Raising Capital for Housing Finance: The Zambian Case

by Josephat Makundi

INTRODUCTION

This paper focuses on one particular experience in Zambia where an initiative was taken to raise housing finance through the creation of a new institution, the *Zambia Housing Development Fund (ZHDF)*. It concentrates on the Fund from the discussions in 1988 which brought it into being to when I left Zambia in late 1991. Part A of this paper provides information on housing in Zambia and Part B describes the situation regarding housing finance. Part C covers the ZHDF and part D draws selected experiences from Malawi, Mozambique and Kenya.

A. THE HOUSING SITUATION

Zambia has an acute housing problem. High population growth combined with high urbanization and urban migration has led to a rapid increase in the growth of slum and squatter settlements. Rural housing is equally poor. The result has been deteriorating living conditions for the majority of Zambians who are affected by poor sanitation and other environmental problems.

The total population of Zambia in 1988 was estimated by the population census at 7.8 million people of which 50% lived in urban areas, a higher proportion than the majority of African countries. It was further estimated that 32% of the urban population lived in squatter settlements and the majority of the squatter settlements are concentrated in Lusaka and other major towns. Out of 3.9 million people that were residing in rural areas, only 10% were housed in permanent structures and had access to basic services such as clean water supply and sanitation.

Josephat Makundi presented this paper at the African Union of Housing Finance Institutions Seminar held in Malawi in October 1992.

The shortfall of housing in urban areas is estimated at about 208,500 units while a further 695,000 housing units in rural areas are assumed to be below standard. With an annual growth rate of 3.5%, it is estimated the population will exceed 12 million people by the year 2000 and the magnitude of housing shortfall will be one million housing units. In addition to the actual shelter requirement, there are equally pressing needs for the provision of new and appropriate infrastructure and for the upgrading of existing services.

Housing Supply

The Third National Development Plan, (TNDP) envisaged construction of a total of 391,200 housing units in the country during the plan period 1979 to 1983. In addition, it recognized a backlog of 23,900 units from the Second National Development Plan 1974-1978, thus increasing the total housing requirement to 415,100 units. As resources were considered inadequate, the TNDP investment programme provided for the development of only 391,200 units. Of these units, 89.6% were intended for very low income groups, 6.6% for low income groups, 1.6% for the lower medium income group, 1.5% for the middle income group and 0.7% for higher income groups. The TNDP assumed an annual housing requirement of 78,200 of which over 95% was represented by low income housing. However, despite the fine distinctions in income groups drawn by the plan it has been estimated that since 1975 only about 1,500 units or 2% of the total requirement were built each year and these mainly served the needs of medium and higher income groups, primarily in the formal employment sector. I think this performance of the public sector is typical of many other African countries. Of course, the majority of housing was built by the informal sector and is excluded from official statistics.

One major reason for this dismal performance was that the actual financial investment in housing including off-site infrastructure was about K100 million during 1979-83 compared to the TNDP envisaged outlay of K650 million.

Approaches to Low-Income Housing

Housing Construction: Low-income housing has traditionally been developed by District Councils, the *National Housing Authority* (NHA) and the *Zambia National Building Society* (ZNBS). Until 1975, when central Government ceased to provide funding for low cost housing, District Councils were the main developers of such housing. These housing units were developed for rental and could therefore not generate sufficient inflow of funds for further expansion. After 1975, District Councils virtually withdrew from this activity due to lack of funding which was exacerbated by escalating construction costs. Councils such as Lusaka Urban District Council did re-introduce housing development in the 1980s following the sale of previously rented units. However these units were for outright purchase and prices were beyond the reach of low-income groups.

A number of low cost housing schemes undertaken in larger Urban District Councils, particularly Lusaka, have been undertaken in conjunction with donor agencies and other international agencies notably the World Bank. Parastatal involvement has mostly been by way of providing housing loans to certain grades of employees to build or purchase housing units in site and services schemes around the cities. The Ministry of Works and Supply is the main agent for housing development work on behalf of the Government. Since 1984, due to shortages of funds, there has been little meaningful provision of funds by Government towards housing development.

The National Housing Authority is presently assisting District Councils in housing construction on a project basis. These schemes have tended again to favour the higher income groups. NHA's orientation is towards the construction of housing for sale. Out of such sales and any grant/aid funding received, NHA then develops low cost housing for sale or rental.

The involvement of ZNBS in this area has been largely through the provision of mortgage loans to applicants. Over the period, ZNBS has attempted to develop low cost housing in provincial centres for sale.

Sites and Service Schemes: These projects have received technical and institutional support and funding from donor agencies, principally from the World Bank and the European Community as well as some smaller donors.

NHA has a self-help and rural housing development unit which provides technical assistance to District Councils on all aspects of site servicing and self-help construction. This unit, together with the consultancy division, has prepared site layouts and engineering designs, supervised the installation of infrastructure and provided assistance to District Councils to organize self-help construction and establish repayment collection procedures.

In 1988/1989 the NHA received K200,000 from government to establish a sites and service revolving fund which is to be used for technical assistance to support District Councils. It is intended that the fund will be replenished on an annual basis by the NHA and by government.

The NHA has recently completed Phase 1 of the EC/EDF supported programme to provide serviced plots in seven small towns. The works are complete and the projects have been handed over to local authorities but difficulties are being experienced in collections. Phase 2 of the programme is now being implemented in 18 other small urban centres.

Squatter Upgrading: Support for squatter upgrading has continued on a project by project basis. The projects implemented in the 1970s are well known and do not require detailed description here. These projects have received support from the World Bank and others donors, particularly DANIDA which has focused on training. Lusaka Urban District Council is currently implementing two upgrading projects at Bauleni and Kamanga. More than any other, these upgrading projects have benefitted low-income groups. However, these have become difficult to administer due to the unregulated nature of the squatter settlements. Financial support in this area is limited.

The record of housing supply during the Third National Development Plan is illustrated inTable 1. As can be seen, government policy, though directed at providing an adequate supply of housing, has had no significant impact in increasing the nation's housing stock as only 5.5 percent of the targetted expansion of 409,500 housing units was achieved during the TNDP.

One constraint is that Zambia has also inherited a rigidly high set of building regulations and standards which fail to take into account the limited financial means of the majority of those in need of shelter. This problem is compounded by the country's high dependence on imported building technology and materials in an economic cli-

Table 1: Shelter Delivery during TNDP

	Sites & Services	Squatter	Low Income	Medium Income	Total
Units	Units	Units	Units	Units	Units
Target	14,600	110,900	277,000	7,000	409,500
Achieved	4,963	13,162	3,500	700	22,325
Shortfall	9,637	97,738	273,500	6,300	387,175
Achieved Percentage	34.00%	11.90%	1.30%	10.00%	5.50%

Source: Economic Review 1986 and Annual Plan 1987 mate where the local currency is effectively depreciating and thereby pushing up final building costs.

The Government has a clear policy which intends to improve the housing situation for the mass of the population at all income levels. It is based on the concept of home ownership and self-reliance. The reality has been that in the past these policies have not been sufficiently and vigorously pursued as both the Government and parastatals have provided housing for employees only. Generally speaking, the remainder of the population have had to fend for themselves and in urban areas the majority ended up in squatter settlements. More recently government has recognized the need to steer away from provision of actual houses towards assuming the role of facilitator of home ownership for all income levels.

B. HOUSING FINANCE IN ZAMBIA

Problems Facing Housing Finance Institutions

Existing housing finance institutions have encountered a number of difficulties in devising suitable loan portfolios for the various socio-economic classes whilst maintaining profitable operations, such as:

- The need to deal with numerous small household borrowers, thus leading to high transaction costs.
- The tendency of depending on short-term borrowing to finance long-term assets.
- Household incomes for the majority are very low making conventional housing finance arrangements unaffordable.
- High commercial lending rates which have significantly raised the cost of borrowing.
- Very high capital requirement for any significant impact to be made in relation to capitalization of housing finance institutions.

Housing finance institutions typically provided loans to high income groups and not to middle and lower income groups.

The Role of Formal Institutions in the Housing Finance Sector

The traditional sources of housing finance in Zambia mainly include:
The Zambia National Provident Fund (ZNPF);
Local Authorities Superannuation Fund (LASF);
The Zambia State Insurance Corporation (ZSIC);
The Zambia National Building Society (ZNBS);
Commercial Banks;
Employers who offer staff housing loans and
The Government (through annual budgetary allocations to various Ministries).

Based on the information obtained from the institutions by the National Housing Authority in 1987, the position of total funding made available for housing since 1964 is set out in Table 2 below. It is clear from the above table that investment in housing has been low. According to TNDP, the Government's contribution towards housing has been approximately 0.6 % of the Gross National Product (GNP).

While commercial banks have extended loans to their staff to purchase houses, they however, have not been very keen to be involved in funding housing development. This is because banks are typically reluctant to become overly involved in such long-term lending due to the mis-match problem caused by 20 to 30 year loans and a deposit base which is potentially withdrawable on demand. This is particularly pronounced in Zambia where over 90 % of the deposit base is comprised of demand deposits. In addition, the operation of credit ceilings means that only the most profitable lending (mainly short term) is made before ceilings are reached.

Table 2: Sources of Housing Finance

	Residential/ Commercial Loans for Housing Projects	Staff Housing Loans/Mortgages	Owner Occupier Mortgages	Total
	K' Millions	K' Millions	K' Millions	K' Millions
LASF	44.44	17.94	14.0	76.38
ZNPF	30.96	4.94	60.0	95.90
ZSIC	-	8.50	190.0	198.50
ZNBS	75.0	122.90	690.0	887.90
TOTAL	150.40	154.28	954.0	1258.68

Source : National Housing Authority - A proposal for the establishment of a Housing Bank. (August 1987)

Impact on Housing Finance of:

i. National Tax Policy

The national tax policy has had a favourable impact on housing finance through deduction of interest paid on owner occupier mortgages from gross income before tax in order to encourage home ownership.

Housing finance institutions have been allowed to issue housing bonds with tax incentives attached. This is the traditional instrument for mobilizing financial resources of mortgage institutions. These bonds are purchased mainly by institutional investors such as the *Zambia State Insurance Corporation*, the *Zambia National Provident Fund* and by private investors. The interest rate offered on these bonds are well below market rates because the net return after tax is higher than the net yield of other financial investments. These bonds are a cheap source of funds for housing finance institutions, since they are indirectly subsidized by the Government which forgoes income tax which the investor would have paid on the yield of other investments.

ii. Fiscal Policy Measures

The Government recognized the need to steer away from provision of housing towards assuming the role of facilitating home ownership for all income levels by adopting policies such as establishing the *Zambia Housing Development Fund* as a vehicle for mobilization of financial resources for low cost housing with objective of improving overall access to shelter within low-income groups.

The Government is the largest shareholder in the fund and parastatals were encouraged to participate in the equity of the fund in addition to providing institutional support and loan capital.

The fund is exempted from payment of corporation tax in order to widen its capital base thus maximizing the funds available for lending. Shareholders also agreed not to receive dividends for the first five years.

iii) Role of Provident Funds

The *Zambia National Provident Fund* has had positive impact on housing finance in the country by providing housing finance as shown in Table 2 in addition to placing substantial long term deposits with ZNBS and the *Zambia Housing Development Fund* yielding very low rates of interest compared to prevailing rates of interest in the money market. ZNPF provided funds to local authorities for conventional low-cost housing programmes and to parastatal organisations for medium cost and high cost staff housing. It has initiated a House Ownership Loan Scheme whereby participants in the scheme can withdraw part of their contributions to finance house construction. However, this does not reduce the future benefits from the ZNPF to the participants because these loans are amortised.

iv. Corporate Blocked Capital

During 1990 and 1991 there were active discussions on the use of some of the government's foreign debt for housing finance. The system would work as follows - a foreign donor would be identified, the funds would be donated and issued to pay Zambian foreign debt, the Zambia Government would release double these funds for housing. The benefit to the government of this scheme is that there would be a saving on scarce foreign exchange. This has not been implemented as yet.

C. THE ZAMBIA HOUSING DEVELOPMENT FUND

In view of the low performance in shelter delivery, low government expenditure on investment in housing development (0.6 % of GNP) and government policy to steer away from provision of actual housing towards assuming the role of facilitation of home ownership for all income levels, consensus was reached in early 1988 to set up a special fund to address the specific problems associated with shelter delivery to the low and medium income groups in Zambia.

The Government recognized that the low and medium income groups who formed the largest economic grouping in the country, had limited access to credit facilities necessary to enable them to participate in national home ownership schemes.

This decision was followed by high level consultations involving the Ministry of Finance, Ministry of Decentralization (Ministry responsible for housing and local government at that time), the Zambia National Building Society (ZNBS), the National Housing Authority (NHA) and key financial institutions such as the Zambian National Commercial Bank (ZNCB), the Zambia State Insurance Corporation (ZSIC), Zambia National Provident Fund (ZNPF), the Workmen's Compensation Control Board, Local Authorities Superannuation Fund (LASF), Credit Union and Savings Association of Zambia (CUSA) and private banks such as Finance Bank Limited and Meridian Bank Zambia Limited. A committee was chaired by the Minister for Finance in order to emphasize the importance the government attached to the issue of increasing housing finance in Zambia.

An appraisal report on the establishment of the Zambia Housing Development Fund was prepared by the Zambia National Building Society in conjunction with Coopers and Lybrand Associates in May 1988. The report spelled out the proposed structure and conduct dimensions of the Fund, along with an analysis of the fund and of the financial requirements projected over a ten year period.

The report outlined the proposed financing arrangements and recommended that capital was made up of equity, loans and savings mobilization.

The report concluded that it was, however, very important that the fund should receive commitment of adequate institutional support from the Government in addition to long term commitment to receive funds.

The fund commenced operations in January 1990 and substantial injection of capital from the above mentioned institutions was subscribed. The Government through the Ministry of Finance subscribed 15 % of the authorized capital. Within the first six months, the fund was well established and continued to attract new shareholders, large institutional deposits and public deposits.Technical assistance was provided by the UN Centre for Human Settlements (Habitat).

Objectives

The principal objective of the Fund was to address the specific problem associated with shelter delivery to the low and medium income groups in the country, by mobilizing financial resources which would be channelled to provide housing loans at affordable interest rates.

Other objectives were as follows:

- To undertake operations which in the public view would be seen to cater to the needs of the poor.
- To mobilise domestic and external financial resources for housing finance.
- To create an adequate number of new housing opportunities for low and medium income groups in urban areas.
- To provide loans to developers, co-operatives and other organisations for housing development for sale or rental to the target group.
- To overcome the tendency to depend on short-term borrowing to finance long-term assets by mobilizing sufficient and reliable capital, long-term loans and public deposits.
- To provide loans to District Councils to enable them to undertake programmes of infrastructural development in order to promote delivery of serviced land.
- To support research in the development of indigenous building materials through application of appropriate technology and improved construction methods and to encourage the use of such materials in housing construction.

Business of the Fund

ZHDF has two major types of lending programmes in its portfolio; project financing and direct mortgage advances.

i. Project Financing: Under this programme developers, co-operatives and District Councils are given loans to develop low-cost houses for sale to the target groups. The duration of the loan is 24 - 36 months to ensure rapid turnover and thereby make funds available to other developers.

The focus is on four different house types, the basic expandable core house, the improved core house, semi-conventional housing and conventional housing. The housing types are intended to match differing levels of affordability. At the end of 1991, K39 million had been lent.

ii. Direct Mortage Advances: Under this programme the Fund makes direct advances to individuals, groups and co-operatives to enable them to construct new housing, improve existing housing or expand existing housing. The duration of loans is 20 to 30 years. At the end of 1991, K15 million had been lent.

The rate of interest on all loans is five percentage points higher on project financing than for direct mortgage advances. The main problem encountered for both programmes was that potential borrowers frequently did not have title to land being offered as collateral. There was also a problem in that potential borrowers had high aspirations and wanted to borrow far in excess of what was affordable to them.

How the Fund Works

As I mentioned earlier, the Fund commenced operations in January 1990 and within six months it was operational having received a substantial injection of capital from various shareholders with the government holding 15 % of the authorized capital.

Capital: The authorized capital of the Fund is K200 million which is relatively high for a new company. The reason is that one of the main problems of housing finance institutions the mis-match problem caused by long term loans of 20-30 years and a deposit base which is potentially withdrawable on demand. This is particularly so in Zambia where over 90% of the deposit base is composed of demand deposits.

The Fund received wide publicity during the initial discussions and government support was very strong from the conception of the Fund in 1988. The ZNBS played a major role in promoting the Fund as a national mortgage institution which would address the specific problems of shelter delivery to the low and middle income groups.

My own role in the development of the ZHDF was as its first General Manager through the start-up and formative years of this new vehicle for mobilization of financial resources intended to provide improved shelter for low and middle income groups.

Resource Mobilization: In conjunction with the Managing Director of the ZNBS and his key staff, I began by meeting representatives of a wide spectrum of interested institutions. They included the government, the Bank of Zambia, commercial banks, parastatal organizations, District Urban Councils, credit unions, private sector organisations, non governmental organisations and donor agencies.

The concept received considerable support from many institutions which subscribed to the equity of the Fund. We also received initial commitments of long term loans and deposits with interest rates well below market rates as some of the institutions were convinced of the social importance of the Fund. They included the Zambia National Provident Fund, the Credit Union and Savings Association and the ZSIC and the government.

They felt that good housing results in healthier living conditions and increased productivity. Investment in housing also enhances job creation resulting from investment in the building materials and construction industries and provides considerable employment to the informal sector.

We also received considerable assistance from the Parliamentary Committee on Social Matters which convinced a meeting of the heads of all para-statal organisations and government officials to discuss equity participation in the ZHDF. At this meeting the Fund received firm commitments of equity participation of K 60 million (US$ 1.9 million at that time in January 1990). These pledges were honoured as soon as we made the first call. In addition, the government contributed K 30 million (US$1 million).

We also managed to mobilise substantial term deposits and another commitment of K 20 million from government as a long-term loan. This loan had not been received when I left Zambia at the end of 1991.

CUSA also made a firm commitment of K 20 million as a special deposit for housing development for their members.

Management and Staff

The management of the Fund is undertaken by a small team of professionals; a mortgage manager, valuer, banking manager, finance and administration manager, and a company secretary/ legal council. The management objective was to provide strategic direction in the management of the retail mortgage portfolio and the development of low-cost housing programmes and related financial services.

Land Bank: One of the major constraints in housing delivery in Zambia is the unavailability of serviced land and obtaining land tenure. This is also recognized by the government as an impediment to the provision of low-cost housing and to medium cost housing. In order to tackle this problem, the valuer and myself visited various District Councils with a view to obtaining suitable land. As the Councils had a backlog in housing delivery they were extremely favourable and allocated land to the Fund for housing development either jointly with the Fund or to be carried out directly by the Fund.

The tenure problem was tackled through government ministries and local authorities. One result was that local authorities hired additional surveyors to accelerate land delivery.

Regarding the experience in Zambia I can say in conclusion that the establishment of the Fund did enable new sources of finance for housing to be tapped successfully and for lending to be initiated to a lower income market which had not been served previously.

Our major constraints were the slow delivery of land due to cumbersome systems, the inadequate delivery of infrastructure owing to high costs, slow approval of building plans while costs rose inexorably and low household incomes which were not always reflected in ambitious loan requests!

D. SELECTED EXPERIENCES FROM OTHER COUNTRIES

Housing Situation and Housing Finance in Malawi

Since the early years of independence the efforts of the government regarding housing have ben directed toward the promotion of private house ownership and rental accommodation for low-income groups in urban and rural areas. For example, with the support of UNCHS, UNDP and UNCDF the government has developed a successful rural housing programme which has attracted substantial government funding increasing from MK 119,532 in 1983/84 to 1,000,345 in 1991/92.

In the urban housing sub-sector the Malawi Housing Corporation (MHC) has constructed a total of 9,690 permanent housing units and over 25,600 serviced plots in the traditional housing areas (THAs). The Capital City Development Corporation which developed the city of Lilongwe in the late sixties up to the early eighties, built about 870 permanent houses and over 10,000 serviced plots in THAs. These plots were transferred to MHC when CCDC was dissolved in 1983.

Government and private sector efforts in housing delivery has not been commensurate with the demands of the growing population. According to a 1984 study, 65,000 extra dwelling units would be required in order to meet the urban housing demands over the period 1984-1994. Also, according to 1988 population census, it was estimated that the rural housing stock is only 1.15 million, 50 % of which call for rehabilitation. Furthermore, over 30,000 new houses are required annually in the rural areas to house new households.

According to the Government Development Policy (DEVPOL), the Government will shift its role from directly providing houses towards the creation of an enabling environment that will promote or facilitate the initiatives of the private sector including the NGOs. Government, however, will improve rural housing conditions and develop housing schemes for the urban poor.

In keeping with its new policy of creation of an enabling environment, the Government has embarked on actions which will address the serious housing problems in four major centres of Lilongwe, Blantyre, Zomba and Mzuzu . The policy decisions include: the restructuring of the MHC; increasing the involvement of Local Authorities; development of a Malawi Civil Service Home Own-

ership Scheme and strengthening of ancillary functions in the housing market.
The Government is also considering selling part of its housing stock to sitting tenants with a view to encouraging home ownership. In addition, studies and programmes will be directed towards new policies to strengthen the housing sector in general and specifically to include housing subsidies and wage policy, small contractors training programme, land adjudication and registration programme, building by-laws study and institutional support.

In 1991, the MHC, UNDP, the World Bank and Shelter Afrique started a squatter upgrading scheme in Ndirande, Blantyre. 3,000 plots were to be upgraded and 1816 building materials loans are to be issued.

Housing Finance

In 1981 the Government initiated the Rural Low-Cost Housing Project in order to meet the major objective of decent housing for all. Under the project, UNDP and UNCHS (Habitat) provided technical assistance while UNCDF provided inputs to a credit fund. The first phase (1981-1988) developed alternative low-cost building materials and technology, using local raw materials and established a rural housing credit revolving fund. The on-going Phase II is concentrating on strengthening the financial and managerial capacity of the credit system. Over 3000 families have benefited from building materials loan. The small business loan scheme for trained local men and women has also been extended to more than 100 small contractors of which more than 40 are women.

Other players in the housing finance sector are:

i. the New Building Society (NBS), which provides loans to individuals and corporate bodies to purchase or build houses;

ii. a number of Government Ministries, parastatals, semiprivate companies and the private sector which build institutional/rental housing for their staff;

iii. private individuals; and

iv. local authorities are responsible for the provision of services in housing areas but so far they have not been involved in housing development.

Housing Situation and Housing Finance in Mozambique

Housing Situation

High population growth combined with high urbanization and urban migration has led to a huge increase in spontaneous settlements in urban and peri-urban areas. Rural housing is equally poor. Available data indicates that more than 80 % of the Mozambicans live in precarious housing, constructed of non-durable materials which are easily degraded. Over 60 % of building materials are imported which makes it very expensive to the low-income groups. Those who live on the periphery are without the benefit of any kind of urban services, thus causing an enormous pressure on the existing infrastructure and accelerating their deterioration.

Since independence in 1975, house construction has not played an active part in the economic development of the country, owing largely to Government policy on housing and land delivery. The Government nationalised both residential and commercial buildings and rented them out at highly subsidized rents, well below market rent. Rent control was imposed and this action inhibited the would be developers.

Land Delivery System

The law governing land is contained mainly in Law 6/79 of 6 July 1979. Article 1, paragraph 2 makes clear the standpoint of the state on land ownership. "The land of Mozambique cannot be sold or in any way transferred, nor leased, mortgaged or pledged." This uncompromising statement appears to call a halt to all activities involving land, but in practice this has not happened because a distinction has been drawn between the land and what is on it. People wishing to obtain a plot on which to build or to offer as security for a loan, have made use of the "right of occupancy" which is granted by the Directorate of Construction and Urban Manning in the City Executive Councils and similar local authorities.

According to statistics published by the Government's agency for managing nationalised houses (Administracaode Parque Imobiliario do Estado (APIE) there is a housing waiting list for urban Maputo of between 35,000 and 40,000 people wishing to be considered for state owned houses compared to APIE's housing stock of about 75,000 countrywide. Suffice it to say, that there is a substantial shortfall in the provision of adequate shelter for the majority of the urban and peri-urban population.

Housing Finance

The absence of a market which allows the buying and selling of houses, makes it impossible to measure the demand for housing finance. Housing finance is however, not only required for financing new housing, but also for the upgrading of precarious structures and expansion of existing housing. Related to this is the provision of land and essential infrastructure and services such as roads, electricity, water and sanitation.

Housing finance is in extremely short supply in Mozambique. Of the three commercial banks - Commercial Bank of Mozambique (CBM); Banco Popular de Desenvolvimento (BPD) and Banco Standard Totta de Mozambique (BSTM), only BPD provides housing finance and this represents only a very small proportion of its total lending portfolio (about 5%), which in turn is only a relatively small amount of total commercial bank lending. There are no housing finance institutions or building societies in Mozambique at present.

National Housing Policy

The National Assembly of the Government of Mozambique approved the National Housing Policy in December 1990.The policy states that the new role of the state should be one of "establishing general directions and supervisory control, including the setting up of legal rules and norms" instead of housing provider.

The state is reviewing rental policy, land policy and encouraging private sector participation in the housing sector. State housing will be sold to sitting tenants and 30 % of the proceeds invested in new housing institutional mechanisms are to be defined in order to stimulate the development of a housing finance system to guarantee credit facilities compatible with different income levels.

Housing Situation and Housing Finance in Kenya

Housing Situation

With the advent of decolonization immediately after the Second World War, many newly independent states embarked on what they perceived to be the ideal course to development - the goal of which has been to enable their people to reach a certain level of socio-economic growth comparable with those of the industrialised countries.

More than four decades have passed since the decolonization after the Second World War and the burgeoning population growth, and the debt burden that has characterized much of the Third World have spawned new problems among the populace. Suffering from low income and unemployment plus the general lack of opportunities, people have not been able to realize their dreams. In fact, they have even failed to satisfy their basic needs. Shelter is one basic need which continues to elude most people. They may get by with meagre food and scraps of clothing but decent shelter has remained beyond their reach. The republic of Kenya has not been spared from this phenomenon.

The Country's National Development Plan 1989 - 1993 has reckoned that in 1988, Kenya's total population was estimated to be 22.7 million, of which 18.7 million was rural and 4 million urban. It is projected that by 1993 the rural population will have increased by 2.9 million to 21.6 million, and that the urban population will have increased by 1.6 million to 5.6 million. Translated into shelter needs, the projected urban population growth will require an average of 60,630 new housing units per annum, of which 38,000 will be for new households only. The current rate of housing production, which is 40,000 units per year, falls short of the needs figure - by an annual deficit of 33 %. Clearly, this situation requires a substantial injection of financial resources into the human settlements development sector.

National Shelter Strategy

The realities of the shelter situation in Kenya called for a pragmatic approach involving close cooperation and partnership between the Government and private developers, be they parastatals, commercial entities, cooperatives, community-based groups or individuals.

National action plan: It is stated in the current National Development Plan that:

(a) More emphasis would be put on the role of the Government as an enabler rather than a provider. With the emphasis on provision of shelter to low-income families, the Government, whenever possible, would channel funds or provide the necessary support to those institutions that were willing and able to increase the housing stock for use by Kenyans;

The private sector would be encouraged to increase the share of finance available for housing. For example, employers would be encouraged to assist their employees in acquiring their own houses. Action had already been taken to revise the building and infrastructure standards to enable the private sector to produce affordable houses for low-income families on a sustainable basis;

(c) It had been noted that there were more details needed to be included in the national housing strategy document on the role of NGOs and CBOs. As already stated, the enabling environment would be made available to provide a broader range of players and their contribution to the shelter sector.

(d) The resources of the informal sector would be exploited and encouraged to contribute more to the production of acceptable housing.

(e) Some shelter indicators already included in the strategy document would be reviewed. Meanwhile the laws relating to housing and construction would be reviewed and harmonized.

(f) Use of traditional building materials, especially in the rural areas, would be encouraged and so would research on cheap and sustainable materials. However, care would be taken to protect natural materials, e.g., corals.

(g) Documentation and dissemination of information on shelter strategies would be accelerated.

(h) The role of women and youth would be considered during the finalization of the strategy and the policy documents.

Housing Finance

Kenya has a wider range of housing finance institutions than other countries in the region. With specific reference to human settlement financing there are five financial institutions licensed under the Banking Act which specialise in housing finance. Several building societies and seven insurance companies with life funds,some of which have invested in housing. The formal private sector accounts for approximately 70% of all housing finance.

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The formal private sector includes the Housing Finance Company of Kenya which is the largest institution, Savings and Loan Kenya Ltd,and the East African Building Society. There are other smaller building societies and some finance is also provided by insurance companies, employers and savings and credit co-operatives.

The problems and constraints confronting the financing of human settlements development in Kenya are of three types. The first problem characterizing formal private sector housing finance is that Kenya has too many financial institutions. It has (1989) 24 commercial banks, 30 building societies and 38 life and general insurance companies. This makes housing finance institutions vulnerable as they have to compete for funds with many other institutions.

A second problem is that a large proportion of funds held by housing finance institutions tends to be of a short-term nature. Typical savings accounts have seven days notice and deposit accounts have maturities ranging from seven days to three years, yet these institutions have to commit funds and mortgages with maturities up to 20 years.

A third problem is that housing finance institutions consider the permitted spread is inadequate for viable operations. In consequence a variety of application fees are charged to borrowers, thereby restricting access to mortgage finance to middle and high income households. Connected to this is the problem that are the numerous constraints which limit the access of low-income households to housing finance. These include:

(a) The high administrative cost of small loans.

(b) The fact that sites and services and expandable core housing are not generally regarded as providing sufficient collateral.

(c) The assumption (generally inaccurate and biased) that the loan repayment default rate is higher among low income households.

(d) The use of the rule of thumb 25 % gross income as the maximum permissable mortgage repayment (low income households often have other "hidden" sources of income in addition to official sources and are often able and willing to pay more).

(e) The conservative practice of limiting repayment payments to around 18 years.■

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cost-covering rents. Additionally, tenants will only be interested in buying the flats in which they live, if the rent/ownership differential is in favour of ownership.

- The privatization of the existing housing stock.
- Extensive state sponsored assistance for housing construction.

People are obviously taking a great interest in obtaining credit for the modernization, construction and purchase of housing. Unfortunately, two years after reunification, substantial impediments still exist. Many of the land registers were destroyed or made illegible when the former GDR regime collapsed. This often makes it difficult, or even impossible, to prove ownership, since after 1945 several property expropriation waves occurred. Since reunification, the State has decided that expropriated properties be restored to their rightful owners. Because of these pending claims, a multitude of real estate contracts have been blocked, probably for years to come.

The progress of processing of restitution claims is unfortunately quite slow. So far 2.5 million individual claims have been brought forward, but only 14% of these have been completed. Additionally many of these remaining claims will have to be settled in a court of law.

For specific commercial investments, exception to the principle of restitution is made and the former owners, whose property was expropriated by the communist regime, must content themselves with indemnification.

Furthermore, problems continue to exist because the former GDR real estate laws have not yet been revoked. As a result, there are still quasi-rights of use that have never been entered into the land registers, but must be respected nonetheless. In such cases, evidence of the existence of such rights is often difficult to furnish.

Another problem is that public authorities are often unable to adequately provide services. This is sometimes because of personnel shortages, sometimes because of a lack of qualifications of the authorities themselves. This is particularly true in the case of the land register office, as well as with the municipal authorities. Urban planning and zoning offices are just in the process of being established.

Along with the issues of the qualifications of public officials, there are additional political frictions regarding city planning as it relates to the zoning and funding of schools, kindergartens, hospitals and public transportation.

In the two years since reunification, because of obvious problems, the majority of housing loans have been granted without collateral. Since the existing legal framework allows housing finance Institutions to grant unsecured loans only to a certain monetary limit, housing projects to date have been primarily less expensive modernizations.

The normalization of housing finance In eastem Germany cannot be anticipated for several years. Only after the pending restitution claims have been settled, and the land register offices, as well as the municipal planning authorities are able to fulfill