Developing Housing Finance in Transitional Economies: Selected African Countries Outside of South Africa

by Stephanie Baëta Ansah

INTRODUCTION

At the close of the 20th century, Africa can best be described as a continent of immense resources which is in crisis and is going through the birth pangs of what could be a renaissance in the new millennium. Africa faces the new century with several handicaps: wars rage on in several countries, decertification intensifies, and poverty and disease are very prevalent. Most countries also are undergoing World Bank-sponsored structural adjustment programs which entail substantial reduction in social spending on education, health and housing.

The unprecedented numbers of displaced people make it even more critical to seriously consider the housing finance problem facing every country. The world at large cannot afford to continue to look on unconcerned. After all, conflict and disease have no territorial limits.

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In view of the sheer size and diversity of Africa, it is impossible in a short article to deal with all relevant issues. To generalize or deal with the continent as a whole is also difficult. This presentation, therefore, reviews the situation with respect to selected countries outside of South Africa, namely Mauritius, Kenya, Zimbabwe, Malawi, Gambia, Nigeria and Ghana. All are relatively stable countries making different levels of progress in dealing with the housing problem.

THE INSTITUTIONS INVOLVED WITH HOUSING FINANCE

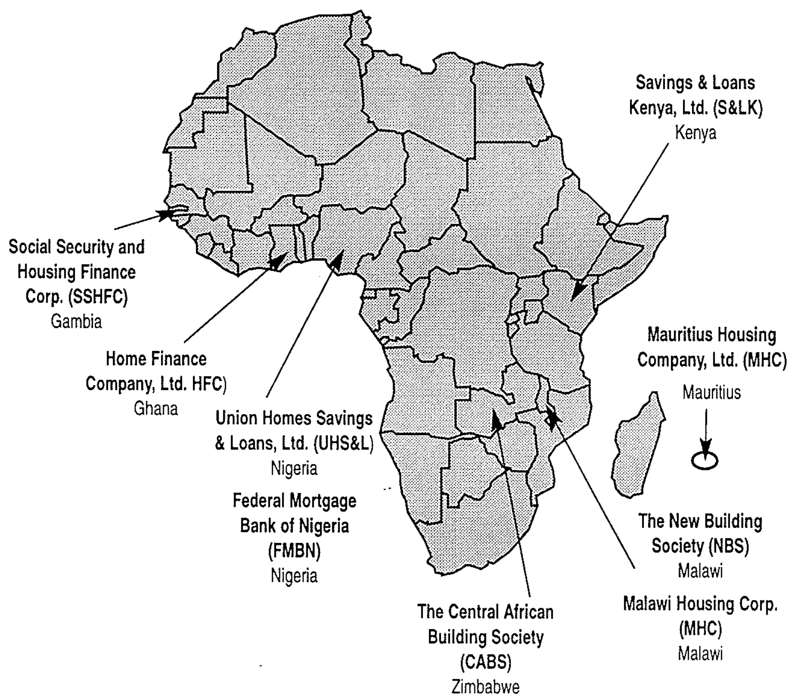
Many of the former British colonies in Africa have their housing finance system based on the building society model. (See Figure 1.) This is still very true of Zimbabwe, Zambia, Malawi, Swaziland, Botswana, Kenya and Namibia. This predominance is mostly evident in Zimbabwe, which has three building societies undertaking practically all the housing finance in that country. They are: The Central African Building Society (CABS); Beverley Building Society (BBS); and Founders Building Society (FBS).

Kenya has several building societies, but the most prominent is the East African Building Society Limited, which has capital of Kenya Shillings855.6 (US$11.6 million). Other private sector institutions governed by the Banking Act extend housing finance, such as the Savings & Loans Company of Kenya Ltd., a subsidiary of Kenya Commercial Bank, licensed as a mortgage finance company. Another significant housing finance company which is a joint venture investment with the Commonwealth Development Corporation (CDC) is the Housing Finance Company of Kenya Ltd., which has a stated capital of about US$7.8 million in local currency.

The New Building Society of Malawi has been able to mobilize K900 million (US$20 million) in a small country where 10% of the population lives in the urban areas, and the mortgage portfolio is concentrated in the upper income bracket.

In Nigeria one of the largest private sector providers of housing finance is the Union

Figure 1. African Housing Finance Institutions



Homes Savings & Loans Company Limited, a subsidiary of Union Bank of Nigeria Ltd. (formerly Barclays Bank), one of Nigeria's largest banks. The Nigerian Building Society, founded in 1956, was in 1977 transformed into the Federal Mortgage Bank of Nigeria (FMBN), owned 60% by the government and 40% by the Central Bank of Nigeria.

The FMBN is the apex institution to license, regulate and promote the development of mortgage finance institutions at state and national levels, provide long-term credit, and to mobilize deposits and savings for housing purposes. FMBN is authorized to develop a secondary mortgage market, act as guarantor of loan stocks floated by the primary mortgage institutions (PMIs) and to manage the national housing fund. Of more than 200 PMIs established since 1989, 46 now remain in business.

Ghana has two building societies with small portfolios of less than US$500,000 (¢1billion) each. Home Finance Company Limited (HFC), which is licensed as a nonbank financial institution, dominates the residential mortgage market with a portfolio in excess of 3,500 loans valued at over ¢75 billion (US$37.5 million) as of June 30, 1999. The Bank for Housing & Construction (BHC), which was established in 1972, has a wide network of branches covering the regions, but only about 5% of its portfolio is in housing loans. HFC is the authorized apex housing finance institution. It is only now that the primary market is expected to develop due to improved economic conditions.

In Mauritius the dominant housing finance institution started its activities as a parastatal in 1963 but is now a public company called the Mauritius Housing Company Ltd. (MHC). The majority shareholder of MHC is the government, in contrast with the main institutions dealing with housing finance in Ghana, Kenya and Zimbabwe, which are all private sector companies. The building societies in Kenya and Zimbabwe, unlike those in Ghana, operate within a modern regulatory framework, ensuring adequate capital to meet regulatory requirements which make these institutions viable and self-sustaining.

Little Secondary Mortgage Activity

Except for Ghana's HFC, there are no secondary mortgage finance institutions in Africa. Zimbabwe and Kenya are considering this model for deepening their mortgage markets and attracting long-term funds. Nigeria's apex mortgage institution, FMBN, is in place, but there is no secondary market there yet. Home Finance Company Limited was declared in 1996 by the Bank of Ghana to be the apex mortgage financing institution. Despite the establishment of the infrastructure for a secondary mortgage finance system in Ghana, where detailed guidelines have been agreed upon, no bank or building society has yet agreed to sell the few residential mortgages they have to HFC.

To jump-start the market, HFC has formed a wholly owned subsidiary commercial bank, which is awaiting a banking license to originate and service mortgage loans for the parent company and to provide construction financing to the developers of housing units at acceptable interest rates. After seven years of business, less than a third of HFC's portfolio has been originated and serviced by the originating and servicing institutions (OSIs) comprised of the main commercial banks and an insurance company. (Neither of the building societies fulfilled the minimum qualification criteria laid down by the IDA under the pilot housing finance scheme funded by them and the national pension fund, SSNIT.)

The largest OSI, State Insurance Company of Ghana Ltd., is a state-owned institution interested in the insurance business that HFC's mortgage finance business generates but is not well placed to undertake sound credit appraisal and administration procedures. The banks generally have been unwilling to undertake mortgage financing mainly because of a long period of unfavorable macro-economic conditions.

Recently, there has been a change in attitude, as in the case of Standard Chartered Bank (Ghana) Ltd., which now undertakes mortgage lending but strictly for its own account and only for high-income earners and corporate customers. A few banks give construction finance to developers at the highest interest rates on the market, with the excuse that this is a very risky business despite HFC's undertaking to issue checks in the joint names of the developer and the bank extending the credit.

Thirty-five years after independence, Malawi has only one housing finance institution—The New Building Society. It is reported that in the past three years there has been stagnation in housing finance activity, with a decline in the volume of housing loans.

The challenge in practically every African country is how to encourage institutions to lend for housing, and particularly to cater to low–income earners, who are in the majority. The basic economic indices of selected African countries show in every case that the GDP is extremely low. Savings are also very insignificant. (See Appendix.)

HOUSING FINANCE INSTRUMENTS USED IN AFRICA

Basically, the mortgage deed or "the bond," as it is called in Southern Africa, is the main instrument utilized by housing finance institutions in Africa. This constitutes a charge over the property as opposed to the earlier legal position involving a transfer of title to the lender, which gave it a more effective security. Mortgage loan recovery has in many countries been difficult because of the very slow legal processes that must be observed before the lender can foreclose on the property.

Under the Home Mortgage Finance Law of Ghana (1993), HFC and its OSIs have the right to foreclose without going to court in most cases. Where, however, repayment of more than 85% of a graduated payment mortgage has been made, foreclosure must be by court action. The company, however, takes guarantees and post-dated checks to avoid having to foreclose on too many properties.

The greatest problems mortgage financiers face in Africa are difficult titling of land, and slow and inefficient registration procedures. (See Figure 2.) These problems are of particular concern in Ghana and Nigeria.

RESOURCE MOBILIZATION

Effective resource mobilization within a sound macro-economic environment is, of course, the bedrock of a sound housing finance system. (See Figure 3.) In the case of building societies, this is particularly difficult in cases of high inflation and currency devaluation, where investments in the building

Figure 2. Problems Common to Most African Countries

- Difficult land titling procedure.
- Unavailability of land in urban areas and high prices.
- Customary law practices go side by side with English law concepts of land title creating complex and unclear titles.
- Stamping and registration procedures are compulsory but the system is inefficient.
- Low incomes, high house prices, high inflation and high interest rates.
- Inadequacy of infrastructure and housing construction finance.
- Lukewarm attitude of the banks to long-term loans and in particular lack of interest in making housing loans to moderate- and low-income earners.

Figure 3. Funds Mobilization Instruments

- **Deposits** Usually short term, but Building Societies can also offer accounts on which a preferential rate of interest can be earned in exchange for committing funds to the society for periods of up to 5 years. (Ghana, Kenya, Malawi and Zimbabwe)
- **Bonds** (Ghana, Indexed Bonds and US$ Housbonds; Mauritius, 5-year bonds)
- **Social Security Contributions and Pensions** (Gambia and Mauritius)
- **Compulsory Savings Scheme** (Nigeria)
- **Unit Trust, Mutual Funds and Other Collective Investment Schemes** (Ghana)
- **Housing Savings Scheme** Plan Epargne Logement (PEL) (Mauritius)
- **Employee Welfare Funds and Short- and Medium-term Commercial Bank Loans** (Mauritius)

societies have been withdrawn and put into money market instruments and bank deposits, thus reducing further the funds available for housing loans.

Inflation, high interest rates, absence of long-term funds and other unfavorable macro-economic conditions have been the main reasons why the banks generally have shied away from mortgage lending in Africa and have preferred highly profitable short-term trade-finance-related activities. There was a recent time in Ghana when the 91-day Treasury bill was available at an interest rate of 46%, making it more profitable for banks and other financial institutions to mobilize deposits and invest the money in government Treasury bills, as opposed to lending.

Recently, the situation in Ghana has had a dramatic change. The 91-day Treasury bill is down to about 26%, and inflation as of the end of June 1999 was under 10%. It is now necessary for banks to lend to survive. It is in this environment that Standard Chartered Bank (Ghana) has started advertising the provision of home mortgage loans in a big way, after more than 200 years of banking business in the country. However, they have stated categorically that they are not willing to sell their mortgages to HFC. Should their mortgage portfolio expand significantly, no doubt the banks will seriously consider off-loading to HFC some of their mortgage loans.

Financing Through Bonds

In contrast to the banks, HFC raises its financing by issuing bonds of two types. The first is a bond indexed to inflation on which the holders, Bank of Ghana (BOG) and SSNIT (the National Pension Fund), earn 1% interest plus inflation adjustments. The lending is done at inflation plus 4.5%, out of which 1.5% goes to the OSIs and the remaining 2% to HFC for administering the loan and bonds portfolios.

HFC has also issued corporate bonds on the Ghana Stock Exchange to mobilize medium-term funds for mortgage activity. A prospectus has been registered for US$35 million, of which about US$8.6 million has been raised so far. The bondholder can, after two years, redeem his investment at a discount or utilize the proceeds of the bond as downpayment for a mortgage. So far, there has been very little trading in these bonds. Most investors prefer to hold on to them as a hedging arrangement. The bonds have been issued at 7% and a maximum of 8.25%. The lending rate on US$-denominated mortgages has been at 12.5% since the Non-Resident Ghanian scheme was started in 1994, providing a good margin. One of the bond issues was fully underwritten by a local merchant bank. The proceeds of housbonds have been used to refinance portfolios of US$-denominated mortgages. The HFC housbonds are currently the only corporate bonds available on the Ghana Stock Exchange (GSE). Each issue so far has been over-subscribed.

Government Role in Mauritius

Mauritius is a small island country and, therefore, the government has been able to make provision for the Mauritius Housing Company in the national budget mainly for government-sponsored short-term lending. MHC raises additional funds from the assurance companies, the National Pension Fund, the Employees Welfare Fund and the Sugar Industry Pension Fund. The company also obtains other short- to medium-term loans from the commercial banks.

Lately, the company has been exploring the possibility of issuing housing certificates of deposit. Furthermore, MHC also raises funds from the general public through its housing savings scheme, the Plan Epargne Logement (PEL). The scheme carries attractive rates of interest and preference is given to PEL holders for housing loan purposes. All MHC borrowers must be holders of PEL accounts, and those who benefit from the government sponsored loans must have been operating the PEL account with MHC for at least one year before availing of an MHC loan. All MHC borrowers must maintain a PEL account with MHC for the duration of the loan.

Savings schemes and collective investment schemes that are licensed and properly regulated are a good form of mobilizing resources for housing finance in Africa.

In Ghana, the HFC-Unit Trust, a licensed collective investment scheme, enables borrowers voluntarily to save for their mortgage loan deposits. This fund, which has grown from nothing to currently about ¢22 billion (US$11 million), is basically a money market fund. SSNIT, which has subscribed to 60% of HFC's initial bond issue of about US$25 million, is a compulsory savings scheme mainly for people in regular employment.

Because Zimbabwean housing finance institutions are mainly building societies, they do not benefit from compulsory savings schemes and must compete with the banks for deposits.

Nigeria's National Housing Fund

Nigeria's National Housing Fund established under a decree is comprised of mandatory contributions of:

- 2.5% from every Nigerian earning an income of N3,000 or more per year as either paid employee or a self-employed person;
- 10% of commercial and merchant bank loans and advances;
- a minimum of 20% and 40% of non-life funds and life funds respectively of insurance companies; and
- adequate financial contribution from the federal government.

The rate applicable to contributions by banks is at 1% above the interest rate payable on current accounts by banks.

Individual contributions by employed persons are to be deducted by their employers and remitted to FMBN monthly while self-employed persons are to remit their contributions to the Bank (FMBN). The Central Bank of Nigeria (CBN) is responsible for the collection and remittance of the contribution of banks to FMBN, while FMBN issues demand notice at the end of each year for the contribution due from each insurance company.

FMBN is responsible for the management of the fund. The bank is expected to administer the fund to finance housing and keep accurate records of all contributions to the fund. Proceeds of the fund are to be loaned to individual contributors through the primary mortgage institutions as the major outlets.

Contributions from individuals running into billions of Naira have been collected to date through various companies and corporations/ministries and parastatals. However, the volume of lending has been small. Furthermore, many companies have yet to comply with the directives of that decree, especially the oil companies. Their complaint is that they have successfully completed their staff housing estates and also operate loan schemes which are available to their staff on attractive conditions.

Insurance companies, through their umbrella organization, Nigerian Insurance Association of Nigeria (NIA), protested against the modalities for their members' contributions to the fund. Similarly, the Bankers Committee, representing the interest of commercial and merchant banks, raised opposition regarding their contribution to the fund. Insurance companies, commercial/merchant banks, oil companies, and state and local governments have yet to contribute their statutory allocations to the fund.

In Africa, where the savings rate is extremely low, there is the urgent need to institute compulsory savings schemes, at least for people in formal employment, to raise funds for housing finance purposes. The example of Nigeria and the PEL of Mauritius could be considered but should also include the informal sector. In many African countries, a substantial part of the money supply is outside the banks. In Ghana, as much as 50% is held outside the banks. African countries have much to learn from the European contractual saving and borrowing schemes.

THE CLIENTELE: MOSTLY LOW-INCOME EARNERS

Most African countries have no problem with funding upper and middle-income housing. Zimbabwe has had this experience for many years through the building societies.

First Ghana Building Society (FGBS), established in 1954, was also an exclusive provider of upper and middle-income housing finance until the early 1970s when the macro-economic situation deteriorated seriously with inflation and high interest rates became the order of the day.

In Kenya, the Savings and Loans Company and other housing finance institutions have had no difficulty in raising funds for upper and middle-income housing. There is a real problem, however, with low-income housing in every part of Africa.

Mauritius can be said to be the only country where all income levels seem to have been adequately provided with housing finance.

Informal Sector Role

There are many informal sector groups in Africa. In Kenya they are known as SACCOS (Savings & Credit Co-operative Societies), whose purpose is to extend credit to their members for various uses, including the purchase of houses. The borrowing member is usually given four or six times what he/she has saved. This is against 40% equity required by formal mortgage lenders. SACCOS members borrow at about 4% interest to put up cheap houses in peripheral areas of the main cities.

Malawi has the "Chipenegangas," based on the same savings and rotating credit schemes. The Namanolo Rural Housing Scheme is cited as a good practical example of the success of the informal housing finance scheme. These schemes, however, are small and can only offer short-term loans. In West Africa, these informal sector credit groups are called "SUSU," but it does not appear that they extend credit for housing finance purposes. HFC has a mortgage scheme for informal sector operators, but many of them do not consider homeownership a priority and are asking for short-term credit to be backed with their holdings in the Unit Trust Fund. It is expected that the proposed HFC Bank will cater to them.

Low-income Housing

In Zimbabwe, development of low-income housing has recently been dramatic. The government and local authorities' roles in financing serviced lots and house construction have been significantly reduced, as in many other countries. Emphasis has been on the construction of core units which can be expanded by purchasers as and when they can afford to do so. The Central African Building Society (CABS) has been able to build 3,650 core units in the past three years, funded mainly by the United States Agency for International Development (USAID). The need for low-income houses, however, is at least 1 million units in Zimbabwe.

In Ghana's case, the backlog was estimated in 1996 to be 500,000 and growing by at least 50,000 every year. Only the surface of the low-income housing problem has been scratched in many African countries. We must all accept that the private sector, while making its contribution to solving the housing problem, cannot be expected to fund essentially low-income housing where there is limited ability to pay back the loans. Governments must intervene with subsidies targeted to benefit various low-income groups or arrange long-term funding for housing finance institutions to commission the construction of core units, as the government of Zimbabwe has done with USAID.

As in Zimbabwe, the Ghana government has favored medium-rise buildings, but the financial and social costs of such buildings may outweigh the land requirements, which are thought to be less. In both countries, "quick fix" solutions, such as alternative building materials and different modes of construction, have not provided the answer to the low-income housing problem. The demand continues to be for the more conventional cement block and brick structures needing roofing that varies from corrugated iron sheets to concrete tiles.

In Mauritius people must deal with a tornado problem by investing in concrete roofs. Their government has been innovative and administered a land tenure system that allows sale of the air space above an individual's house, thus encouraging construction of medium-rise buildings comprised of apartments of terraced and semi-detached core units.

In Ghana the urban sprawl has almost consumed all the surrounding land in Accra and Tema. The already difficult land titling procedures have now become a critical issue for the sustenance of housing finance. In the 21st century, the urban problem will be intensified everywhere by growing population rates, needing very urgent attention. The World Bank has a strategy to focus on cities and urban developments in the new millennium. Housing finance practitioners need to work closely with urban and local authorities to attract long-term funding wherever possible to construct core units on adequately serviced land.

THE PROBLEMS AND HOW THEY COULD BE TACKLED

Many governments on the continent have no clear policy on housing. Most measures taken are on an ad hoc basis and lack depth in research or analysis. Most of the time there is no political will to tackle the problem, as there are so many competing demands on the government. The tendency is for governments to view housing finance from the perspective of their cash budgets and not as development activity with immense spin-offs to the economy. Leveraging public resources to promote private sector participation in housing has been under-utilized.

African countries could be assisted by the IUHF or AUHF to come out with clear housing policies based on successful models in other countries. Information on best practice and schemes that have worked must be shared by members. The convention should end with clear declarations on a strategy to promote homeownership and assist African countries to establish well-capitalized mortgage finance companies, whether regulated by banking law or building society legislation.

Compulsory savings schemes and construction of core units on serviced land should be adopted as the best way of promoting a greater supply of low-income housing in Africa. This will not solve the problem of funding for low-income housing finance but will at least ensure that only serious borrowers who have the ability and intention to pay the loans access the little finance that is available.

It will also be an incentive for institutions to raise counterpart funding for housing finance purposes, where the borrower's contribution is at least 10% of the cost of the house. HFC's experience over the past seven years has shown that those who have invested an average of about 40% equity in their own homes are good borrowers. Those who have invested the bare minimum of 20% persist in defaulting in their mortgage repayments, but the default rate is still around 3%.

It appears that Africa is not yet ready for the American concept of different institutions originating and servicing mortgages under the secondary mortgage finance system, which has to evolve instead of being created. There should be more active primary institutions involved in mortgage financing.

Land continues to be a major problem in Africa, where ownership lies with traditional rulers and families, and customary practices make land acquisition difficult. Governments should be encouraged to adopt clear land policies and to intervene to acquire land for low-income housing purposes. They should provide basic infrastructure, and then sell the land as serviced plots for housing construction and financing to be undertaken by the private sector.

As an alternative, private and public partnerships should be formed, as is done in Ghana, to finance basic infrastructure, which is a major problem in Africa, especially West Africa. African housing finance institutions should, in addition to taking deposits, use the capital markets for sourcing additional capital. All the equity and debt instruments issued by HFC and sold on the Ghana Stock Exchange (GSE) so far have been over-subscribed. This should encourage other institutions to try the stock market.

The Gambians have summarized the way forward as follows:

> Since we now live in a world of harsh economic realities, where accessing af-

fordable financing is becoming progressively more difficult, and where external borrowing has become more suicidal as these loans have to be repaid in hard currency, it is becoming incumbent upon African nations to look inward to raise financial resources locally for development. The challenge is to provide financing for those with low incomes who have a very strong desire to improve the quality of their shelter and are willing to save towards it. However, in view of their low levels of income, mobilizing resources from this segment of the population can only be of limited consequence, if not backed with strong governmental incentives to financial institutions such as savings and mortgage banks.

As no project can succeed without adequate financing, financial resources must be mobilized at both the governmental and institutional levels. Some of the ideas that could be considered include the following:

- Creation of more mortgage finance institutions (mortgage banks) and mobilization of savings by inviting would-be beneficiaries to save up front in order to benefit from housing loans;
- Utilization of resources of compulsory savings schemes such as Provident and Pension Funds Schemes (Social Security Funds) which are particularly suitable for housing finance;
- Issuing of housing bonds; and
- Creation of special funds, such as the Mass Housing Fund of Turkey and the National Housing Fund of Nigeria.

Government can also intervene in the housing sector through budgetary allocations, investment directives and reserve requirements, as well as creating a conducive environment for mortgage lending vis-à-vis foreclosure laws and their enforcement.

Institutions responsible for shelter provision could be authorized by government to collect a housing levy on all salaries for the establishment of a special Housing Fund. Interested employer institutions and individuals may also save up front with the accounts of the institution to qualify for housing loans.

Because accessing available financing by the poor is often difficult, due to conventional loan conditions imposed by lending institutions, alternative conditions, such as guarantees, should be made available to suit the abilities of the poor.

Appendix. Economic Indices

	Ghana	*Kenya*	*Mauritius*	*Nigeria*	*Uganda*
Population	18.3	28.4	1.1	118.4	20.8
Rate of Population Growth (1995)	2.8%	3.8%	2.3%	3.0%	2.7%
Real GDP (1997) (US$ million at constant 1990 prices)	7,892	9,879	3,755	1,977	6,822
Average Annual Growth of Real GDP (1990–97)	4.3%	2.1%	5.2%	-0.4%	6.8%
Average Annual Gross National Savings (as % of GDP, 1990–97)	11.1%	18.2%	26.9%	19.8%	13.7%
Average Annual Gross Domestic Investment (as % of GDP, 1991–97)	16.4%	20.5%	28.5%	20.4%	21.0%
Average Annual Government Deficit (as % of GDP)					
1980–90	-12.0%	-5.4%	-3.7%	-5.8%	-9.5%
1991–97	-6.8%	-3.5%	-3.0%	-3.6%	-3.0%

Source: African Development Bank