

FRAMEWORK FOR THE ESTABLISHMENT OF AN AFRICAN LOW INCOME HOUSING FINANCE FACILITY

1.0 INTRODUCTION

The African Ministers responsible for housing and Urban development did realize the urgent need for the provision of increased resources for affordable but adequate housing, and housing-related infrastructure, and that finance has continued to be a major challenge in this regard. This was discussed in some detail during the Ministers meeting in Nigeria and is reflected in the Abuja Declaration and Abuja Action Plan of 2008 on overcoming the finance and resource challenges for sustainable housing and urban development. Housing Finance was again a major topic of discussion during the Ministers meeting in Chad in February of 2014 and the Ndjamen Declaration and Action Plan adequately reflect this sentiment and is the result of this initiative.

The Ndjamen Declaration of 2014 adopted the following resolution in in respect of housing finance under operative paragraph 14 and 15 which state;

Para 14:

“Further commit ourselves to the establishment of a low income housing finance facility for Africa as a means of catalyzing, leveraging and mobilizing local and international resources for sustainable development of low income housing programs and projects in Africa as a mechanism for improving living conditions of the urban poor and slum prevention”.

Para15:

“Request the AMCHUD Secretariat (currently HUD Coordination Unit) to prepare a framework for the establishment of a low income housing facility in partnership with Shelter Afrique and other relevant financial institutions operating in Africa for consideration by the next Ministerial conference”

The Malabo, African Union (AU) summit of January 2014 determined the transformation of all African Ministerial Conferences into Specialized Technical Committees (STC) of the AU by end of the year. The African Ministerial Conference on Housing and Urban development (AMCHUD) become the Housing and Urban Development (HUD) sub-committee of STC Number 8 (Public service, Local Governments, Urban Development and Decentralization). HUD was allowed to carry over the entirety of the AMCHUD mandate as had been agreed in the Durban Declaration of 2005. It is on this basis that the establishment of an African low income housing finance facility is being pursued.

This concept note is for the establishment of the fund and proposes procurement of a consultant to determine the structure, criteria, resource management and disbursement and the detailed operations of the Fund.

2.0 BACKGROUND

Africa has an estimated population by the African Population Bureau of about 1.1 billion people expected to more than double to 2.4 billion by the year 2050. Sub-Saharan Africa will grow from the current 926 million to 2.2 billion during this time indicating that the bulk of the population growth on the continent will be in Sub-Saharan Africa. Africa is estimated to have approximately households occupying an estimated million housing units with a backlog/deficit of million housing units. The current annual demand/need for housing in Africa is estimated at millions. The backlog/deficit and current annual need is mostly in the low income category represent the magnitude of the housing problem in Africa.

By 2050, Africa is projected to increase to 2.4 billion from 1.1 billion today, making it the region with the largest population growth. But this projection should be treated very cautiously, because it assumes that birth rates will decline smoothly in all African countries in much the same way as birth rates declined in other regions. In most countries, declines in birth rates have been very slow or even nonexistent, even with declining birth rates, sub-Saharan Africa's population will continue to grow at a fairly rapid pace after 2050 as it will still be quite youthful.

This booming African demography is fueling economic growth of between 4-7% per annum in many parts of the continent. The economic growth has risen steadily for the past fifteen (15) years given that a rapid population growth can hold the promise of a large consumer market, a huge demand for housing and related services, as well as an unprecedented labor force that could provide significant growth opportunities if well managed.

The African population, of one billion, is distributed with 40% living in urban areas and 60% in rural areas and a balance of 50% is estimated to be achieved by the year 2030. Though Africa is the least urbanized continent, it is the fastest urbanizing continent in the world, with its urban population expected to double over the next 20 years as a result of rural-urban migration, natural population growth, and the reclassification of peri-urban areas into new urban areas.

The combinations of population growth and urbanization have positive implications for economic development if well managed and thus enhanced household incomes which will increase effective demand for services and housing in particular.

Many countries in Africa particularly in the Sub-Saharan region lack adequate financing mechanisms for housing development which has forced people to address their housing needs by themselves, incrementally and often informally. Almost all housing in Africa is generated through an incremental process over relatively long periods of time. Only a minute wealthy segment of society has the resources to lend, outright purchase or construct their dwellings as a one-off event. Incremental housing processes have been one of the most effective means of allowing households to have what they can afford,

although it has often resulted in low quality and inadequate stock because of lack of means and capacity.

Private sector engagement has been weak and markets have been ineffective in serving the lower-end. Governments, in their role of facilitators, have faced challenges to induce private entrepreneurs and finance institutions to invest in, construct and lend for the poor and community-based initiatives. Developers have focused on the high-end housing as banks are averse to risking loans for people that cannot be classified as conventionally good risk. Housing finance has been essentially promoted through mortgages, restricted to those with formal land titles, and access to finance for the poor majority is limited and expensive. Community based financial institutions such as financial cooperatives, credit unions and micro-finance institutions have not reached scale and may not be capable of achieving large scale in the short run.

Governments have the primary responsibility for ensuring the welfare and improved standards of living of its people and the effective implementation of various international conventions and protocols such as the Habitat Agenda; the Declaration on Cities and Other Human Settlements; the Sustainable Development Goals (SDGS) and other international protocols relating to housing and urban development. Aware of these international commitments and yet faced with limited resources in Africa, this proposal attempts to mobilise resources to leverage against national and other local stakeholders to develop the requisite national capacities, transfer of appropriate technologies and building materials and the expansion of bankable populations to improve on housing.

3.0 JUSTIFICATION

3.1 Population growth and housing need on the continent

As pointed out above, rapid population growth and urbanization will increase productivity, household incomes and demand for services including housing. Given the current housing backlog and the annual need in Africa and its potential to increase, there is urgent call for resource mobilization to meet this housing need.

3.2 income growth, distribution and affordability

The housing supply shortage is concentrated in the lower middle and low income segments of our populations where the real housing need and potential to turn it into effective demand exists. It also represents a very important area that can contribute to enhanced growth of our economies through job creation given the enormous backlogs/deficits and current annual housing needs in most African countries.

3.3 existing mortgaged facilities and accessibility

The common historical trend through Africa has always approached housing as a personal or individual household responsibility notwithstanding the level of wealth held by the household and is supplied mostly by the private developer industry with none or very limited government interventions/incentives/subsidies/or other support other than the rarely implemented housing policies and the un-friendly rules and regulations/standards that have to be adhered to. This is how most of the housing stock on the continent has been developed.

A housing market has emerged over the last few years with developers entering the market to provide completed units; this has been followed by housing finance systems responding by establishing mortgage markets at the same slow speed. The housing market is still small and weak in many countries but with great potential to grow.

The current housing finance systems in most African countries only serve the conventional market whose accessibility is limited to the high and to some extent middle income. It is unable to adequately respond to the different needs of large segments of the population, particularly the low income households and other disadvantaged groups such as the youth, women headed households, etc.

The resulting short-comings of our traditional housing financing systems and the resulting deficits and backlogs in the housing sector point to a need for evolution of more strategic and appropriate innovative frameworks that address the financing of low income housing, including social housing, rental housing and co-operative housing that target the low income households and other marginalized groups in our communities.

3.4 locked up domestic resources and their potential for housing development

Studies have revealed many locked up domestic sources that could provide low cost long term financing for housing greatly eliminating the risks and costs related to international borrowing which entail foreign currencies. These sources include pension schemes, insurance, commercial bank deposits etc. What is required in most cases to unlock these sources are related with a review of National policies, laws, regulation and institutional management to be put in place.

There is need to mobilize more domestic and international resources for housing finance and extend credit to more households, and the necessity to integrate housing finance into the broader financial system and to use existing instruments to develop new instruments as appropriate, to address the financial needs of people having limited or no access to credit. This will greatly enhance the growth of a robust housing market in Africa and minimize the current backlogs.

3.5 Urbanization and the commercialization of housing

Current levels of urbanization in Africa are low but growing at a very fast rate compared to other continents. It is important to note that as urbanization takes place so does the

development and complexity of different markets in response. While currently, there is hardly a housing market to speak of, and other market systems are still very rudimentary, in most African countries, this market and others are fast developing and acquiring the complexity as experienced in other countries. Thus the need to have all the markets integrated into the national economic and financial system to ensure smooth operation.

3.6 The Housing Finance Sector

The housing finance sector in most countries of the continent is characterized by:

- i. Low affordability levels of potential borrowers and informality of incomes bar borrowers from traditional bank financing.
- ii. Minimal supply of credit for low income population
- iii. Shortage of affordable, long term funding due to high market risk, resulting in high cost of funds (Banks funding mainly from short term deposits)
- iv. Long and expensive security processes which involve ministries, lawyers, valuation etc.

4.0 TARGET GROUP

The focus of the current housing market has been on the high value market and to a limited extent the rapidly growing African middle class with a lot of potential. The market is dominated by the profit motivated private sector who tend to focus their investments in the high income end given the profit margin and limited risks.

The private sector developers and financial institutions have also noticed the very fast growing middle income group presenting enormous potentials for tapping in. Appropriate mortgage packages and house designs are already being developed, tried out and even improved to cater for this group. It is expected that in the next five (5) to ten (10) years we will have products satisfying this market segment.

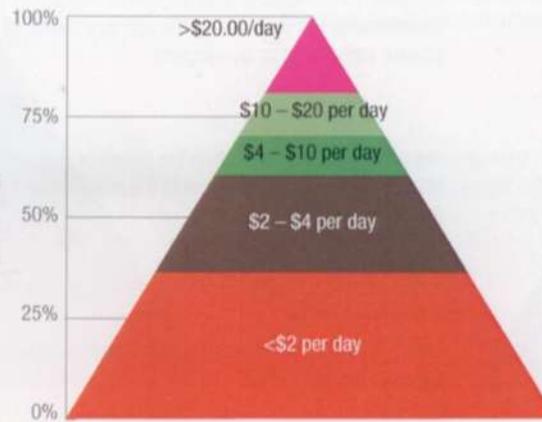
The triangle below, which has been generated by the African Development Bank based on their studies, reveals the scenario in most African countries where the focus of the current housing market delivery covers less than 15% of the population. Their household income is noted to be more than USD 20 per day.

The next category of middle income occupies about 20 to 25% and as noted above, this segment is fast growing both in numbers and economic empowerment and this has already been registered by the private developers and banking system.

The last segment, which in some African countries, exceeds 60% of the population, is the low income segment which is currently un-bankable and no sustainable programs are in place to ensure accessibility to adequate housing by this group. This is the segment of the population that is being targeted by this proposal.

AFRICA

According to the World Bank, mortgage debt to GDP for the African continent could rise to 18 percent (12 percent excluding South Africa). This activity could contribute as much as US\$300 billion to continental GDP.



Source: AFDB (2011)

McKinsey Global Institute estimates that the affordability gap in Africa and the Middle East is US\$51 billion, about 1.1 percent of GDP in 2012.

Since 2000 the number of middle-class households in the 11 focus countries have surged from 4.6m to almost 15m today. This number is expected to grow to over 40m by 2030.

According to UN Habitat, slum dwellers currently account for half of urban inhabitants across Africa.

Given that the high income is already catered for, there are already positive developments to take care of the middle income households; this facility targets the low income households that are not targeted under the above two.

In the process of implementing this facility, it is expected that other domestic resources will become available to the sector and thus increase the pace at which the middle income household access housing facilities in their respective countries.

It is noteworthy that there have been attempts to reach this category but have been ad-hoc, project based with no in-built sustainable mechanisms. Several countries have tried out construction and financing of low cost houses (with great national unsustainable subsidies) slum upgrading programs that are unable to keep pace with slum growth, social housing etc.

5.0 GOAL AND OBJECTIVES

This facility is aimed at achieving the following goal and objectives;

5.1 Goal

The overall goal of establishing the facility is to achieve adequate housing targeting the low income segment of the population comprising a combination of social housing, rental housing or low cost home ownership including slum upgrading and prevention. The facility will attempt to address the following challenges:

- i. Low household incomes

- ii. Lack collateral/security
- iii. Un-affordable interest rates
- iv. Absence of cheap funds

This facility will aim at meeting the housing needs for which current market forces driven by commercial considerations and lacking supportive enabling environments to supply housing are unable to meet.

The low income housing finance facility is a means of catalyzing, leveraging and mobilizing local and international resources for sustainable development of low income housing programs and projects in Africa.

5.2 Objectives

- i. To reduce the current low income un-bankable population
- ii. To facilitate and spearhead the unlocking of domestic resources for purpose of constructing new houses, upgrading, improvement and slum upgrading through institutional, legal and policy innovations.
- iii. To expand the current housing market to meet the housing needs of the entire population particularly the low income.
- iv. Develop and implement innovative institutional and legal changes that will attract/mobilize domestic capital for purpose of developing and up-scaling in-bred and in-grown sustainable solutions in the long-run.

In addition to the above objectives, the Fund will be *catalytic* in achieving the following;

- Create within country forums for Public-Private-Partnerships (PPPs) that are directed at low cost housing, slums prevention and upgrading,
- Create and mobilize domestic resources and capacities in various housing related skills and finance,
- Support the alignment of policies across sectors,
- Facilitate an increase in national budget allocations for housing,
- Support countries establish domestic funds within and mobilize domestic resources.
- Review Central Bank regulations in respect of long term mortgages which has sometimes forced commercial bank to opt for short and medium term mortgages to address lack of domestic long term sources of funding that forces Financial Institutions to go for external sources that introduce the element of foreign exchange risks and how they are shared which inevitably increases the cost of funding in terms of high interest rates.
- Effective regulation (conducive) environment set out by the central banks to facilitate growth of the mortgage market to include housing micro finance.
- How to deal with households with Informal incomes, evaluation of incomes beyond the formal regular payments (salary/wages)

5.2 Coverage:

Facility will cover areas of;

- (a) Outright residential houses purchase
- (b) Constructing of residential houses, their improvement and additions
- (c) House maintenance
- (d) Slum upgrading and prevention

6.0 METHODOLOGY

A reputable consultant is to be recruited to work with the HUD team and Shelter Afrique together with any other interested institution to achieve the next stages of development required to be undertaken to establish and operationalize the facility.

6.1.0 Resource Mobilization

Resources for the establishment of the facility are expected to come from the following sources;

6.1.1 Champion

A number, at least five (5), of key African Governments will be approached to make a one time, but substantial contribution as seed capital to the establishment of the fund. This seed capital would catalyse and mobilize increased aid from the continental, international donor community and development partners. This is to establish the fund and to show commitment to attract others to support the fund.

6.1.2 Grants

Governments, Development partners, Donors and all other interested institutions will be encouraged to offer grants both general and targeted for which the fund will in turn lend out at very low interest charges aimed at recovering administrative costs and ensuring sustainability of the fund.

6.1.3 Concessionary Loans

The fund will also seek for concessionary loans of low or no interest charges with long grace and repayment periods. This will enable the fund to channel resources to member countries and final beneficiaries at low affordable interest charges.

6.1.4 Country contributions

National Governments must be at the forefront in championing (providing political support and incentives) and capitalizing this initiative to be able to attract private sector participation and donor support. Governments will make an annual contribution to the fund based on their GDP (to be worked out by the consultant). National Governments will further be expected to play their role in the implementation of this programme in their respective countries as outlined in this proposal.

The Fund's establishment would serve too as a catalyst in inducing national governments in accordance with the developed and adopted policy framework of this facility to increase the share of their national budget allocation for housing and urban development.

6.1.5 Others

There will be other contributions particularly during implementation of the Fund at country levels by the National Governments, Beneficiaries in terms of down payments, and other local institutions such as partner banks etc.

7.0 IMPLEMENTATION

The structure and implementation of the Fund will be determined by a consultant to be recruited after this stage. The consultant will further identify the partners both local and international, propose level of annual country contributions, identify modalities of disbursement and the level of participation expected at country levels.

8.0 PARTNERSHIP;

A partnership between several parties including the following is expected:

- i. Local and International partners with both resources and professional skills
- ii. African Union
- iii. African National Governments
- iv. Shelter Afrique

9.0 OTHER ACTIVITIES

Other areas expected to be covered by the consultant will include identifying the capacity gaps and establishing a capacity building program at the continental level to be able to manage the Fund, A monitoring and evaluation framework with regular reporting to member countries will also be instituted to keep all stakeholders informed of performance. The consultant will also be expected to in-built within the Funds operation the element of sustainability and creation of similar funds at National level for each member country.

10.0 BUDGET

The budget proposal is limited to establishing the facility as the budget for the operation of the facility will be developed by the consultant. The same consultant will also develop a realistic and detailed road map leading to the establishment of the facility.

- Hire of consultant
- Travel
- Consultations
- Capacity Building
- Administrative costs

Definitions;

Below are some definitions of some of the key concepts that have been used in this proposal

Low cost housing;

There are several definitions including the following:

1. A housing unit with the following ;
 - I. Comprising at least two standard and habitable rooms with provision for a cooking area, sanitary facilities and covering a ground area of between 30-60 sqm with basic infrastructure and services at standards stipulated by law.
 - II. A unit costing not more than 200 times the prevailing statutory minimum wage.
 - III. Rent must not exceed 30% of monthly household income
 - IV. Mortgage repayment should not be more than 30% of Household monthly income
 - V. Value of the house should not exceed (30% X Household income (Monthly) X 12 (months) X 15 (years of mortgage and can be varied up to 25 or as the case may be)
 - VI. Down payment should not be more than 10% (though the higher advantageous as it reduces the loan amount and thus the repayment burden but it could present affordability challenges and deny access to the mortgage)
 - VII. Interest rate, the cost of borrowing should be below 10% per annum
 - VIII. Collateral, use development as collateral

ADEQUATE HOUSING

Adequate Housing refers to affordability and sufficiency in terms of space, privacy, physical accessibility, safety, lighting & ventilation, availability of basic infrastructure and social services, and location in relation to workplace. It also includes cultural acceptability, security of tenure, environmental quality and other health-related factors.

AFFORDABLE HOUSING

Affordable Housing is defined as that housing for which the associated financial costs are at a level that does not threaten other basic needs and represents a reasonable proportion of a household overall income.