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Engaging the Housing Value
Chain for Growth



FINANCING HOUSING IN MOZAMBIQUE: STEP-BY-STEP Findings from the Housing Investment Chronicles

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Agenda

- Country Overview
- Housing market
- Objectives
- Methodology and key questions
- Key Findings
- Conclusions
- Way Forward

Country Overview

- **Insert Map Africa highlighting Mozambique**



- **Key Macroeconomic Indicators**

- Population 27.1 Million
- The total area of 799,380 km², with 2515 km of the coast line.
- The 2016 year saw turbulence in key economic indicators with GDP growth decelerating further from highs of 6.6% in 2015, to 3.4% in 2016 and inflation of 12% recorded by end 2016.
- However some positive trends anticipated for 2017/18 with real GDP bouncing back to 4.5% as predicted by the IMF.

Housing market

- Has historically been a personal affair; the majority of households build their housing incrementally, with savings as these become available;
- Investment interest is significant;
- Families have invested at least US\$3 billion in informal housing in Maputo alone (UN Habitat) . And yet, it is also inefficient, as evidenced by the 2.5 million families (an estimated 60% of the population) who live in substandard housing;
- *Can households' housing investment processes be made more efficient with the development of appropriate financial services and products that specifically target their needs?*
- This is what the FSD Mozambique and the CAHF wished to find out.

Objectives

- To chronicle how households have invested, and still plan to invest in their housing;
- To identify the financial tools they've used and the reasons for their particular housing investment decisions;
- To look at both financial and non-financial investments, and
- To provide insights into how the market is currently working for or against households, and how their experiences might be improved.

Methodology

- Face to face interviews focused on a target market that would likely carry on with an incremental housing process: households earning below US\$ 16 200 a year, who cannot afford to buy a new, developer-built house with a mortgage.
- Focused in those households who could not access mortgage finance, and who therefore used alternative sources of financing to develop and invest in their houses incrementally.
- 219 households were interviewed, and from these, 55 comprehensive chronicles were documented in four themes
- Households were surveyed in various neighborhoods in Maputo and Beira, providing an indicative understanding of common practice, challenges, and approaches taken.

Key Questions

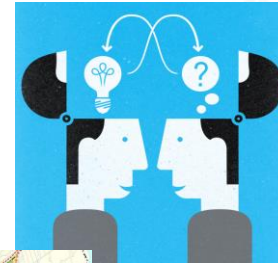
- **Time:** How long does it take to build a house that the homeowner would define as ‘adequate’
- **Financing:** What are the various instruments—both formal and informal, credit and other...
- **Housing typology:** Which building materials are used?
- **Land and title:** Do households have formal or informal title? How did they access the land?
- **Investment Priorities:** Is there a typical housing delivery process that households follow or is each construction pathway unique? ...
- **Key barriers to access:** Is the household’s investment process encumbered by anything—regulatory restrictions, political or settlement dynamics, and so on?

Key Findings

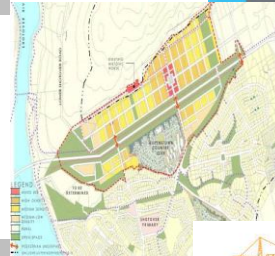
- **Insights into new products and services:** themes offers particular insights into new product and services development potential.
- **Potential to grow an incremental housing market is significant:** of two million units, and a formal housing delivery rate of less than a quarter of what is estimated to be needed on an annual basis.
- **Highlight key potential interventions:** that can be made to facilitate more efficient housing processes for low-income Mozambicans, through the development of appropriate policies, products and services that meet the actual needs of housing investors.

Key Findings: Themes

- The Housing Investment Decision



- Securing Land



- The Housing Construction Process



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- Financing the Housing Investment



Key Findings - The Housing Investment Decision

Main reasons:

- A shift in the family's life stage: a marriage, the start of a new family, a growing family to the current home.
- Growing tired of living with relatives and wanting the independence that came with having their own home.
- The security of formal employment or an increase in earnings gained from their informal business was the nudge they needed to set out on their individual housing investment journey.
- Housing quality, and the wish to address structural faults.

Key Findings - The Housing Investment Decision (2)

How they have solved:

- Addressed their housing needs independently, buying land, and then constructing incrementally, because they could not access whatever formal, developer-driven housing was available.
- Were highly aware of the social, financial and economic value of land and housing.
- Were highly aware of the important function it played in carrying out their broader livelihood strategies actual needs of housing investors.
- Started their journey in a rental unit, but struggled in keeping up with their rental charges, which in some cases increased at random. Begin by saving up to buy land and then go on to build their own house.

Key Findings - Securing Land

How they have acquired the land:

- acquiring their land through allocation by the Neighborhood secretary, however this transaction is apparently not recorded in any way and no documents are exchanged.
- receiving land from a relative, while others bought land directly from someone who claimed ownership over that particular tract of land.

Knowledge about the DUAT:

- Many respondents said they did not have much knowledge about the DUAT and expressed uncertainty about the processes to follow when registering land or acquiring a construction license.
- Other respondents, who knew about the DUAT mentioned that their land had not been registered as it was in an informal area which had not yet been formally zoned by the municipality.

Key Findings - Securing Land (2)

So what:

- Need for information about the DUAT and declaração system. This could be linked to a lending process, or provided by the municipality as a mechanism to support quality upgrading of informal settlements.
- Secure, formally documented tenure has the potential to unlock the financial support many households require while simultaneously expanding the client base for FI.
- Need to consider HF far beyond the parameters of mortgages; households can be financed as they construct their homes. The finance amount could be based on the value of the registered tract of land.
- Need for more efficient and accessible land registration processes and remedial mechanisms to register land and property that has already been developed.

Key Findings - The Housing Construction Process

- A person must apply for and be granted a construction license before they begin to construct a house on a plot of land.
- Most respondents reported that they had not been in possession of a construction license before commencing their building projects, and some were dismissive of the requirement.
- Few chronicles that confirm that a number of people managed to apply for and receive construction licenses, some even reported receiving a construction license within a week of applying, while others only received the construction license three months after submitting their application.
- Most respondents followed fairly similar housing construction processes, moving on to the land they had acquired and then building incrementally.

Key Findings - The Housing Construction Process (2)

- Many mentioned that this decision was based on their affordability limitations: they were better able to save towards the construction of a permanent house without the added burden of paying rent to a landlord.
- Respondents would begin by buying the materials required for making concrete blocks, as well as a block making machine.
- Some respondents, mentioned asking a builder how much it would cost to complete the construction of their house and then started saving with that cost in mind.
- Respondents paid for construction of their houses out of their own pockets, the duration and ultimate completion of the house was largely dependent on how much they had saved up or how much of their monthly earnings was available for construction purposes.

Key Findings - The Housing Construction Process (2)

- Most built intentionally over several phases, they would have the foundation constructed, then stop and save up more money, then have the walls built, then stop again and save, this process would continue for several years until they had eventually completed the construction of their house.
- Respondents mentioned that they would move into the house once they felt it was habitable—be it with or without doors, windows or a complete roof. This proved to be problematic as they were much more vulnerable to break-ins and theft.
- The construction process can be unpredictable and several respondents told of unforeseen events and natural disasters that had set their construction process back by months. (builder funeral, material was stolen, death of a loved one, etc.).

Key Findings - The Housing Construction Process (2)

So what:

- Need to engage with formal lending and saving instruments, since there is opportunity to develop accompanying insurance products to address the risks in the incremental housing construction process.
- These insurance products could serve the dual purpose of providing credit life insurance and financially supporting households as they experience unexpected hurdles in their housing construction journeys.
- Need to lower the cost of building materials and provide basic information on construction process.
- Need to test new and innovative models: Alliance banking/channel partnership. E.g. Woolworths Black Credit Card (issued by ABSA) and the Discovery Platinum Hybrid Card (issued by FNB). Retailer makes use of the prudentially regulated financial service providers banking license in order to participate in the payments industry. Essentially, the two parties agree that one will use the channel/system/license of the other to achieve mutual goals.

Key Findings - The Housing Construction Process (3)

So what:

- Tailor the Nedbank-Cashbuild and Home Account Prepaid card. This card is co-branded prepaid card, issued by Nedbank (the lender). As it is VISA branded, it is an open-loop product with the special feature of being subject to selective authorization if required for a particular purpose. What this means is that the card can only be used at participating retailers.
- An alliance banking/channel partnership in the incremental housing industry is an ideal solution for housing loans in Mozambique that are intended to be used to purchase building materials.
- Need to assess the product could be tailored to include several small scale building material suppliers.

Key Findings - Financing the Housing Investment

- Most respondents indicated that it had taken about ten years to complete the construction of their homes, however. This suggests that they have spent about ten years raising the monies required for their construction process.
- All the chronicles show a clear, demonstrated understanding that the primary investment required in constructing one's own home is monetary.
- There is a personal responsibility and commitment by households to device feasible means to access the monies required despite the obstacles they might face.
- Financial illiteracy presents major challenges in accessing formal loan and finance products. Can lenders work together in developing a housing-focused financial literacy and product awareness campaign ?

Conclusions

- Build on local knowledge and promote dialogue as much as possible
- Need to find local solutions and pilot test through implementation
- Need to consider rental and homeownership as part of the solutions
- Investing in partnerships with several key players for both basic services, renting and housing provision
- Use community existing schemes/practices and leave them lead the process
- Simplify rules and regulations

Way Forward

- Engage with existing programs/projects/entities, that are working with the communities, providing them training/capacity building and technical assistance along the housing finance value chain;
- Engage with FSPs, building materials suppliers, developers and other relevant players (private, public or others) to provide support in designing and test to specific products and services targeting the BOP segment, leveraging on their current financing mechanisms (e.g., combination of savings, salaries, earnings from Xitiques (informal savings groups), and donations in kind and other innovative strategies to either build their own homes or purchase an already existing house. ·

Way Forward

- Engage at policy level with relevant institutions, to re-define the strategy for the implementation of the existing housing policy, based on the results of the ongoing study being supported by the UN-Habitat. FSDMoç support would be directed to the housing finance component, costs/prices of construction materials (cement and other building materials) and other relevant areas.
- Build on the FSDMoç's existing partnerships on savings groups and with M-Pesa to explore how to link these groups with building materials suppliers and other relevant players in the housing finance.
- Design financial literacy intervention issues around housing finance.
- Explore in a structured manner the three dimensions of a house (as social, financial and economic asset).

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