



FINANCING HOUSING IN AFRICA

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Integrated approach to Housing finance by the World Bank Group

In the past, government interventions in housing and housing finance markets were in the form of state housing banks which often were direct housing lenders^[1]. In most countries, these banks performed poorly, and were unsustainable. More recently, attention turned to the development of secondary mortgage markets and capital market funding for lenders, in some cases facilitated by the state. These interventions involved creating [Secondary Market Institutions](#) which were mostly public-private partnerships that leveraged on private sector capital and expertise. Simultaneously focus was given to strengthening the legal and regulatory frameworks. Over the years, a paradigm shift was seen in policy, with the focus shifting from the state being directly involved as a lender, towards being an enabler, creating and strengthening housing markets, and building primary mortgage market infrastructure. Policies focused on addressing ways to lower the cost of land, improving property and lien registration, and developing a credit information infrastructure, and facilitating the expansion of housing finance.

Recently the [Independent Evaluation Group](#) (IEG) under the World Bank Group released a Learning Product on the World Bank Group's (WBG) support for housing finance, and there are some key facts worth noting. WBG has been supporting housing finance in many countries for over decades given its critical function in the housing market. The support stems out of the necessity to create sustainable and effective housing finance markets, and in order to achieve this, mobilization of longer-term funding sources for both rental and owner-occupied housing is required. However sustainable and effective housing finance is often missing in emerging markets and this is an area in which the WBG has a keen interest. Through technical assistance and capital injection, the Bank supports and develops these markets to have well-functioning housing finance sectors. Their approach involves three conceptual stages: strengthening the enabling environment, initiating the primary market, and then funding mortgages through capital markets. Thus the technical assistance provided by the WBG is intended to strengthen financial institutions' capacity and/or assist governments to implement the necessary legal and regulatory reforms which may be necessary for investment intervention.

In many countries, greater attention is now being given to expanding the accessibility of lower income households and those with informal incomes to housing finance. This is done through implementing innovative strategies that complement mortgages and increase accessibility downmarket, to decrease housing deficits and meet the housing need. There have been interesting initiatives which include experiments with alternative housing finance products, risk sharing, and subsidies. Although some of these alternative housing finance products such as Housing Microfinance (HMF), self-construction finance, and rental housing finance are still underdeveloped, they are nonetheless a promising area of focus (IEG (2016)). Policy efforts to support housing finance should not be limited to end-user housing financing and specifically to mortgages, but should be comprehensive for the implementation of the housing value chain from land purchase, titling, construction, and infrastructure.

As especially evident in Africa, the demand for housing and housing finance has increased as a result of persistent urbanization and population growth^[2]. Housing demand is the willingness by someone to pay or invest in a particular housing product, whilst housing need refers to the backlog or deficit in terms of housing available in the market. IEG acknowledges that Africa will face special challenges as a result of the rapid rate of urbanisation; housing need is increasing exponentially. The interventions by the WBG are relevant and essential.

[1] Chiquier, L., and M. Lea (eds.). 2009. *Housing Finance Policy in Emerging Markets*. Washington DC: The World Bank.

[2] Doling, J., P. Vanderberg, and J. Tolentino. 2013. *Housing and Housing Finance—A Review of the Links to Economic Development and Poverty Reduction*. Working Paper 362. Manila: Asian Development Bank.

Areas of Intervention by WBG:

WBG seeks to assist countries, especially the ones with emerging markets build sustainable and efficient housing finance systems that address the needs of households at different income levels and allow them to afford housing. They offer **primary market interventions** – providing investment (debt/or equity) or technical assistance to primary market lenders; **capital market interventions** – developing instruments, institutions or infrastructure to access the capital markets for funding; and **affordable housing interventions** – supporting efforts to go “down market” to assist lower income households to acquire housing. These were the key focus of the [IEG’s learning product](#), to measure if they are appropriate and serve the targeted countries’ needs and stage of financial sector development.

Under **primary market interventions**, the WBG assists in various ways from creating new mortgage lenders in undeveloped primary markets, to strengthening existing institutions in more developed markets. In general the following fundamentals are required to ensure a robust primary mortgage market is developed:

- Stable macroeconomic environment (moderate to low inflation and mortgage rates);
- Legal frameworks that support collateralized lending (foreclosure laws that permit lenders to foreclose at a reasonable cost and within a practical time frame);
- Regulatory frameworks for mortgage lenders, access to longer term funds, and a borrower population that has sufficient income to support a long term financial commitment in the form of a mortgage loan (more on alternatives in the affordable section);
- Lenders have to be interested and willing to make mortgage loans or expand their existing lending;
- Create accessibility to long term funding so financial institutions can expand their lending, manage the liquidity and potential interest rate risk of an asset-liability mismatch (IEG, 2016).

AUHF member, the International Finance Corporation (IFC), forms part of the WBG, and supports primary market lenders such as commercial banks and specialized housing finance companies. The rationality for supporting commercial banks stems from them being logical institutions that are well equipped to support the development or expansion of a mortgage market. In addition commercial banks can access funding and distribute it easier, and also they have strong brand recognition which give them competitive advantage over specialized lenders. However, when experiencing challenges with commercial banks as in they are unwilling, or scarcely extend loans for housing particularly in emerging markets, then in such circumstances, the IFC finds it essential to support non-bank financial institutions (NBFIs). The support includes to developing the mortgage market or complementary innovative housing finance products which can be both safe and profitable to various income groups.

In India, IFC invested in non-bank entities called Housing Finance Companies (HFCs). The main aim of this investment was to strengthen housing finance systems so they meet country development needs. The HFCs demonstrated that they can lend responsibly and profitably, because of the mechanisms in

place such as the highly selective credit criteria, and use of personal guarantees to reduce risk, moreover compensated for the lack of foreclosure legislation. In most cases the IFC's provision of long-term debt funding to several banks has met important lender need and encouraged lending, and an expansion of mortgage portfolios. Furthermore capital from IFC has supported some institutions with leveraging, thus resulting in the growth of housing finance portfolios, and also contributing to greater competition in the market, and also increased mortgage tenor. This is true for Bosnia and Herzegovina whereby some financial institutions were able to finance over 1,300 housing loans, accounting for a total of €21.3 million and enabled a housing finance (mortgage and home improvement) portfolio growth of 7.5 times in Romania. The mortgage tenor increased from 13 years at the end of 2005 to 23 years at the end of 2008, and a decrease in mortgage rates from 11 to 9 percent. In both cases, macro and market prerequisites were established.

CAPITAL MARKET INTERVENTIONS

WBG supports several countries to develop the legal and regulatory infrastructure for capital market funding intended for housing and this includes investing in extensive knowledge of the country constraints to ensure successful development of capital markets. In some cases, when pre-conditions for success do not exist, WBG upstream support is crucially significant to support the development of the housing finance systems and capital markets. Examples whereby capital market interventions by the WBG were undertaken, includes; the creation of mortgage laws and facilitating securitization in Morocco, Turkey, and Pakistan, as well as the formation of [liquidity facilities](#) in countries with shallow bond markets i.e. Tanzania, Jordan, Nigeria and Egypt to mention few. The technical assistance has been key in enhancing capacity in housing lenders, in structuring securitization transactions and in improving standards. In the area of capital markets, IFC has played an important role in transferring know-how techniques, and also been instrumental in creating successful lender securitization transactions, standards for documentation and origination. IFC supported an institution in Columbia called Titularizadora Colombiana (TC) from with designing the operational structure, analysing the risks, introducing valuation methods for securities, and opening an active market for senior MBS.

AFFORDABLE HOUSING INTERVENTIONS

Interventions by the WBG for affordable housing have been dependent on the specific conditions and contexts of client countries which range from supporting middle income borrowers in countries with no mortgage market, to supporting lenders to go "down market" in countries with established markets. The following indicators are used to measure the impact and effectiveness of the WBG's interventions in various countries; increased access to lending for an underserved population, sustainability of the program, business success of the financial institution (profitability and sustainability of the lending institution, reduced risk in particular due to asset-liability mismatch), demonstrative effect that encourages other lenders to enter, go down market, or expand their lending to underserved population.

The relevance of affordable housing interventions hinges on the specific constraints whether on the demand or supply-side impacting affordability in each country, and these constraints vary from country to country. The following constraints are usually found on the **demand-side**; informal and irregular income, the cost of finance, and high taxes and down payment requirements are major constraints to affordability. Interventions to address these demand-side constraints can be through the provision of subsidies, guarantee schemes, subsidized financing, and reducing the risks of mortgage lending (IEG, 2016). A subsidy is defined as an incentive that is provided by the government to enable and persuade a certain class of producers or consumers to do something they would not otherwise do, by lowering their opportunity cost or otherwise increase the potential benefit of doing so^[3].

The following constraints are usually associated with the **supply side**; high land cost, high operation costs, difficulty in assessing incomes, validity of title documents, and lack of access to long-term local currency funding. Supply-side constraints are best addressed through improving land use regulations, land infrastructure, taxes and fees, land access and title, construction costs, lack of sufficient competition among developers, and improving the credit risk management capabilities of lenders (IEG, 2016). It is crucial that affordable housing is not limited to buying a home, but an inclusive approach that fully

addresses all the above-mentioned constraints. Hence housing supply in the market of most countries can only be afforded by small percentage of population who have higher and stable incomes.

[3] US Congress, 1969

Affordable housing should not be limited to owner-occupier house purchase, but consider other forms of adequate and affordable housing such home improvements, incremental housing, and rental accommodation. This would ensure that the majority of the low-income population in several countries are able to acquire their desired houses according to their financial capacities and preferences. Furthermore affordable housing is considered a risky endeavour and therefore requires a particular expertise to understand and manage the risks adequately. A housing project is a large investment that most people whether developer or individual basis construction, cannot afford to pay for all at once. Thus access to debt finance to leverage their equity investments to produce rental or owner-occupied housing projects, and requires access to a large amount of accumulated finance.

WBG intervention in the provision of affordable housing is downstream and upstream. **Downstream interventions** involves enhancing demand of lower income segments through the provision of grants, subsidies or the creation of house assistance funds; or enhancing supply by encouraging institutions to move down-market through guarantees or access to cheaper funds or to developers to produce low income housing units. **Upstream interventions** usually address rationalization and unification of subsidies, simplifying norms for social housing, and amending or creating rental housing legislation land use regulations, land infrastructure, reducing taxes/fees or building material costs, and increasing competition among developers. Furthermore IFC through its investments, purposes to enhance affordable housing through accessibility of financing by the underserved segments (typically low and lower middle segments of the population). Lastly, IFC advisory activities also support affordable housing by providing capacity building to housing lenders in the market (IEG, 2016).

WBG's capital markets projects have indirectly enhanced affordability, even though it was not the main objection. Thus systemic interventions can indirectly support affordable housing for all income segments. For example in Colombia, IFC supported the development of a secondary mortgage institution that improved the affordability of housing and lowered the cost of mortgage loans by making longer term funding available to originators. In turn this resulted in reduction of interest rates and a significant rise in the construction of housing. The IFC Advisory has also supported some financial institutions even in conflict-affected countries, to increase capacity to develop innovative housing microfinance products, but market-impact remains limited. In 2008, IFC strengthened and supported the capacity of a Microfinance Bank in Afghanistan to develop, launch, and offer a housing improvement loan/HMF coupled with construction technical assistance to increase the availability of finance for quality housing to lower income earners. Up to now, the MFI has grown the product from a single credit to more diversified portfolio, and it is the only financial institution in the country that offers HMF products around Afghanistan (21 urban and six rural branches in total).

Read more of the Independent Evaluation Group's Learning Product report here: <http://bit.ly/2fvnqOC>

*Best wishes for 2017
from all of us...*



**Please note AUHF offices will be closed from the 23rd
December 2016 – 03 January 2017.**

Interested in becoming a member of the African Union for Housing Finance (AUHF)?

The AUHF comprises of 58 members from 16 countries across the continent. Members include commercial and mortgage banks, building societies, microfinance banks/institutions, housing development corporations, and other institutions involved in the mobilisation of funds for shelter and housing. As an industry body, AUHF promotes the development of effective housing finance markets and affordable housing across Africa, working in the interests of both our members and the industry as a whole. In serving its members and realising its goal of effective housing finance markets and delivery of affordable housing in Africa, the AUHF pursues four main activities:

1. **Networking and deal facilitation;**
2. **Capacity building and training;**
3. **Lobbying and advocacy, and**
4. **Information collection and dissemination.**

For more information about AUHF please visit our website: www.auhf.co.za. To apply as a member please click [here](#), or else please free to contact Noluthando Ntshanga: auhf@housingfinanceafrica.org. **We would be delighted to have your organisation as a member, collaborating with us to make housing finance markets effective, and the delivery of affordable housing effective across Africa.**

ABUJA DECLARATION ON HOUSING FINANCE 2015

The African Union for Housing Finance (AUHF) members met with colleagues from the public and private sectors from over twenty countries over three days, and held its 32nd Annual General Meeting in Abuja, Nigeria, on 16 September 2016, to deliberate and express the commitment the Association has in driving investment in Africa's housing sector, so that it contributes substantially to Africa's growth agenda.

Download and read more: <http://bit.ly/2dYvHIQ>

EVENTS

13 – 15 March 2017 | [3rd Annual City Development Conference 2017](#) | Cape Town, South Africa
16 – 17 March, 2017 | [13th Annual Global Microfinance Forum 2017](#) | Prague, Czech Republic |
20% discounts for AUHF Members

23 – 24 May 2017 | [African Construction and Totally Concrete Expo](#) | Gallagher Convention Centre, Johannesburg, South Africa

3 – 6 April 2017 | [8th Affordable Housing 2017 – Marcus Evans Event](#) | Singapore | **10% discount AUHF members**

5 – 6 April 2017 | [East Africa Property Investment Summit 2017](#) | Nairobi, Kenya | **20% discount AUHF members**

24 – 25 August | [Africa Property Investment Summit 2017](#) | Johannesburg, South Africa | **20% discount AUHF members**

[*Let us know of any events not listed above](#)

[*Click here for our updated events page](#)

The AUHF welcomed M Mortgage Finance Ltd in Tanzania as a Member:



M Mortgage Finance (Tanzania) Limited (M Mortgages or the Company) is a greenfield mortgage finance bank setup in Tanzania in Partnership with Bank M Tanzania Limited, a local Tanzania Bank, Housing Development Finance Corporation Limited India (HDFC), the largest housing finance company in Asia and prominent local investors, namely Sanjay Suchak and the Karimjee family of Tanzania. It is the first specialized mortgage lender in Tanzania

IN THE NEWS

MEMBER NEWS

TUHF – in Braamfontein, a 30-storey office block is being converted into over 400 residential apartments using the latest building technologies and designs. The total cost of the project is estimated to be R250-million (over USD \$18 350 000) and is financed through equity and debt funding. The project employs about 350 people on site and expected to be completed June 2017. Read more: <http://bit.ly/2dUFpLw>.

The **International Finance Corporation** (IFC), a member of the World Bank Group, has launched a programme that aims to raise USD \$5 billion from global institutional investors to modernise infrastructure in emerging markets over the next five years. Read more: <http://bit.ly/2f1pZWP>.

Nigeria Mortgage Refinance Company (NMRC) recorded significant increase in its profitability N482 million (approximately USD \$1,514,000) in 2015 versus N160million (approximately USD \$502,700) in 2014 and in its total assets N39.01 billion (approximately USD \$ 122,528,000) in 2015 versus N10.6

SOUTHERN AFRICA

The **African Development Bank** has approved a loan of R 570 million (USD \$41 844 000) to help finance affordable housing in South Africa. The Housing Investment Partners Trust 2, also known as the Vulumnyango Trust are the beneficiaries of this debt capital. The main objective for the funding is to improve access to long-term affordable housing finance for lower-income earners in the country, who currently have limited opportunities to access affordable mortgages. Also, the loan will help to consolidate the growth of a strong affordable housing sector within South Africa. Read more: <http://bit.ly/2fcaQh>.

In **South Africa**, a new state-owned housing finance bank is set to be launched before the end of the 2017 and it is targeted at the affordable housing market. The bank will be a consolidation of the National Housing Finance Corporation (NHFC), Rural Housing Loan Fund, and the National Urban Reconstruction and Housing Agency which are currently institutions under the Department of Human Settlements. Read more: <http://bit.ly/2h9heLh>.

billion (approximately USD \$ 33,302,400) in 2014. Read more: <http://bit.ly/2e3tx9j>.

Habitat for Humanity, Europe, Middle East and Africa – interesting piece written by the Area Vice-President, Greg Foster. Highlighting the importance of the decisions made at the Habitat III as they have significant impact on the future of African cities. Read more: <http://bit.ly/2el70CZ>.

ACROSS AFRICA

Projections show Africa will have the world's fastest growing cities over the next 30 years with huge informal settlements and slums. If this projection becomes true, Africa's major cities pose to be potentially very expensive with long-term problems such as overcrowding, affected economic development with limit growth, and worsen existing social problems. The future of real economic power and societal development could come from Africa's secondary cities. That's not to say the region's "megacities" will disappear. But, secondary cities may deliver a better future because they don't have the "baggage." Read more: <http://bit.ly/2fyIaoN>.

In almost every African market, demand for affordable housing is still not being met, as small percentage of private sector providers remain concentrated on individual luxury developments rather than on mass affordable housing provision. A strong social housing sector can improve both political stability and the general health of a growing, increasingly educated urban population. As an example, the World Bank estimates that each housing unit constructed can create up to five full time jobs in the construction and related sectors. Furthermore various models of affordable housing provision can be achieved through rental schemes, government concession or micro finance, and are all being employed across the African development market. Read more: <http://bit.ly/2e8elU9>

EASTERN AFRICA

Ethiopia – In order to deal with rapid population growth and an acute shortage of affordable housing, authorities in Addis Ababa and in smaller cities across the country have been building condominium units through its Integrated Housing Development Programme (IHDP). The IHDP targets low and middle-income groups, and financing is entirely from public money. Read more: <http://reut.rs/2e5iLSD>

WESTERN AFRICA

In **Liberia** a Land Rights Act was proposed two years ago, but was since stalled in the legislature. Liberians are anxiously awaiting it to be passed as it is believed by many land experts in country that the act will help drastically curtail conflicts. Liberia has long been plagued by disputes over land which stem for various issues such as double land sales, corporate land grabbing, local disputes over territory, and unequal gender access to land. The intent of the Act is to ensure that the issue of land ownership is properly coordinated so that ordinary people can have access to their own land. Read more: <http://bit.ly/2euQCml>.

NORTHERN AFRICA

Egypt's new capital city will largely be funded by Chinese state-owned developers after two companies agreed to invest. The China Fortune Land Development Company (CFLD) said it would provide USD \$20 billion capital for the currently unnamed city. It will include a new administrative centre, as yet unnamed, which would consist of government offices, diplomatic missions and housing as well as universities, a technology and innovation park and 10,000 km of roads. Read more: <http://ind.pn/2f4Punl>.

GENERAL NEWS

The **New Urban Agenda** was officially adopted in Quito, Ecuador in the last plenary of the Habitat III conference. The agenda provides a 20-year "roadmap" to guide sustainable urban development globally. The text of the New Urban Agenda itself was agreed well before Habitat III at the UN General Assembly in September 2016, during an extraordinary informal negotiation session that lasted for more than 30 hours. Read more: <http://huff.to/2erq8Ch>.

Housing Microfinance – can contribute to the SDGs states Habitat for Humanity, a worldwide NGO whose vision is "a world where everyone has a decent place to live". For some people in developing countries, a house is a process of incremental improvement that takes on average 7 years, than a product that they buy in one go. Therefore traditional housing finance (i.e. mortgages) alone is not enough to address the housing finance needs of lower income households. Read more: <http://bit.ly/2erqWAR>.

This is the monthly newsletter for African Union for Housing Finance.
The AUHF is an non-governmental association of 58 members from 16 countries across the African continent. Members include commercial and mortgage banks, building societies, microfinance banks/institutions, housing development corporations, and other institutions involved in the mobilisation of funds for shelter and delivery of affordable housing across the African sector.

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