagadougou, Burkina Faso (28th); Djibouti, Djibouti (39th); Lagos, Nigeria (41st); and Dakar, Senegal and Khartoum, Sudan (tied for 44th). In almost all cases, these cities have risen in the ranks, becoming more expensive relative to other cities in the world, in the course of the past year. These prices are clearly evident of a housing shortage for middle and high income households, expatriates and investors, and indicate an opportunity for more supply.

At the bottom end of the income pyramid, urbanization rates and affordability limitations mean that millions of households across Africa need housing that can be delivered and financed incrementally as their incomes and circumstances are insufficient to meet standard mortgage requirements. This is another business opportunity, demanding in this case an affordable approach that maximizes economies of scale. What can practitioners do to enter the market in this space?

The AUHF's annual conference and AGM will address these various opportunities by considering the ingredients for growth in the housing and finance markets.


Scheduled this year to take place in **Johannesburg, South Africa, from 6-9 September 2011**, this is the main event of the African Union for Housing Finance. The conference gives members an opportunity to connect with one another again; share experiences and lessons learned in the past year; and to meet other housing practitioners not yet members of the AUHF.

The AUHF Conference is only 5 weeks away – register NOW!! For more information contact Kecia Rust on [auhf.kecia@iafrica.com](mailto:auhf.kecia@iafrica.com) . A very exciting component of the programme is the site visit on the 9th of September, where participants will visit Cosmo City, an integrated settlement that caters for low and high income households, developed within the framework of the new housing policy in South Africa

# In the news

## This month in African housing finance

## Housing delivery

### Lonmin to invest USD 57 million in converting hostels in South Africa

Lonmin, one of the world's largest platinum producers will be investing R380 million (USD 57 million) to convert single mens' hostels to housing units in South Africa. The plan is in accordance with the agreement in the South Africa Mining Charter, which indicates that mining companies have to eradicate mining hostels by 2014. Of the 128 hostels that had to be converted, the company has already converted 29, and plans to convert 26 in its current financial year. Source: *[Business Live]()*

### Nigeria's Federal Housing Authority to set to build 6009 housing units

Under the authority's public private partnership programmes, the parastatal has set out to build 6,009 housing units in 10 states across the country. It is estimated the plan will cost the state about N68 billion (USD 450 million). A total of 27 property developers would be involved in this project, and it is expected to be delivered within 18 to 24 months. Source: *All Africa*

### Low Cost Building Materials factory being built in Mavoko, Kenya

Kenya's National Housing Corporation is in the process of launching a building materials factory that focuses on affordable housing – the corporation has invested KSh 700 million (USD 8 million) into this project. The factory, which is modeled against the Italian technology of mass factory production of modular houses, is expected to increase the speed of housing production and reduce the cost of building by up to 30 percent. Source: *Daily Nation*

### Tata Housing has an Africa strategy, starting with the Maldives

Indian company, Tata Housing, has plans to enter the African housing market in 2012-13, as part of a global affordable housing strategy. The business plan is still under development – however the company plans to pursue opportunities in Kenya, Nigeria and South Africa. A project in the Maldives has already been signed – this is a public-private partnership in which 500 units will be constructed and sold at cost by the company, in return for which commercial space below the building will be sold at market rates. Source: *All Africa*

## Finance

### South African finance institution sets up USD 1.3 billion affordable housing fund

Old Mutual Investment Group (OMIGSA) Alternative Investments raised a total of R9.0 billion (USD1.3bn) for its housing fund that will focus on housing units for low income consumers in South Africa. The fund will finance the construction of these units as well as provide housing loans and rental accommodation for the market. Already the fund and its partners have financed the construction of about 70,000 affordable housing units, with the ultimate target of building a total of about 120,000 units over the life of the fund.
Source: *Company's Website*

### Shelter Afrique signs loan agreement with Zimbabwean banks

The Kenya based development finance institution recently announced its decision to loan a total of USD 20 million for Zimbabwean banks to finance housing. The loan is said to assist in reducing the housing deficit that Zimbabwe currently experiences after its mortgage lending system collapsed due to the high inflationary pressure and economic crisis experienced in the past decade. Source: *Bulawayo24*

### REDAN in Nigeria in USD I billion housing finance deal with Shelter Afrique

The Real Estate Developers Association of Nigeria (REDAN)are negotiating a deal worth USD 1 billion with Shelter Afrique, the Kenyan based housing development finance organization. The potential funding would focus on building about 155,000 housing units across the country for the low to medium income segment of the market. About 12 property developers in the country are expected to receive about USD 50 million each.
Source: *Nigerian Compass*

### Uganda's housing sector gets USD 100 million boost.

The French Agency for Development (AFD) and the Housing Finance Bank in Kampala Uganda recently signed an agreement for a USD 10 million credit line the agency would be providing. The loan will target housing developers and construction companies. The AFD believes this will assist in building a strong foundation to provide long term solutions and improve the country's housing sector.
Source: *All Africa*

### Home ownership and mortgage scheme to be launched soon in Lagos, Nigeria

The ministry of housing in Lagos, Nigeria - the commercial centre of the country - has announced the pending launch of its Home Ownership and Mortgage Scheme (HOMS). The programme will provide housing as well as the funds for mortgage facilities. Access to mortgages in Nigeria is low, accounting for about 0.4 percent of the national GDP. The loan to value ratio for the average mortgage product to be provided is 70 percent with a 6 percent interest rate and a maximum repayment period of 20 years.
Source: *Vanguard Nigeria*

### BOOK REVIEW: A Practical Guide for Conducting Housing Profiles – Supporting evidence-based housing policy reform

Through this guide, the UN Habitat proposes a methodology for profiling a country's housing sector as a basis for a broad housing sector reform that aims to improve its overall performance. The methodology provides a framework for analysing housing policies and housing markets at the local, country level, enabling international comparisons with countries with different housing objectives, housing outcomes and political agendas. The guide states that a national housing profile is the first step to inform and engage policy decision makers, providing them with the evidence to design their choices and support critical decisions.

The guide highlights eight thematic areas that need to be covered in a housing profile: (1) institutional and policy framework, (2) housing needs and demand, (3) housing supply, (4) legal and regulatory frameworks, (5) urban land supply for housing, (6) basic infrastructure provision for housing, (7) building materials, construction industry & employment in the housing sector, and (8) housing finance. The authors also list five cross cutting themes: housing rights, gender, HIV/AIDS, youth, and slums / informal settlements. In providing an overview of the various thematic areas, the authors provide direction for field surveys, interviews, data collection, reading and document analysis, and so on. The guide is designed as a tool for field researchers, consultants or teams of experts in charge of writing chapters on the various housing themes.

The guide primarily targets policy makers, housing practitioners, decision makers, academics, think tanks and nongovernmental organizations involved in the challenge of housing the poor. The book can be seen as a global reference guide that provides an opportunity to identify whether the policies, strategies and actions focused various components of the housing sector cause the desirable or adverse impact on the current state of the country's housing sector.

An electronic version of the report is available on www.unhabitat.org

# AUHF Member Profile:

## Banking Association South Africa

The Banking Association South African is the representative trade association for the banking industry in South Africa, including both South African and international banks. As an industry trade association, the Banking Association has no power to regulate or sanction its members. The Banking Association strives to shape the future of banking in South Africa by formulating a long term view of the demands that may be placed on the banking sector. Through proactive engagement with its members and other stakeholders, it assists in transforming the industry towards this long term view.

The Banking Association South Africa has a seven pointed mission:

- *To be the only mandated representative of the banking sector in South Africa.*
- *To contribute to the socio-economic growth and development of our country by facilitating and encouraging our members to deliver financial services to a broad spectrum of the population.*
- *To continually catalyse transformation and innovation in the sector and enable the consolidation of the outcome of such transformational and innovative initiatives into the business of banks.*
- *To encourage and facilitate the sustainbility of the banking sector through profitable, repsonsible and environmentally sensitive business by our members.*
- *To undertake the necessary research and development to inform international best practice in the business of our members.*
- *To forge dynamic partnerships with relevant stakeholders to influence an envireonment in which banks can do profitable business in a way that promotes international best practice and sustainable socio-eocnomic growth and development.*
- *To continually explore a role for The Banking Assoication South Africa in the Southern African region and the rest of the African continent, as our members extend their footprints into these areas.*

Mr Cas Coovadia is the Managing Director of The Banking Association South Africa, and is The Banking Association's representative to the AUHF. Mr Coovadia is the Vice Chairman of the AUHF Exco. Mr Coovadia is also the Chairman of the International Union for Housing Finance.

The Main Board of the Association comprises the Chief Executives of the five largest South African banks, two Chief Executives representing international banks and two Chief Executives representing the other South African banks. The Banking Association has also established an Operating Board that meets once a month to provide strategic guidance and direction on the myriad of issues addressed by The Banking Association. The Operating Board is structured similarly to the Main Board, but representation is through the heads of retail of the institutions. The Banking Association South Africa is the mandated representative of the sector and addresses industry issues through lobbying, policy influence, guiding transformation in the sector, acting as a catalyst for constructive and sustainable change in the sector, research and development, and engagement with critical stakeholders.

In doing this work, The Banking Association South Africa manages numerous committees that advise the executive on issues pertinent to the sector. Such committee areas include:

- Access to Financial Services
- Accounting & Financial Reporting Standards
- Agriculture
- Banking Sector Regulation
- Codes of Practice
- Consumer Protection
- Direct Tax
- Housing
- Indirect Tax
- Preferential Procurement
- Small, Medium Enterprise Finance

An important area of focus for The Banking Association in past years has been the Financial Setor Charter. A voluntary charter signed by South Africa's largest financail institutions, the FSC sought to remedy historical barriers relating to access to end user and development finance. The Charter was concerned with promoting greater equity across various dimensions, including transforming the work force within the financial sector, changing the ownership structure of the financial industry, and providing acessible financial products that meet the needs of low income consumers. The first phase of the FSC was between January 2004 and December 2008, and involved a commitment of over R70 billion (about US$ 10 billion) in development financing, including R42 billion (about US$ 6 billion) for housing finance to low income earners. The Banking Association's role in the negotiations, implementation, and monitoring of the FSC was significant, and the experiences of the first phase of the Charter offer important lessons for efforts at promoting financial sector inclusion in other countries.

**Housing Finance in the Financial Sector Charter:** In the 5 year period of the FSC, from 1 January 2004 – 31 December 2008, banks originated a total of just 234 638 mortgage loans to the value of R28,3 billion (abou US$4 billion), to the target market of households earning between R1500 (about US$214) – R7500 (about US$1071) per month (escalated annually by CPIX). The average value of mortgages in 2008 was R117 000. In addition to mortgages, banks also originated 257 345 fully guaranteed (pension-backed) loans to a value of R4,8 billion; 315 952 unsecured (housing microfinance) loans to a value of R3,6 billion; 402 residential development loans (leading to the development of new housing) to a value of R4,3 billion; and 176 394 wholesale & social loans (to providers of retail financial services or rental housing) to a value of R3,6 billion. Source: Unaudited data, The Banking Assocation

**The Banking Association South Africa**
**Tel: +2711-645-6706 / Fax: +2711-645-6806**
**Email: casc@banking.org.za / Web: www.banking.org.za**

# Player in focus: Development Bank of Southern Africa

The Development Bank of Southern African (DBSA) is a development finance institution wholly owned by the South African government. The Development Bank of Southern Africa was established in 1983 to perform an economic development function within the constitutional dispensation of the previous government. In 1994, the roles and functions of the Bank were transformed in line with South Africa's new constitutional and economic dispensation, in order to promote socio-economic development and growth in the southern African region. In 1997, the DBSA was reconstituted in terms of the Development Bank of Southern Africa Act (No. 13 of 1997) as a development finance institution. The constitution and conduct of the DBSA Board of Directors are primarily governed by this Act and by the Public Finance Management Act of 1999 and the Companies Act of 1973. The DBSA's vision is *"a prosperous and integrated region, progressively free of poverty and dependency"*.

The main objectives of the Bank are: the promotion of economic development and growth, human resources development, institutional capacity building, and the support of development projects and programmes in the region. The Bank also seeks to assist other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development, and to assist national, international and private sector bodies with the management of specific funds.

To realize these objectives and its strategy, the DBSA co-delivers social and economic infrastructure in three broad areas:

- Social transformation: support the creation of sustainable living environments and alleviate basic services backlogs
- Economic stimulation: support the growth of the economic base of an area, and employment opportunities.
- Capacity development: support the upliftment of human capital in the areas where growth and development are constrained by lack of education and skills.

The DBSA is a large scale institution, and plays a number of different roles in its work:

- Financier: As a financier the DBSA focuses on the funding of large scale infrastructure projects within the public and private sector. The DBSA does not finance private individuals and start-up businesses, however, as these are financed through other development financing institutions. The financing mechanisms available at the DBSA include grant-making, lending, investing, underwriting of guarantees and arranging of finance.
- Partner: The DBSA partners with several stakeholders on a variety of projects. For example, through its capacity development programme, Vulindlela Academy, the DBSA provides cutting edge learning interventions that respond directly to clients' needs in the fields of infrastructure development, development finance and public administration. In other projects, the DBSA acts as a development catalyst, facilitator, or as an agency service.
- Advisor: As an advisor the DBSA assesses, analyses and disseminates development information, and providing advice on a number of dimensions including demography, public finance, labour and employment and public-private sector projects. The DBSA also offers technical assistance through for example, the mobilization of grant funding for projects and negotiations with the private sector.
- Implementer: The DBSA is increasingly seen by various governments as a channel which delivers results, and has been asked to expand its role to provide support for implementation of projects, as well as its well established roles of advising on these projects as well as financing them. The Bank achieves this by deploying professional staff with skills in areas such as finance, engineering and project management, to provide hands on support to municipalities

For more information visit: www.dbsa.org or telephone +27 11 313 3911

## Recent projects

**Roads in Zambia**: In January this year, the DBSA and the Zambian Road Development Fund Agency signed a road development loan of USD 262 million to support Zambia's economic development and regional integration. The main purpose of the loan is for the rehabilitation of five priority roads, three of which form part of the Trans African Highways route running from Cape Town, South Africa to the DRC's Katanga Province and onwards to Kinshasa.

**Cement plant in Namibia**: In February this year, the DBSA agreed to partner with the European Investment Bank in delivering Namibia's only cement plant – the Ohorongo facility. The investment of US$1,5 billion is one of the largest single infrastructure investments in Namibia's recent history. The facility which will include a grinding mill, access roads, railway track and housing facilities for the workforce will enable the expansion of the country's infrastructure and housing sectors, and reduce its reliance on imported cement from neighbouring countries. The project will also provide low-income housing, education and healthcare facilities in the Otavi region.

**Water supply in KwaZulu Natal, South Africa**: In May this year, the DBSA signed an agreement with three European development finance institutions to finance a water supply project in KwaZulu-Natal. The project called the Mooi-Mgeni water supply project will benefit about 6.3 million people living in the municipalities of Ethekwini.

The ***Africa Infrastructure Country Diagnostic***, a landmark study on Africa's infrastructure, was launched by the members of the Infrastructure Consortium for Africa at the DBSA premises in November 2009. The study showed that US$93 will be needed annually to "raise Africa's infrastructure endowment to a reasonable level within the next decade."

# Graph of the month

The data for this graph has been taken from the Doing Business Project of the World Bank (2010) which measures and compares regulations relevant to the life cycle of a small to medium-sized domestic business in about 183 economies. The data set is assuming a standardized case of an entrepreneur who wants to purchase land and a building that is already registered and free of title dispute and it provides an understanding of the efficiency in each country's property market There are several factors that could affect the longevity of the registration process; however one of the foremost issues is the lack of relevant technology. Of course, the figures illustrated below are a national average. The time taken may vary depending on the nature of the property, its location, and any other aspects that could make the registration more complicated. Monitoring this data is important as it is an indicator by which investors consider the ease of doing business in a particular country or locality, the efficiency of the public administration, and the risks involved.

# UPCOMING EVENTS

## TRAINING / COURSES

**Investment and Innovation in Microfinance in Africa** 17-19 October 2011. Nairobi, Kenya. For more information: www.microfinance-africa.com

**Organizing Local Economic Development** - Institute for Housing and Urban Development Studies. 17-28 October 2011. Cape Town, South Africa. For more information: www.ihs.nl

## CONFERENCES / WORKSHOPS

**AUHF Annual Conference and General Meeting. 6-9 September 2011. Johannesburg, South Africa. For more information: auhf.kecia@iafrica.com**

**Making Finance Work for Africa 2011 Partnership Forum**. 15-16 September 2011. Addis Ababa, Ethiopia. For more information: www.mfw4a.org

**South African Housing Foundation: Conference and Exhibition**. 11-14 September 2011. Cape Town, South Africa. For more information: www.sahf.org.za

**World Sustainable Building Conference**. 18-21 October 2011. Helsinki, Finland. For more information: www.sb11.0rg

**African Real Estate & Housing Finance Academy Awards**. 8-10 August 2011. Lagos, Nigeria. www.ihfw.pisonhousing.com