Overview of the housing finance sector in Malawi, commissioned by the FinMark Trust with support from Habitat for Humanity

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**BACKGROUND TO THE SERIES**

Since 2002, the FinMark Trust has been pursuing its mission, "Making Financial Markets Work for the Poor", first in the Southern African Customs Union (SACU) countries and now throughout Africa. An independent trust with core funding from the UK Department for International Development (DFID), FinMark Trust aims to promote and support policy and institutional development towards the objective of increasing access to financial services by the un- and under-banked in Africa.

A key product developed by the FinMark Trust is FinScope™, a national-level survey of individual usage of financial services, now being undertaken in eleven African countries. FinScope™ will provide baseline data to stimulate policy change and support innovation by commercial providers seeking to deliver products and services sustainably to consumers who are currently outside the formal financial system. FinMark Trust will use the data of FinScope™ to promote and support change processes across the continent. In early 2009, the findings of the first FinScope™ survey in Malawi were released. Highlights from that survey are included here.

FinMark Trust’s Housing Finance theme area conducts research and engages with sector stakeholders in the promotion of innovative housing finance mechanisms to enhance access to housing finance for the poor. Broadly, the housing finance theme's activities can be separated into the following categories:

- Understanding the housing asset
- Exploring housing finance innovation
- Understanding issues relating to housing finance in Africa

This report is the eighth of a series of studies which will explore access to housing finance in various African countries (earlier reports consider housing finance sectors in Zambia, Botswana, Kenya, Uganda, Namibia, Rwanda, and Mozambique). It is meant as an input into a larger debate about how to enhance access to housing poor by low and moderate income earners throughout Africa. Comments and contributions can be sent to the FinMark Trust’s Housing Finance Theme Champion, Kecia Rust on Kecia@iafrica.com.

The FinMark Trust hopes that its research into access to housing finance in Africa will begin to shed some light on the key issues facing the poor as they seek to mobilise the finance necessary to access adequate and affordable housing.

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**Country Profile: Malawi**

- **Population:** 13,931,831  
  *note: estimates for this country explicitly take into account the effects of excess mortality due to AIDS; this can result in lower life expectancy, higher infant mortality, higher death rates, lower population growth rates, and changes in the distribution of population by age and sex than would otherwise be expected (July 2008 est.)*  
  **Life expectancy:** 43.45 years (total population)
- **Capital:** Lilongwe  
  **Area:** 118,480 sq km (total)
- **Major languages:** Chichewa 57.2% (official), Chinyanja 12.8%, Chiyao 10.1%, Chitumbuka 9.5%, Chisena 2.7%, Chilomwe 2.4%, Chitonga 1.7%, other 3.6% (1998 census)
- **Major religion:** Christian 79.9%, Muslim 12.8%, other 3%, none 4.3% (1998 census)
- **Monetary unit:** Malawian kwacha (MWK)  
  **GDP per capita:** USD800 (2007 est.)
- **Main exports:** tobacco 53%, tea, sugar, cotton, coffee, peanuts, wood products, apparel

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1. FinScope™ is a nationally representative study of consumers’ perceptions on financial services and issues, which creates insight to how consumers source their income and manage their financial lives. The sample covers the entire adult population, rich and poor, urban and rural, in order to create a segmentation, or continuum, of the entire market and to lend perspective to the various market segments. FinScope™ explores consumers’ usage of informal as well as formal products and builds a picture of the role that the informal sector can play in the financial markets of developing countries. Since FinScope™ is a perceptual study, it also encompasses attitudes, behaviours, quality of life factors and consumption patterns. See www.finscope.co.za

2. By 2012 it is intended that some 20 countries in Africa will have the survey. Repeat studies will take place on 2-3 year cycles, enabling trends within countries to be monitored and providing the basis for cross-country comparison especially around access to finance. FinScope™ data will provide financial service providers and regional integration initiatives with comparable, standard and reliable data about demand for financial services across borders. (FinScope™ Africa Brochure)

3. To go to the housing finance theme page, go to www.finmark.org.za, click on “themes” and then click on “housing finance”.

4. From FinScope™ website, drawing on the World Bank Fact Book and CIA.
Exploring housing finance in MALAWI

This study into housing finance in Malawi has been commissioned by FinMark Trust of South Africa, and partly funded by Habitat for Humanity. It is one in a series of studies covering East and Southern Africa with the aim of documenting the current status quo on housing finance and making recommendations on how interested organisations can intervene to improve the flow of finance, particularly targeting lower income households. This report was commissioned as a short desk-research study, however there was limited published material on the housing and more particularly the housing finance sector in Malawi, therefore the content was enriched with additional face-to-face interviews with financial, housing provider and policy-making stakeholders. As the FinScope Malawi study had just been completed, analysis is drawn from this where relevant. In addition, a limited amount of high-level analysis was undertaken to provide estimates of the size of the housing finance market and the income distribution characteristics of the customers from each of the institutions. These estimates are based on anecdotal numbers provided in interviews and should only be used as indicative figures to support ongoing dialogue between stakeholders to improve access to housing and housing finance.

Malawi’s growing population and rapid rate of urbanization is placing substantial pressure on housing, especially amongst the lower income population. The key challenges for lower income households to own their own home are twofold; lack of affordable, good quality housing stock and high cost inaccessible housing finance. Affordable housing is really only being provided by two NGOs (CCODE and Habitat for Humanity) and to a lesser extent by the Malawi Housing Corporation, which focuses more on supplying medium cost housing. However, none of these organisations are able to meet the chronically high level of demand for housing mainly due to the lack of affordable accessible finance for building either from commercial capital markets or development partner funds.

The preferred option for many Malawians is to acquire their own land and build their own home in incremental steps. The individuals that opt for this approach also face substantial challenges in securing housing finance due to the strict eligibility criteria of regulated financial organisations and the lack of informal housing microfinance products available. The lack of options has meant that many people fund house construction incrementally through savings or by using funds received through other types loans available to them, such as small business or personal loans.

In order to improve access to housing finance provided by non-regulated organisations which target individuals in lower income brackets, one option is to increase non-regulated institutions’ loan capital base so that they could offer larger loans with longer repayment periods and encourage them to innovate in their product offerings, such as introducing roofing loans (or other building stage-related loans). Another option to increase lending for housing finance would be for microfinance institutions to offer housing loans to their most creditworthy business loan customers, a mechanism which is already being used at least one organisation5. Revising the eligibility criteria and increasing the penetration of employee housing schemes could also increase access to housing finance from commercial banks. In a relatively volatile economy, with uncertainty over interest, inflation and exchange rates, lenders and borrowers tend to be cautious in offering/accepting longer term finance.

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5 OIBM
Overview of Malawi’s macro-economy

Land-locked Malawi, located in central southern Sub-Saharan Africa (SSA), ranks among the world’s most densely populated and least developed countries. It has a total population of 13,066,320 which is growing at 3.2 per cent per annum, of which 48 per cent are adults (6,216,432).

Geographically, Malawi is a narrow, long country with four urban centres, two of which constitute the majority of the urban population: Lilongwe (0.67 million, 43.3 per cent of urban population), Blantyre (0.66 million, 42.8 per cent of urban population), Mzuzu City (0.13 million, 8.3 per cent of urban population) and Zomba City (0.09 million, 5.6 per cent of urban population). The urban population is 1.55m representing 11.8 per cent of the population, with the remaining 88.2 per cent of the population living in rural areas and highly dependent on subsistence agriculture. Malawi is one of the world’s least urbanized countries, but is experiencing one of the highest rates of urban migration at 6.3 per cent per annum. Pressure on urban housing is therefore a key immediate concern.

Malawi’s National Economy

Gross Domestic Product (GDP)

Malawi has experienced relatively strong macroeconomic performance in the last three years, with GDP growth rising to an estimated 9.7 per cent in 2008. However, growth has been very volatile and can be characterised in a number of phases.

The initial high growth of the 1960s and 70s was estate based export agriculture. However, this was curtailed, by a combination of the oil price shocks, the war in Mozambique (cutting the most direct route to ports) and underlying poor macro-economic policy. A change from single-party autocracy to multi-party democracy in 1994 enabled improvements in macro-economic policy, notably opening up opportunities for smallholder farmers in key crops such as tobacco. Initial improvements in macro-economic management, such as exchange rate liberalisations were ultimately lost due to increasing fiscal deficits and corruption in the late 1990s to 2004. From 2001-04, Malawi had some of the highest real interest rates in the world, stalling consumer and business borrowing. The depth of the fall in GDP per capita from 1979-1994 is exemplified by the fact that in 2007GDP per capita finally passed its previous highpoint achieved in 1979.

GDP is projected to grow at above 8 per cent in 2009, but Malawi is still very dependent on good weather, because the economy is still so agrarian in nature. In 2001 and 2002, GDP shrank due to drought conditions, and in 2005, growth also stalled on the back of relatively poor weather. GDP growth in the 2006-8 period was positively impacted by relatively good weather experienced in that period, which has continued into expectations of another good harvest in 2009.

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6 Figures from Preliminary Report of the 2008 Population and Housing Census (NSO)
7 All non-municipal areas are classed as rural, including secondary towns and trading centers.
8 Malawi Urban Project Proposal, Habitat for Humanity, 2008
9 IMF/GoM Forecast
Phases of growth in Malawi 1960-2008\textsuperscript{10}

![Graph showing phases of growth in Malawi 1960-2008](image)

Source: Draft Country Economic Memorandum, World Bank, 2009

Although Malawi has seen good GDP growth since 2006, as a result of this ‘lost’ 28 years of growth, it still ranks 131 out of 134 surveyed countries in terms of GDP per capita\textsuperscript{11}, falling significantly behind other neighbouring SSA countries.

<table>
<thead>
<tr>
<th>Year</th>
<th>Malawi Kwacha</th>
<th>US$</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>18,439</td>
<td>240</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>20,737</td>
<td>213</td>
<td>2.8</td>
</tr>
<tr>
<td>2004</td>
<td>24,415</td>
<td>224</td>
<td>2.6</td>
</tr>
<tr>
<td>2005</td>
<td>27,109</td>
<td>229</td>
<td>0.5</td>
</tr>
<tr>
<td>2006</td>
<td>32,076</td>
<td>236</td>
<td>3.9</td>
</tr>
<tr>
<td>2007</td>
<td>36,601</td>
<td>261</td>
<td>5.7</td>
</tr>
<tr>
<td>2008</td>
<td>42,138</td>
<td>301</td>
<td>5.7</td>
</tr>
</tbody>
</table>

Source: National Statistical Office.

The table above shows a progressive improvement in GDP/Capital from 2003 onwards, with significant gains in the last two years.\textsuperscript{12} However, GDP per capita may be overstated in US $ terms, as the Malawi Kwacha (MK) exchange rate has been fixed to the US $ at MK139-140 for the last three years, resulting in an increasingly overvalued the currency and overstated GDP/capita in US $s.

As noted earlier, agriculture is the single biggest component of GDP, though the composition is steadily changing with relative increases in the shares of distribution, manufacturing (after a period of relative decline), financial and professional services, construction, and latterly mining sectors. One major investment in uranium mining will see a significant shift in favour of mining’s composition of GDP from 2009 onwards.

\textsuperscript{11} 2008/09 World Economic Forum (WEF) Global Competitiveness Report
\textsuperscript{12} GDP data was re-based upwards in 2007-8.
**Inflation**

Inflation was relatively high in the period 1990 through to 2001, but thereafter fell to a more manageable 9.5-15.5 per cent. 2007 and 2008 saw a further fall to below 10 per cent, but inflation has picked up in the second half of 2008 and into 2009, suggesting that it continues to be volatile, related to weather and exogenous shocks (e.g. fuel and food prices). Of note, housing inflation is the second most important element of the inflation basket at 12.1 per cent by weight and has been one of the contributors to higher inflation, relative to food, which has been relatively suppressed.

**Breakdown of Headline Inflation, 2000-2008**

<table>
<thead>
<tr>
<th>Year</th>
<th>Food</th>
<th>Beverages &amp; tobacco</th>
<th>Clothing &amp; footwear</th>
<th>Housing</th>
<th>Household operation</th>
<th>Transport</th>
<th>Miscellaneous</th>
<th>All items</th>
<th>Headline Inflation</th>
<th>Non-Food Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>100.0</td>
<td>5.9</td>
<td>8.5</td>
<td>12.1</td>
<td>4.1</td>
<td>5.1</td>
<td>6.2</td>
<td>100</td>
<td>22.7</td>
<td>29.8</td>
</tr>
<tr>
<td>2001</td>
<td>117.6</td>
<td>131.0</td>
<td>130.5</td>
<td>132.9</td>
<td>129.3</td>
<td>129.5</td>
<td>122.1</td>
<td>122.7</td>
<td>14.8</td>
<td>13.2</td>
</tr>
<tr>
<td>2002</td>
<td>136.4</td>
<td>136.7</td>
<td>152.7</td>
<td>156.6</td>
<td>143.8</td>
<td>143.9</td>
<td>134.4</td>
<td>140.8</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>2003</td>
<td>143.6</td>
<td>165.8</td>
<td>166.8</td>
<td>180.0</td>
<td>172.9</td>
<td>172.1</td>
<td>148.3</td>
<td>154.3</td>
<td>9.6</td>
<td>15.0</td>
</tr>
<tr>
<td>2004</td>
<td>154.4</td>
<td>196.5</td>
<td>179.5</td>
<td>211.7</td>
<td>218.3</td>
<td>202.8</td>
<td>169.1</td>
<td>172.0</td>
<td>11.5</td>
<td>16.2</td>
</tr>
<tr>
<td>2005</td>
<td>181.0</td>
<td>240.6</td>
<td>192.8</td>
<td>236.9</td>
<td>269.0</td>
<td>230.1</td>
<td>182.6</td>
<td>198.5</td>
<td>15.4</td>
<td>13.5</td>
</tr>
<tr>
<td>2006</td>
<td>209.1</td>
<td>273.5</td>
<td>208.8</td>
<td>266.4</td>
<td>313.5</td>
<td>261.6</td>
<td>197.5</td>
<td>226.1</td>
<td>13.9</td>
<td>12.2</td>
</tr>
<tr>
<td>2007</td>
<td>224.7</td>
<td>302.6</td>
<td>221.2</td>
<td>291.4</td>
<td>336.2</td>
<td>289.1</td>
<td>211.6</td>
<td>244.1</td>
<td>8.0</td>
<td>8.5</td>
</tr>
<tr>
<td>2008</td>
<td>240.3</td>
<td>331.0</td>
<td>237.6</td>
<td>319.1</td>
<td>383.5</td>
<td>339.0</td>
<td>232.3</td>
<td>265.4</td>
<td>8.7</td>
<td>10.7</td>
</tr>
</tbody>
</table>

Source: NSO

**Interest Rates**

As well as high inflation, Malawi experienced high nominal and real interest rates in the 1990-2002 period. Reserve Bank of Malawi (RBM) discount rates rose from 11 per cent in 1990 to 50 per cent in 1996, falling back briefly to 23 per cent in 1998, before rising to new peak of 65 per cent in 2001, before falling back to 35-40 per cent by 2004. The driver for high rates was high Government borrowing, as the fiscal deficit increased significantly leading up to the 2004 election.
The result was high real interest rates in this period, typically between 20-45 per cent. As a result, private sector borrowing was significantly suppressed. With greater fiscal responsibility from 2004 onwards, nominal and real interest rates fell. Currently, the RBM discount rate stands at 15 per cent, but commercial banks did not follow the RBM when it last reduced its rate judging this to be out of line with market reality. Commercial bank prime rates therefore stand at just over 19 per cent as at March 2009. With inflation in the first quarter of 2009 close to 10 per cent, real interest rates have therefore fallen below 10 per cent for prime borrowers. The predictable result has been rapid private credit expansion (business and consumer) since 2005. The majority view is that the major share has been for consumption.

**Public and Private Sector Credit 2001-07**

![Graph showing credit to government, private sector, and T-bill yield]

Source: DFID, 2007, based on RBM data

**Exchange Rates**

Malawi has seen considerable volatility in the Malawi Kwacha (MK) exchange rates since 1994, when RBM moved from a fixed exchange rate regime to a more market based exchange rate policy. As a result, the currency has seen a number of large rapid devaluations against the US $, as well as long periods of stability. Malawi's predominantly agricultural exports are volatile, related to domestic production conditions and world prices. However, in the last three years, the currency has been fixed at MK 140 to US $1, even though nominally Malawi is operating a managed float. With the financial turmoil, and the relative strength of the dollar compared to most other...
currencies, this had led to the MK appreciating against its main other trading currencies, including the South African Rand, the UK £ Sterling, and the Euro, resulting in a rapid deterioration of the terms of trade. A significant devaluation is predicted by many economic commentators, probably following the election in May 2009. This carries significant risks for any borrowers in forex, including anyone investing in property using forex loans.

**Government Budget**

One of the underlying causes of the volatility in inflation and interest rates has been the persistent Government Budget deficits after grants. Although good progress was made by the new Government post 2004, enabling Malawi to qualify for Highly Indebted Poor Country debt relief, grants from donors still make up a considerable proportion of the national Budget (c.40 per cent) and government runs a major budget deficit before such grants. After a low point in 2005, expenditures have risen faster than revenues and grants, resulting in a widening of the Budget deficit. The expectation for 2009, an election year, is for a much higher deficit, particularly due to high spending on input subsidies.

![Budget Deficit, 1990-2008 as per cent of GDP](image)

**Foreign Reserves**

Malawi has not been able to maintain forex reserves at its targeted three-months of import cover for many years. This cover reflects the crop season, with October to March being the lowest levels until forex from tobacco and other crop sales commences from April through to September. The import cover is also skewed as it does not include requests for forex that have been made but not paid – in other words, there is a queue for forex typically taking 6-13 weeks, but in some cases up to 5-6 months. This has become a major concern for importers and those who need to make external payments (including forex loans).

It is also clear that the persistent shortages of forex have also driven a number of buyers and sellers into the forex bureaux and the parallel market, particularly smaller players who are not able to access forex via the commercial banks as they are ‘low priority’. It is not possible to estimate the scale of this, but is generally viewed to have been increasing in the last three years.

**Foreign Direct Investment**

FDI flows have been erratic, but generally less than $100m/year according to the Malawi Investment Promotion Agency (MIPA). This suggests Malawi is not very attractive to foreign investment, except for a few sectors, such as telecoms (particularly cellular) or one off opportunities, such as uranium mining.

**Conclusions For Housing Finance**

Malawi is still a very poor country, highly dependent on agriculture, with volatile growth, inflation, interest rates and potentially exchange rates. The economy is vulnerable to weather and commodity price risks, and although macro-economic performance has improved in the last five years, there are still considerable weaknesses, particularly

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13 Other than 2006, with $185.3m of which $134m was for mining investment (Uranium mine)
persistent Government Budget deficits. A major overspend in 2008-09 would see inflation and interest rates go higher, and additional pressure on the already overvalued exchange rate in the short to medium term.

Constraints to increased housing finance are related to the volatility in key economic indicators such as inflation, interest rates and exchange rates (for forex loans), which make anything but short-term loans unattractive to lenders (and to borrowers). High government borrowing has made Treasury Bills generally much more attractive to lenders than personal and business lending, as returns were higher, less risky and less effort than having many individual loans that each needed managing. High margins on forex trading, encouraged by the relative shortage of forex, also provided good returns to the banks, and again limited their attention and need to compete for lending income.

Treasury income for banks and other non-bank financial institutions has fallen in recent years, as interest rates have come down, but whilst this has encouraged more lending to private sector, this has been mostly for short term (consumption) loans for employees, as this is a relatively low risk, high return market. Competition in this and other lending segments has been increasing, and as this market becomes saturated, then banks and other non-bank finance institutions will focus on more under-developed segments, including housing finance.

Malawi’s Financial Sector

According to the 2007 Financial Sector Assessment Program (FSAP), Malawi’s financial system consisted of nine banks, two discount houses\textsuperscript{14}, one leasing company, eight insurance companies, four development finance institutions (DFIs), a young, but growing microfinance industry and a nascent capital market. Since 2007, banking licences have been issued to FDH Bank and the International Commercial Bank (ICB). In addition, six ‘payroll’ lenders\textsuperscript{15} have entered the market and one of the commercial banks (Loita) has been taken over by Ecobank, a significant West African banking group. This indicates that there is dynamism in the financial sector, with considerable expansion and more aggressive behaviour by the banks in particular.

Total assets were estimated by the FSAP to be US $ 1.5 billion, which makes Malawi’s financial system small, even compared to other countries of a similar population in the region. Two thirds of these assets (c. $800m) are in the banking system, with the balance in insurance companies and discount houses. The FSAP estimate for private pension funds under management was US $300 million.

The Malawi Stock Exchange (MSE) has 15 domestic listed companies plus one international company with a local listing. This includes NITL, a company that holds shares in several state owned businesses or state shares in private companies. Overall market capitalization was US $600 million in 2007, equivalent to 27 percent of GDP. Although capitalization grew strongly in much of 2008 ending the year at $1,300m\textsuperscript{16}, a significant proportion of these gains have been lost in the final quarter of 2008 and the first quarter of 2009, with shares falling 18 per cent from January to March 2009 alone. The traded portion of shares in 2006 was tiny at only US $14.3 million or 0.7 percent of GDP. This reflects that the main holders of shares are a number of large pension fund companies, such as Old Mutual and NICO. Activity has increased, as there have been several Initial Public Offerings in the period 2007-8, but has again fallen in 2009.

Government has issued one three-year bond to test the market, but there are no corporate bonds issued to date.

Banking Sub-Sector

Less than 15 years ago, Malawi had just two banks. Whilst these two banks\textsuperscript{17} continue to be the biggest individual banks, the sector has seen an increase in the number of smaller and/or more specialised banks. The list of banks and whether they are majority local/domestic or foreign owned is as follows:

\textsuperscript{14} Discount Houses primarily trade in Government Treasury Bills, allowing organizations and individuals to take part in the regular fortnightly auctions through the Discount House bids.

\textsuperscript{15} Payroll lenders target employees with short-term loans for any purpose, as long as the loan can be deducted by the employer. These are: Blue, Fountain Microfinance, Greenwing, IZWE, Pelton and Select Financial Services.

\textsuperscript{16} At MK 140:$1, but noting that the MK is probably overvalued as at March 2009.

\textsuperscript{17} National Bank of Malawi (NBM), owned by Press Corporation (and Govt. stake), and Standard Bank of Malawi (part of Standard Bank), and formerly trading as Commercial Bank.
1. Ecobank (Foreign)\(^{18}\)
2. FDH Bank (Local)\(^{19}\)
3. First Merchant Bank (FMB) (Local)
4. IndeBank (Local)
5. International Commercial Bank (Foreign)
6. Malawi Savings Bank (MSB) (Local – Govt)
7. National Bank of Malawi (NBM) (Local, with some indirect Govt stake through Press Trust and Press Corporation)
8. NBS (NBS) (Local)
9. Nedbank (Foreign)
10. Opportunity International Bank of Malawi (OIBM) (Foreign)
11. Standard Bank (Foreign)

Some of the newer banks, such as FMB, NBS, OIBM plus the revitalised state-owned MSB, have been relatively aggressive and innovative in seeking market share at the expense of the two major incumbents. This has been based on a mixture of technology, distribution and product/service innovation including:

1. Card based accounts, targeting Farmers (FMB, OIBM and NBS), lower income households (OIBM, NBS) and civil servants (MSB)
2. Use of internet and SMS banking (FMB initially, but most others now)
3. Introduction of kiosks and branches in low income (urban) areas (OIBM)
4. Mobile banks (NBS and OIBM)

The take over of Loita Bank by Ecobank, and the entry of ICB in 2009, is likely to further stimulate competition for consumer and business customers.

The revelation in FinScope Malawi (March 2009)\(^{21}\) that 15 per cent of the adult population were banked directly, with a further 4 per cent banked indirectly, was higher than previous estimates and appears to reflect significantly increased penetration in the last 3-4 years, particularly of card based transaction/savings accounts and the more aggressive stance of banks.

One of the key factors driving new investment in the banking sector and increasing competitiveness is the relatively high returns for banks in Malawi. At 6.44 per cent in 2006, the returns are higher than in other comparable countries.

**Return on Assets, Selected Countries and Groups, 2006.**

![Graph]

Source: FSAP

Banks reported continued profit growth in the 2007 reporting season, but there does appear to be pressure on profits for some banks in 2008, due to continued shortages of forex, which has previously been one of the main

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\(^{18}\) This indicates if majority if foreign or locally owned
\(^{19}\) FDH = First Discount House, from which it has emerged.
\(^{20}\) Formerly the New Building Society, Malawi’s only Building Society that was state owned, which converted to a bank in 200(5?)
\(^{21}\) District-representative survey conducted in November/ December 2009 across 5,000 households across Malawi, FinScope is a registered trademark of the FinMark Trust
sources of profits for the banks. This also relates to the RBM decision that all US $ payments for tobacco, Malawi’s biggest export crop, be made via RBM, which has removed a major profit source from the banks. This may result in several banks refocusing their efforts from forex income to competing harder for personal and business customers. Against this background shift in sources of profitability, it may be possible to generate more interest in housing finance amongst lenders, which has so far been a small portion of the portfolio (see below).

**Savings**

According to the RBM, non-Government deposits in the banking system have increased considerably over the last two years. In December 2006, these stood at MK 62.0bn, increasing to MK 85.3bn in 2007, and MK 114.4bn as at December 2008. This is a 34 per cent increase for 2008 over 2007, and an 84.5 per cent increase over 2006.

According to the FSAP, savings in the banking sector in 2005 were equivalent to 15.9 per cent of GDP, compared to 24.4 per cent as the average for SSA. Since that date, GDP has been re-based (upward), however the findings of FinScope support an increase in savings accounts having occurred in recent years, with 18 per cent of adults reporting that they have a bank account directly or indirectly.

The cost of operating an account is also relatively high in Malawi, according to the FSAP:

**Cost of Cheque and Savings Accounts, 2005**

<table>
<thead>
<tr>
<th>Country</th>
<th>Checking Account Fees</th>
<th>Savings Account Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>21.90</td>
<td>2.83</td>
</tr>
<tr>
<td>Kenya</td>
<td>13.62</td>
<td>2.67</td>
</tr>
<tr>
<td>Botswana</td>
<td>5.85</td>
<td>2.97</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.82</td>
<td>0.91</td>
</tr>
<tr>
<td>Uganda</td>
<td>2.44</td>
<td>3.97</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>2.48</strong></td>
<td><strong>3.73</strong></td>
</tr>
</tbody>
</table>

Source: FSAP analysis

**Credit**

Net Domestic Credit to Government and Private Sector increased from MK 71.7bn ($512m) to MK 99.4bn ($710m) December 2007 to December 2008, a 38.6 per cent increase (source: RBM). Within this, credit to Government rose by 23.8 per cent, whilst that to private sector increased by 45.2 per cent. This clearly indicates rapid private sector growth, but it is not possible to disaggregate consumer and business credit and their relative levels and growth rates. Unfortunately, it is also not possible to get loan data disaggregated by category of loan, including housing.

According to the FSAP, 2007, net outstanding loans to the private sector in 2005 represented 6.4 per cent of GDP, whilst the SSA average was 16.9 per cent of GDP. This suggests that although private sector credit has increased rapidly in the last two years, it is below the norm for the SSA region, and potentially has more scope to grow as a proportion of GDP.

Again the above is reflected in FinScope, with only 3.8 per cent of adults reporting that they had an outstanding loan with a bank. Notably, four times a many people reported loans from other formal lenders (mostly MFIs), compared to banks, though the loan sizes would be considerably smaller. This suggests that banks are less important sources of finance for people than other types of lenders.

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22 Over $ 460 m in 2008 season
23 Based on eight banks, excluding MSB, which has a small lending portfolio
24 Businesses, consumers and parastatals – parastatal lending increased by 64.7 per cent.
Interest Rate Spreads

The issue of interest rates was examined earlier. Commercial Bank Prime rates are at 19-20 per cent, a much lower real rate compared to the period prior to 2005.

In 2007, interest rate spreads (15 per cent) were higher than the SSA average of 7 per cent, according to the FSAP. A major part of this seems to be very high bank overhead costs and relatively low productivity compared to peers. Increased competitiveness could assist in forcing banks to cut overheads and improve productivity. As it stands, the costs of this are simply passed on to borrowers and savers in wider interest rate spreads. As seen later, expanding lending in housing related finance would also help to reduce the overheads as a proportion of lending.

Interest rate spreads, 2001-07

[Graph showing interest rate spreads from 2001 to 2007]

Source: FSAP Malawi, 2007

High interest spreads, high real interest rates, and low deposit rates have characterised the formal banking sector. This has reduced the potential for borrowing by private sector, including housing related loans.

Microfinance Institutions (MFIs) and Financial Co-operatives

Under the current regulatory regime, MFIs cannot take deposits, other than forced savings as part of loan collateral. However as discussed in the next section a Microfinance Bill has been drafted for approval by Parliament which will allow deposit-taking by MFIs, short of conversion to a bank. MFIs are therefore not currently significant in the savings sector. As far as loans are concerned, according to the Deepening Malawi’s Microfinance Sector (DMS) Project, there were 455,179 loans by specialised MFIs worth MK 8.8bn ($62m) as at end September 2008.25 Of these loans, Government-related lenders provide 16.7 per cent by value and private sector institutions 83.3 per cent. However, included in the private sector are the payroll lenders that account for 31.4 per cent of all loans by value, having come from almost zero in 2005. This is a key structural change.

25 This includes two banks – OIBM and MSB, which target smaller borrowers and savers.

Kadale Consultants, for the FinMark Trust (April 2009)
Financial Co-operatives such as the Savings and Credit Co-operative Organisation(s) (SACCOs) can already take savings deposits and offer loans to members and account for 12.7 per cent of microfinance loans as at end September 2008. SACCOs are normally affiliated to the Malawi Union of Savings and Credit Co-operative Organisations (MUSCCO). As well as 171,235 borrowers with loans of MK 1.1bn ($7.8m), these are estimated collectively to have 80,027 savers with savings of MK 1.5bn ($10.7m).

**Pensions**

There are a number of pension fund managers, such as Old Mutual, which manage both company schemes as well as their own schemes. These fund managers have an estimated $300m available to them invested in a range of instruments such as equities, treasury bills and property. Pension fund managers may be interested in investing in large scale housing development schemes in the future and could provide the much needed liquidity, possibly through financial service providers, to extend housing loans to their customers.

**Finance Sector Conclusions**

The finance sector is still small in overall value, relatively immature, though becoming increasingly crowded with new bank and non-bank entrants, not least because the returns from banking have been so high. So far banks have focused on parts of their business that have provided better returns, such as treasury operations and forex. Few have shown interest in the rural and low-income consumers, preferring to target higher income urban consumers. But over recent years, there have been more bank and non-bank financial institution entrants increasing competition and spurring more attention in neglected market segments. So far this increased competition has not yet reached housing finance, which can be seen as a neglected market segment.

**Income and Financial Access**

Individual and household incomes remain low by regional standards and more than 55 per cent of the adult population survive on an income of less than MK 5,000 ($35.7) per month. As seen in the graph below, income levels in urban areas are higher and more diversified than in rural areas.

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26 FinScope Malawi, Kadale Consultants, 2009
Expenditure on housing is not a priority for many households; the majority of household income is spent on basic living expenses with only 11 per cent on housing. As a result 66 per cent of dwellings are made of locally sourced, affordable traditional construction materials, the remainder living in either dwellings constructed with permanent or semi-permanent materials.

The 2008 Census data reveals that annual population growth is high in Malawi (2.8 per cent) particularly within the urban areas such as Lilongwe (4.3 per cent) and Mzuzu City (4.0 per cent). As the population grows and household sizes increase (average 4.4 per household in 2008), greater pressure is placed on household income, particularly in rural areas. This pressure on household income has led to high levels of rapid urban migration particularly to Lilongwe, Blantyre and Mzuzu City where the average incomes are the highest. Despite this migration, less than 15 per cent of Malawians receive wages and are in full-time employment, a key requisite for many formal lenders.

The demographic factors underpinning Malawi’s housing finance sector are characterised by a small urban elite (less than 0.7 per cent) earning more than MK 100,000 ($714/month) per month living in low density, high quality housing, a middle income sector earning MK 10,000-99,999 ($71-713)/month living in semi-permanent or permanent housing in peri-urban and urban areas and the vast majority of Malawians living in poor housing in unplanned urban settlements or rural areas earning less than MK10,000 ($71) per month.

Based on this income distribution, the minimum house value that some commercial banks will extend credit on (MK 5 million, $35,460), an average repayment loan length of 15 years, the mortgage repayment limit of 35 per cent of net salary and an average interest rate of 22 per cent, it is estimated that less than 1 per cent of adults could access mortgages from commercial banks on current terms. Below the income threshold for commercial mortgages, some commercial banks will offer home improvement loans with limited repayment windows (36 months) that are more affordable to lower income brackets. As mentioned in section 3 below, SACCOs also offer housing loans to lower-income members, who typically earn MK10,000 ($71) per month or more.

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27 Integrated Household Survey, 2004-2005 (NSO)
28 Average of 4.0 people per household in 1987 (Preliminary Report 2008 Population and Housing Census, NSO)
29 Source: FinScope Malawi, 2009 (FinMark Trust/Kadale)
30 Source: FinScope Malawi, 2009 (FinMark Trust/Kadale)
31 Source: Interview with Bvumbwe SACCO manager
The ramifications of these population and income characteristics on housing are considerable. The GoM has identified access to housing as a key strategy to unlocking economic growth and poverty reduction within the Malawi Growth and Development Strategy (MGDS), which is the cornerstone for prioritisation of GoM and donor funding. Of particular interest, MGDS describes availability of housing finance as one of the key barriers to increasing home ownership and to improving the quality of shelter. Yet it is difficult to see how this could happen through conventional housing finance mechanisms through commercial banks, given the income level and bank mortgage requirements.

FinScope Malawi 2008, which is the first demand-side survey of individuals’ financial lives, shed further light on the demographics. FinScope Malawi provided a district-representative overview of access to financial services and revealed that access to formal sources of finance from regulated banks (19 percent) and other formal institutions (7 percent) is fairly good compared to regional peers. However the number of individuals who are financially excluded is particularly high (55 percent), especially in rural areas (58 percent) and amongst the lower income earners. Furthermore, it was found that the financially excluded have no access to formal or informal finance mechanisms and must rely solely on their own income or friends and family for money.

FinScope Malawi also highlighted the correlation between income and quality of housing, showing that individuals with limited financial means are more likely to live in basic accommodation made of mud bricks, straw roofs and limited access to amenities. Rather than using savings or credits on their homes, these individuals instead prioritise their basic living expenses and prefer to access finance from informal sources or friends and family rather than more formal sources. Less than 5 percent of people say they use their savings or borrow money for the purpose of investing in land or a dwelling.

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32 Other formal sources of finance include MFIs, insurance providers and money transfers made by regulated bodies
33 65 per cent of adults earning less than MK 5,000 are financially excluded
34 Including farming expenses (seeds and other inputs for farming), food and medical expenses
An additional finding from FinScope Malawi of importance is that over 60 percent of households cite farming as their most important source of income, which suggests that providers of rural and agriculture-related credit schemes may be a potential source of housing finance to rural customers with strong credit histories. This characteristic also reinforces that income for many households is highly seasonal and that individuals have access to money during harvest time (April to June) either to repay housing credits or to fund home improvement or construction schemes. This indicates that design of housing finance products needs to take account of the seasonality of income flows.

### Policy and Regulatory Framework

#### Financial Sector Policy and Regulation

The key regulatory change affecting the housing finance sector in recent years was the liberalization of the financial market in 1989 that allowed registered financial institutions to offer mortgages to their clients. Up until this point New Building Society\(^\text{35}\) was the sole provider of mortgage finance. Following liberalization of the market, New Building Society found it increasingly difficult to remain competitive, since as a building society it could not offer the same wide range of products traditionally marketed by banks. As a result New Building Society was bought by NICO, a large Malawian Insurance Company and incorporated as a Limited Liability company in 2003. It subsequently undertook a partial listing on the Malawi Stock Exchange in 2007 to raise finance. The privatisation of New Building Society (henceforth named NBS Bank), conversion to a bank and the raising of capital through a partial public offering enabled NBS Bank to offer a broader range of financial products.

The GoM has a number of financial sector reforms in the pipeline designed to improve financial sector supervision by the RBM. These reforms will hopefully create a platform for sustainable growth and innovation in the financial services industry. The Financial Services Bill (FSB) 2008, which has yet to be passed by Parliament, will strengthen the legal framework for provision of financial services, consolidating the supervisory function of the regulator, RBM\(^\text{36}\). Falling under the umbrella regulation laid out in the FSB, a number of other bills are also waiting to be passed in Parliament. Of note is the Microfinance Bill and the Financial Cooperatives Bill which provide supervision and regulation of these non-bank financial organisations and allow for deposit-taking in the case of MFIs if they are prepared to move to a higher level of supervision and regulation. In addition the Banking Bill will repeal and update the current Banking Act.

This new legislation will strengthen the overall finance sector, and in some cases provide new opportunities for some financial institutions, notably deposit taking by MFIs. However, there is nothing in the new legislation that

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\(^{35}\) New Building Society subsequently converted into NBS Bank Ltd.

\(^{36}\) RBM will also be the Registrar of Financial Institutions
explicitly promotes housing finance, rather the legislation is there to enable the finance sector to remain stable, to become more competitive and potentially allow market driven innovation. It is market opportunities and pressures that will encourage finance firms to innovate and compete in the housing sector, not legislation or regulation. The barriers to more housing related finance have been the risks of medium and longer-term finance (economic volatility), and the existence of more attractive short-term opportunities for banks and non-bank finance institutions, notably returns on forex and Treasury Bills.

Housing Policy

Against a backdrop of rapid population growth and a high rate of urbanization, in 2007 the GoM drafted a National Housing Policy to tackle Malawi’s growing housing problems. Until this point the Ministry of Lands, Housing and Surveys were addressing the country’s growing challenge of delivering sufficient and appropriate quality housing without a co-ordinated approach to housing policy, procedures and guidelines. The only housing policy that existed before the 2007 draft was the Statement of Development Policy that focused on provision of housing for public servants and did not address the housing needs of the population more comprehensively. Besides the pressures caused by population growth and underlying poverty, housing policy-makers face a number of challenges in providing housing, particularly for the low-income population. Of note are the institutional challenges caused by the lack of policy governing the responsibilities of housing sector stakeholders and the lack of enabling mechanisms at their disposal in the provision of housing. The institutions involved in the provision of housing include, but are not limited to, the private sector, NGOs, local and national government, Traditional Authorities (TAs) and Malawi Housing Corporation (MHC) (a parastatal).

Whilst the new National Housing Policy has not been finalized, the document marks a major step-forward in laying out an institutional framework for efficient housing delivery. The cornerstones of the draft National Housing policy are six specific policy goals that together are intended to address the underlying issues limiting the provision of housing:

1. Access to Housing by all income groups;
2. Decentralized Approach;
3. Improving Urban Land Markets;
4. Improving Access to Finance;
5. Upgrading Informal Settlements; and
6. Improving Quality of Rural Settlements and Housing

This draft National Housing Policy has not yet been finalized since stakeholders involved in drafting the policy agreed that insufficient research had been conducted to understand the underlying nature of the housing problems. UN-Habitat is currently working with GoM to conduct a comprehensive shelter survey to map existing housing delivery mechanisms and make recommendations for improvements.

This draft Housing Policy complements a number of other Government policies which describe measures to improve housing provision and home ownership, some of these are described below:

1. The Malawi Growth and Development Strategy (MGDS) – launched in 2006, it is the overarching five-year strategy across all sectors to alleviate poverty. The MGDS specifically addresses the issue of housing development setting goals around secure tenure and equitable access to land and housing with a specific emphasis on increasing access to housing to low income and other vulnerable groups;
2. The Decentralization Policy - approved in 1996 it focuses on the decentralization of public services to district level government, including the development of low income housing;
3. Malawi National Land Policy – approved in 2002 describes how local government, local communities and the private sector should collaborate to meet demand for serviced plots across all income groups. For the lowest income groups, the policy specifically cites regularization of land tenure, development of new areas, provision of basic infrastructure and promotion of income generating activities as key housing policy interventions.

The implementation of these complementary policies has been mixed. Elements of the Land Policy have been implemented although some respondents interviewed gave feedback that the process of regularizing land was

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37 The UN-Habitat shelter survey will only be available after publication of this report
38 Some housing developers and banks provided this feedback
causing delays in finalising house purchases and mortgage agreements. The Decentralisation Policy was implemented a number of years ago, however District and City Assemblies are still young organisations and whilst they are responsible for developing and managing low income housing for their inhabitants, they lack sufficient resources and capacity.

Since the draft of the new National Housing Policy, the Ministry of Housing and Urban Development has now been separated as its own entity with its own budget which points to a growing commitment to housing but also suggests that housing was previously under prioritised. At the moment there are no direct subsidies or schemes funded by the GoM for lower income housing, however the Ministry indirectly provides support to lower income families by administering the revolving fund for the Government Home Ownership Scheme. This scheme provides low cost housing and financing for public sector workers. The Ministry of Housing performs a facilitator role in multiple low cost housing projects by collaborating with the Ministries of Lands and Local Government to pledge land at zero or low cost to NGOs to support further roll-out of their schemes. The Ministry is also encouraging private sector developers to invest in lower cost housing to help meet the needs described in the MDGS and they are continuing to support the collection of outstanding loans for a rural housing programme initially started in the 1980s.

Housing Regulation
There are a number of regulatory constraints in the housing sector caused by outdated planning and building standards, as well as constraints around land tenure security and land delivery. There are three legally recognized types of land tenure in Malawi: customary, private and public. The most common type of land is customary, but none of the formal lenders will extend finance on this type of land since it cannot be recovered in case of default. Registered private land accounts for only 8 per cent of the land area and is mostly confined to urban areas. Historically, land allocation was based on ability to pay or influence which has resulted in disproportionate access to land for the higher income groups and insufficient land for low-income households.

Existing planning legislation and land tenure processes are time-consuming, complex and costly for those seeking to acquire their own land and build their houses independently since they must pay for independent building inspections at multiple stages in the build process. Furthermore, the use of more cost effective, locally sourced materials is limited if buildings are to meet building regulations due to the inadequate research conducted to date on alternative building materials.

The impact of these regulatory factors is that many lower income households are trapped in poor quality accommodation located in informal and non-regularized urban settlements. Much of this is rented at relatively high rents (to income) and with no security of tenure. Typically a family may be evicted at a few days notice by a landlord, perhaps to make way for a tenant who will pay more.

Housing Finance
Housing finance in Malawi is highly underdeveloped especially for lower income borrowers and there are few informal mechanisms to fill the housing finance gap.

There are two main types of housing finance that are offered by the formal financial sector. These are:

1. **Mortgages** – housing finance to fund a house purchase or the construction of a house (mostly only completion) with a typical term of 10-20 years; and

2. **Home Improvement Loans** – housing finance used to enlarge or renovate existing houses or sometimes used to incrementally construct a house typically over a three-year term

The two key constraints to wider provision of housing finance are the requirement for collateral by formal institutions; and the affordable repayment level and period that limits the potential size of the loan.

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39 2008-09 GoM budget for housing is MK 1.9 billion, representing 0.16 per cent of GDP, which is spent on the maintenance, servicing and rentals of GoM’s office buildings.

40 Additional detail provided in the supply side chapter.
While supply within the formal housing finance market has been growing fast with at least two new entrants in the past couple of years and more expected to formally offer housing finance within the near future, housing microfinance is mostly under-developed with the exception of a handful of community-based and employer-based SACCOs. Besides these SACCOs and the two NGOs that provide shelter provision (Habitat for Humanity and CCODE), there are very few institutional sources of housing finance open to the lower, unbanked income group.

This raises the question, how do the 74 per cent of the population that are not using banks or other formal sources of finance such as SACCOs, or the 84 per cent who have a monthly income of less than MK 20,000 fund housing purchase, construction or improvement?

Based on anecdotal feedback from financial service providers, it seems that many Malawians use small business and personal loans to fund housing. When OIBM looked into why its business loans were not always translating into an increase in working capital in their SME client’s balance sheets, it found that some of those clients on their second or third loan cycle were using their businesses as collateral for securing loans for building or improving their homes. Similarly, the new payroll-lenders experienced a huge surge of demand for credit since commencing in 2006 and when IZWE investigated what these loans were being used for, housing loans were amongst the top reasons for borrowing, not just for the immediate borrower but also for the extended family who were benefiting from the borrower’s salary deducted at source. According to MUSCCO, Bvumbwe SACCO conducted similar research amongst their members and found that housing loans were the most in demand loan product that was yet to be offered by the SACCO.

Some innovative financial organisations have developed housing finance products as a loyalty scheme (e.g. OIBM). Other organisations are aware that personal loans are being used for housing finance but are yet to develop a specialised housing product to meet this demand, but continue to offer personal loans knowing they will be used for housing. However, none of the micro-lenders offer a housing microfinance product as a core part of their product portfolio with an extended repayment period compared to their normal loans. The constraints for MFIs are limited funding bases, short current repayment periods (max. 12 months) and lack of experience and expertise in developing housing finance products.

As a result of this lack of microfinance housing products, individuals use a combination of savings and diverting other types of loans to housing related needs. People build in stages, starting with bricks and cement, then iron sheets for the roof, windows and doors, followed by materials to finish the interior (electrics, plumbing etc). The purchase of construction items is likely to be highly cyclical since many households depend on crops for their annual income. Demand for construction materials and housing finance appears to peak after harvest (April-May), which coincides with the dry season and the period when most house building and improvements can more easily take place. There is also a peak prior to the commencement of rains, when those who are building have a last opportunity to buy bricks (which cannot be burnt in the wet season) and iron sheets to protect existing and partial completed buildings against the coming rains. This hypothesis, voiced by many stakeholders in the housing finance sector, is supported by the evidence of many part built houses!

Each of the lenders offering housing finance are discussed in more detail below.

Regulated lenders

**NBS Bank**, incorporating New Building Society, has the largest portfolio of mortgage clients and offers the widest range of housing finance products. These home loan products and accompanying interest rates are tailored to the purpose for the housing loan i.e. self-build, purchase for owner-occupation, purchase for rental, purchase as a commercial property.

NBS Bank’s eligibility criteria for mortgage loans have defined the standard across the banking industry and include the following requirements:

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41 Standard Bank and OIBM
42 As cited by a number of interviewees who only currently only offer housing finance on an ad hoc basis
1. 20 per cent cash deposit;
2. Title deeds or land certificate from District or City Assemblies (houses on customary land are not eligible);
3. Approval of building standards by quantity surveyor at four times throughout the build process for self-builds or evidence that building meets regulations if already built;
4. Independent valuation of the building;
5. Location of property is limited to the four cities and certain areas of the lakeshore;
6. Minimum of six months’ banking history with the bank;
7. Three months of pay slips confirming income is sufficient for loan amount requested;
8. Letter from employer to confirm the applicant is in regular employment;
9. ID in the form of a passport or driving license;
10. Sale agreement between the buyer and seller;
11. Tax clearance certificate for the property from the MRA; and
12. Comprehensive insurance cover for the property.

The criteria essentially test the strength of the house as collateral and the affordability of the house to be purchased by the applicant. Only NBS Bank formally offers housing finance to individuals who are building their own property, without requiring a second property to be used as collateral. However, in the case of finance for self-build housing, NBS Bank will only provide finance for the top structure and will use the land as security. Therefore borrowers must still find alternative sources of finance to fund the land purchase and the ground-level structure themselves.

In contrast, housing improvement loans are disbursed in a similar way to personal loans with the existing house as collateral. Eligibility criteria are less stringent, with the exception that the applicant must provide credible quotations for the work to be carried out before the loan can be approved.

In terms of affordability, formal lenders offer loans at within the same range of interest rates, from 19 to 24 percent, which is prime to prime plus 4-5 percent. The exact interest rate applied will vary according to the risk assessment of the client. All of the mortgages are variable interest rate linked to the bank’s prime rate. Processing and valuation fees apply in all cases.

One of the few differences between the loans offered by commercial banks is the loan repayment period. Whilst Standard Bank are late entrants compared to National Bank and NBS Bank, they have introduced the only 20 year mortgage product to the market that could potentially allow more people to afford housing, albeit at the higher end of the market since the minimum house value they will finance is MK 5 million ($ 35,500).

While some banks have already committed to the mortgage market, others have provided mortgages in the past only in response to specific customer requests, rather than as a result of proactive marketing. Following on from the success of the early entrants and strong demand for housing finance from customers over the past few years, Indebank, Ecobank and MSB have indicated that they are considering launching their own mortgage and/or home improvement products in the near future. Feedback from the banking industry is that this increase in competition is unlikely to drive the cost of housing finance down. However banks are more likely to compete on eligibility criteria and loan characteristics, such as repayment term. In light of indications from the developers that demand could start to decrease for high cost housing, the demand for housing finance may also decrease.

In a quest for mortgage market share, several banks are also pursuing group mortgage schemes through third parties. Some of these are set up with property developers whereby the bank funds the initial construction of the housing and then the mortgage is transferred to the individual who purchases the property. Such schemes are in the very early stages of development. In addition, the banks are targeting employer home ownership schemes where the banks extend mortgages to eligible employees and then deduct mortgage repayments from salary, sometimes topped up by employer contributions. An example is the government employee fund described in more detail below, currently being considered for transfer to and management by one of the banks, which would be offered to eligible employees on properties (sourced by the employee) that meet the bank’s criteria.
**Access to housing finance in Africa: Exploring the issues (No. 8)**

**OIBM** are the only regulated financial institution that offers a distinctly different housing finance product, which stems from their roots as a micro-finance institution. In an attempt to reward loyal SME loan customers, it has started to offer lower cost three-year home improvement loans to customers with a proven-track record of repayment without requiring any form of collateral. OIBM designed this scheme in 2008 in response to a client survey that showed many of their clients were using their business’ working capital to finance home improvement projects. Of the 18,000 customers that were eligible for the home improvement loan, 900 (5 per cent) have taken up the offer so far.

There is widespread consensus among banks about the constraints to broadening access to finance to the lower income population. The key barriers to delivering more affordable and accessible housing finance were described as follows:-

1. The lengthy, complex and expensive land registration process slows down the establishment and transfer of title deeds thereby severely restricting the number and type of houses that banks will accept as collateral. It also slows the speed of disbursing housing finance;
2. The lack of confidence in recovering loans through the legal system when customers default on their housing loans has caused banks to tighten their eligibility criteria and be very cautious in lending;
3. The current funding base for most banks means that none extend mortgage loans for longer than 10-15 years, with the exception of Standard Bank; and
4. High RBM bank rates in the past kept lenders’ interest rates high.

Other exacerbating factors quoted by some banks include the limited transparency of customers’ credit history, lack of a savings culture and the lack of affordable housing stock that can be lent against.

**Non-Bank Lenders**

Out of the 66 SACCOs affiliated to MUSCCO, covering more than 85,000 members, only two currently offer specific housing loans: the community-based Bvumbwe SACCO and the employee-based SACCO at the Sunbird Hotel chain. Bvumbwe is reported to have seen high default rates on its loans. Besides these SACCOs, a small number of teacher’s circles have material loans where construction materials such as iron sheets are procured on the member’s behalf. The cost of the SACCO loans is similar to those offered by the formal banking sector.

Although SACCOs could potentially reach large numbers of people with similar housing and material loans, there are major challenges to extending housing loans to other SACCOs caused by the lack of liquidity and the type of collateral that SACCOs can request to protect their capital base in the case of default. In terms of liquidity, SACCOs can only use their own members’ savings funds to finance housing loans to their members, however very few have sufficient funds available to fund many housing loans (typically from MK 100,000 up to MK 1 million).

In the past MUSCCO has topped up housing loan funds (MK 10 million in total disbursed for housing). In 1997, MUSCCO offered a credit guarantee fund for SACCOs with insufficient liquidity. MUSCCO’s fund of MK 30 million was exhausted within 3 months and it is widely believed that the majority of this money was disbursed by SACCOs for housing, though this could not be verified. This experience suggests that there is substantial demand from SACCOs to extend housing and/or material loans.

Also operating in the non-bank financial sector, pay-roll lenders such as Blue Financial Services and IZWE are marketing personal loans for use as housing finance. Blue in particular is offering loans at 28 percent (all costs included) for a wide range of uses including home improvement projects. The big advantage of borrowing from a payroll lender is the fast approval and that collateral is not needed.

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47 Collateral at Bvumbwe was originally the property but is now the savings share since most of the houses are built on customary land that cannot be legally repossessed.
48 SACCOs had to guarantee 20 percent of the loan and repayment within 24 months
49 This additional fund was not replenished after the initial MK 30 million
None of the MFIs offer specific housing finance schemes or credit for building materials, although several MFIs believe that funding is siphoned from business loans. There were no instances identified where construction material suppliers were extending credit to customers to finance their house building or home improvement.

**NGO Lenders**

Both Habitat for Humanity (HFH) and CCODE offer loans to community members to reimburse the construction of their homes. Neither organisation requests collateral but rely instead on pre-existing savings groups and social collateral within the community to ensure the loans are repaid.

HFH recover the cost of materials provided by converting the total building cost of each house into an equivalent number of bags of cement, which the owner then repays by physically replenishing them or by reimbursing the money when the monthly instalments are due. The repayments of this Cement Index system are then returned into a Revolving Fund to allow more houses to be built. In addition to the housing construction loans, HFH introduced home improvement loans in 2002 with the objective of serving low-income rural families with small loans that would follow seasonal income patterns. These home improvement loans are disbursed to owner-occupied households and are also repaid by converting the loans into bags of cement (maximum loan is 40 bags) or iron sheets (maximum loan is 500 feet) repaid within three and four years respectively.

One problem with using cement as a form of repayment is that its price in Malawi has increased considerably in recent years. Imports are banned and this allows domestic producers to keep prices high, even when world prices have been falling as in the last 12 months. Cement is also an industry where anti-competitive behaviour has been proven in several countries. Overall, cement price may not be based on supply and demand only, which may mean that buyers pay more than if they had taken more conventional finance. Using cement as the index, allows the providers of the materials to buy a similar amount of material and so replenish their ‘revolving’ fund.

Loan collectors for each affiliate are tasked with collecting repayments, with repayment rates of 82 per cent have been reported (slightly higher in urban areas). This default rate is reportedly partly due to high price inflation of cement in recent years that has caused loan repayment amounts to be much higher than originally expected by borrowers. As a result of these challenges, HFH is looking to partner with an MFI or other financial organisation that could work alongside HFH to manage the funding cycles, leveraging specialist expertise in managing revolving funds and improving repayment rates. A partner organisation has yet to be identified.

The disbursements managed by CCODE from the Mchenga Fund are charged at 12 per cent interest per year and repaid over 8 years into a revolving fund, which is used for ongoing maintenance and the construction of additional housing. This rate of interest is barely in line with current inflation and would not cover the cost of managing the fund, or replacing loan losses, or cost of recovering late payments. CCODE also offers home improvement loans at a more realistic 24 per cent interest to members who have already constructed their homes. The major challenges for CCODE in scaling up its reach to new developments are the size of the Mchenga fund, the depletion of the fund by inflation and the fairly low repayment rates. To address the latter, CCODE is providing technical assistance to the federations in the form of best practice MFI processes to improve management of revolving funds at the community level. In addition, the federations have moved from individual-based loans to community-guaranteed loans and now allow individuals to select their own repayment schemes to fit individual circumstances to improve repayment rates.

In order to address the more difficult challenge of liquidity, CCODE is actively engaged with the GoM and UN-Habitat to develop a solution where a domestic commercial bank would manage the revolving fund, possibly with subsidized interest rates and/or credit guarantees provided by UN-Habitat. The exact details of this scheme are yet to be worked through however this could mark a significant step forward in the provision of housing finance for lower income families in Malawi.

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50 As reported in the Manda report, 2007
51 It is not known whether people are not repaying their loans or just repaying a lower amount.
52 SDI report # 109 on the exchange between Malawi Homeless People’s Federation and GoM on World Habitat Day, October 2007.
53 MSB has been shortlisted as the most likely organisation to manage the fund.
Government Lending

The original Government Home Ownership Scheme, administered by New Building Society, was originally introduced to finance the purchase of houses from MHC by public servants. Building or buying houses privately is also possible on this scheme. Recipients repay at 6.5 per cent interest over 20 years, or at 10 per cent if the property is rented out, which represents a considerable subsidy compared to market interest rates and inflation. There were various challenges with the scheme in its original form, principally due to high repayment defaults and abuse of the scheme by some senior staff in buying more than one house, which left many public servants on the waiting list. The scheme also gave a huge subsidy when inflation was high and even currently when inflation is at a relative low point (around 10 per cent). The new scheme has now been brought under the management of the Ministry of Housing who approve individuals’ applications. More than MK 16 million has been disbursed since 1998 to more than 3,500 people. The Ministry wants to re-capitalize the fund to provide housing to the 6,000 civil servants still on the waiting list.

The Rural Housing Programme that was rolled out in the 1980s and withdrawn in the mid 1990s is still being repaid by rural homeowners although one of the key reasons why the Fund collapsed was that many recipients considered the loan a grant rather than a loan. The loans were charged at 8 per cent interest to be paid within a maximum of 15 years. The Fund was not sustainable at that rate of interest, as the operational costs of the scheme exceeded the loan income.

In summary, the overall picture of housing finance by income group can be summarized in the bubble chart below which shows that formal and informal financial products have not been the main source of funding for housing, rather it has been government and NGOs that have served the largest number of clients. The size of the bubble in this chart represents the number of clients by formal lender or the number of individuals that have accessed housing finance from one of the other organisations or GoM bodies.

Overview of housing finance landscape by income group and cost of finance

![Bubble chart showing housing finance landscape]

In summary:
- Formal and informal financial products have not been the main source of funding for housing.
- Government and NGOs have served the largest number of clients.

Sources: Face-to-face interviews and FinScope data

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54 It is not known how GoM manages or funds the difference between this interest rate and prime interestrates.
55 Due to deaths, resignations and transfers making follow up difficult (according to Manda).
56 Standard Bank and are provisionally shortlisted to take over management of the fund.
**Overview of home finance products available from financial institutions**

<table>
<thead>
<tr>
<th>Housing Finance Provider</th>
<th>Eligibility Criteria</th>
<th>Eligible Products</th>
<th>Max. Loan Amount (MK)</th>
<th>Repayment Term (Years)</th>
<th>Repayment Costs</th>
<th>Repayment Options</th>
<th>Loan Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>NBS (started 1964)</td>
<td></td>
<td></td>
<td>100,000</td>
<td>Max. 35% of gross income</td>
<td>Low</td>
<td>10</td>
<td>Mortgages</td>
</tr>
<tr>
<td>Standard Bank</td>
<td></td>
<td></td>
<td>200,000</td>
<td>Max. 35% of net pay</td>
<td>Low</td>
<td>10</td>
<td>Mortgages, Commercial</td>
</tr>
<tr>
<td>National Bank (started March '04)</td>
<td></td>
<td></td>
<td>250,000</td>
<td>Max. 35% of net income</td>
<td>Low</td>
<td>10</td>
<td>Mortgages</td>
</tr>
<tr>
<td>OIBM (started '08)</td>
<td></td>
<td></td>
<td>500,000</td>
<td>Max. 40% of income</td>
<td>Low</td>
<td>10</td>
<td>Mortgages</td>
</tr>
<tr>
<td>EcoBank (started '08)</td>
<td></td>
<td></td>
<td>1,000,000</td>
<td>Max. 40% of income</td>
<td>Low</td>
<td>10</td>
<td>Mortgages</td>
</tr>
<tr>
<td>LFC/FMB</td>
<td></td>
<td></td>
<td>500,000</td>
<td>Max. 40% of income</td>
<td>Low</td>
<td>10</td>
<td>Mortgages</td>
</tr>
<tr>
<td>Bvumbwe SACCOs (started '04)</td>
<td></td>
<td></td>
<td>500,000</td>
<td>Max. 40% of income</td>
<td>Low</td>
<td>10</td>
<td>Mortgages</td>
</tr>
</tbody>
</table>

For brevity, M = mortgages (does not include home construction or land purchases), HIL will be used to represent Home Improvement Loans.
Housing Market Dynamics

Housing Supply

Formal housing supply by developers delivers only 20 per cent of housing in the market; the remainder is delivered through informal mechanisms, mainly self-build, house sales between individuals and the rental market.

Aside from informal mechanisms, three distinct providers deliver housing, each geared to different income levels with limited overlap:

1. Private developers (high income and medium to low density),
2. The Malawi Housing Corporation (MHC), which is a parastatal (medium to low income and medium to high density) and
3. NGOs – (low income and high density)

The only areas of overlap are between the medium and high-density housing provided by the private developers and a small number of low and medium density houses available for sitting tenants to buy that are owned and managed by the MHC. With the exception of the NGOs, there are few housing schemes delivering truly affordable housing and the NGO schemes are delivering insufficient quantities of housing compared to demand. As a result, the housing stock for lower income groups to buy tends to be poor quality, unregistered and therefore not eligible for mortgage finance. In an attempt to offer an alternative to meet demand, the GoM through the MHC, provides serviced plots of land to lower income groups for purchase and self-build as an alternative mechanism to meet demand.

With the exception of a small number of NGO housing projects and the rural housing programme rolled out in the 1980s by the GoM, housing providers have built mainly in urban or peri-urban areas, focusing on Lilongwe and Blantyre and to a lesser extent in Mzuzu and Zomba. MHC is the only formal housing provider that operates in other districts.

In the sections below, the focus is predominantly on the supply of houses for sale. However the lack of supply and the difficulties of securing financing for house purchases, mean that the main option for many people in urban areas is to live in rented accommodation. In recent years, rented accommodation in urban areas has seen strong demand as witnessed by private developers who continue to build townhouses and flats for rent, as well as poor quality township housing. The rental housing stock affordable to the lower income population tends to be of poor quality and in limited quantity with the exception of the MHC housing stock, which is available on a rent-to-buy basis to sitting tenants (explored in more detail below). Landlords have the upper hand in the lower income rental market since tenants have few rental alternatives and little prospect of house purchasing or construction.

The providers of housing ranging from high cost to low cost are described below.

Private Developers

Private developers have been the main source of new housing other than individuals building their own homes. The key private developers are all Malawian-owned and have almost exclusively focused on Lilongwe and Blantyre, building mostly low-density houses for middle to high-income earners. A description of each of these private developers is provided below along with their housing portfolios. In recent years, the housing sector has been profitable for private developers following strong property price growth, however residential property has been less lucrative than the commercial property market which has been booming particularly in Lilongwe stimulated by the shift of GoM offices from Blantyre post 2004. The high demand for commercial property has exacerbated the limited supply of housing, because some existing ‘houses’ have been converted to office reducing the high-end housing stock.

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61 At least 10-15 percent price increase in Blantyre and 15-25 percent in Lilongwe.
Due to the high demand for housing and to increase their capital for new developments, developers have sold off much of their existing rental properties and they are now developing new sites for sale either as finished houses or as serviced plots for individuals to self-build. These serviced plots have been medium-density up until now but increasingly they are offering higher-density plots within new schemes.

Private developers are delivering houses for sale from MK 8-15 million ($57,000-107,000), which is estimated to be affordable to less than 1 per cent of the population. Recent attempts by private developers to provide lower income housing, such as MPICO’s Nyumba Yanu project, are reported to have been largely unsuccessful due to the difficulty in delivering lower cost housing using permanent materials, the high cost of finance for the developers and the challenges individuals face in securing loans from financial institutions.

All of the property developers interviewed realize that the demand for lower cost housing is high and that to deliver maximum returns from their new developments, they need to provide a range of housing options. The lowest cost option offered by private developers is high-density serviced plots next to lower density plots for sale rather than lower cost houses themselves. This is a relatively recent move and success depends on individuals self-financing the build up to first floor level since no mortgage providers offer funding for self-builds without another building as collateral.

 Whilst demand for medium and low-density housing has been strong in Lilongwe and Blantyre in the last 2-3 years, private developers are expecting a slow down in demand, citing lack of and cost of housing finance available to borrowers as one of many causes. Many high-income earners have already bought or built their primary residency properties. As a result the number of recent high-end developments for sale has slowed down and properties are rented out in the interim in response to the high demand for rental properties. Middle income-earners in full-time employment generally have insufficient salaries to afford private developer-delivered houses currently on the market, even those provided by MPICO’s Nyumba Yanu project, and there are insufficient MHC houses to meet this segment’s demand.

Press Properties is a subsidiary of the Press Corporation. Press Properties has delivered housing through large developments in Blantyre and to a lesser extent in Lilongwe. Its current portfolio is characterized by low-density houses for rent, medium density houses for sale (MK 10.5-12 million - $75,000-86,000) and a range of serviced plots for sale from MK 950,000 to MK 6 million ($6,800-43,000. Having sold off much of their rental portfolio in recent years, Press Properties’ latest development is a large project in Blantyre called Chipima Heights. Phase I is nearing completion and will deliver 580 serviced high to low density plots plus 30 low density houses. The focus on plots rather than houses reflects the current high demand for demarcated serviced plots with title deeds.

Besides raising money from the sale of its rental portfolio and small levels of rental income, Press Properties has financed housing developments by borrowing money from domestic banks such as NBS Bank and NBM.

Malawi Property Investment Company (MPICO) is a subsidiary of the assurance and asset management company Old Mutual and became a separately public-listed company on the Malawi Stock Exchange in 2007. MPICO is quoted as the largest property owning company in the country, but now focuses on commercial property rather than residential property having sold off much of its portfolio in the 1980s, as a result of high maintenance costs and low rentals. MPICO now has less than 15 residential properties for rent in Lilongwe and Blantyre.

Of interest is MPICO’s last residential development in 2007 where it piloted a lower cost housing scheme called Nyumba Yanu (‘Our House’) based in Limbe. The objective was to deliver 34 lower cost houses priced at MK 3.5 million targeting middle-income earners in response to the demand for more affordable housing. Unfortunately these houses were not sufficiently low cost for the targeted middle-income earners to afford and

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62 Interviews with MPICO.
63 Under government ownership during the pre 1994 single party era, Press used to control many parts of the economy. Press is still part government owned through Press Trust to which Government appoints trustees. However, it is now listed on the Stock Exchange and in practice operates as a private sector company.
64 Including access to water, electricity and roads.
65 NBM is also owned by Press Corporation.
66 Three bedroom houses equipped with geysers.
commercial banks were not willing to offer this group large enough loans or long enough repayment periods. MPICO were also counting on this employed group qualifying for housing allowances from their employers that can be up to 40 percent of salary. However due to the low base salaries, their houses were still unaffordable to many and those that could afford them did not want to live in a high density development. The problem was exacerbated by high financing costs and administrative delays of up to six months in transferring title to the new buyers. As a result many of the houses were left unsold, and MPICO took longer to pay their commercial loan resulting in a loss on the development. This experience contributed to the decision to pull out of the residential property market with the exception of a small number of existing high-end rental properties and the remaining Nyumba Yanu houses that are still for sale.

MPICO still see an unmet need to supply low cost housing to this target market for a price of MK 1-1.5 million however construction materials and specifications would need to be downgraded and it would be difficult for private property developers to achieve attractive financial returns with the current cost of finance.

**Pacific** is involved in residential and commercial property building and ownership. It is a relatively new entrant to the market, but has one of the largest residential property portfolios for rent in Blantyre and Lilongwe and has ambitious plans to introduce up to 1,000 more houses by 2010. Besides residential properties it also has substantial commercial and hotel assets. Pacific has been self financed until recently, which has reduced some cost pressures that affect other private developers, however it is now turning to the domestic finance market for the first time.

**Manobec** a well-established commercial and residential property developer with a portfolio of high-end flats predominantly rental, was not available for interview.

**Malawi Housing Corporation**

Malawi Housing Corporation (MHC) was formed by an Act of Parliament in 1964 to construct houses for sale or rent to individuals and to provide serviced land to developers for them to build their own housing. MHC is a parastatal reporting directly to the GoM. MHC currently has over 6,000 housing units located in districts across the country with major centres of operation in Blantyre, Lilongwe, Mzuzu and Zomba. MHC offers the widest range of housing options with rents from MK1,500 per month for a 1-roomed bedsit to MK 43,000 per month for a low density house.

MHC is allocated land from the Ministry of Lands for new developments and offers serviced plots for sale to part-fund housing construction costs. Sitting tenants can purchase their rented properties and once they qualify they must pay a 10 per cent down payment in cash in order to obtain a title deed. This title deed allows them to apply for a housing loan from the commercial banks that they need to secure within six months to finalize the purchase. MHC reports that sitting tenants often face challenges in securing loans.

In principal, MHC are only entitled to sell around 100 houses in each year, however in the 1990s MHC’s housing stock was substantially depleted in a bid to raise capital for new building projects. There is now an extreme shortage of supply of MHC housing and a reported 100,000 people waiting across the country. In order to address the shortage of units and make best use of their vacant land, MHC plans to construct at least 4,200 new houses and develop 5,800 plots by 2012 across the country including 17 student halls of residence. Some of this new housing stock will be provided for government workers, such as the police (823 houses) and the army, at rental of approximately MK20,000 per month. Even if this level of building is achieved, it will only meet 10% of MHC’s waiting list.

Whilst MHC has been allocated large tranches of land for new developments, its ability to provide housing to meet the demands of all those on the waiting list is constrained by lack of finance to fund construction of both the houses and provision of infrastructure to the land. To deliver its strategic plan, MHC is considering leveraging international as well as domestic credit markets – this would carry an exchange rate risk, which is

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67 Employee housing schemes are more prevalent in the public sector than private sector, except at senior management level, where private sector tends to rent or provide housing.

68 Family-backed entrepreneurs.

69 To qualify applicants must reach the top of the waiting list, be a sitting tenant and have sufficient income earnings.

70 As stated in the Malawi Housing Corporation’s Strategic Plan, 2007-2012.
likely to be very high and in the current climate of tightening international finance, would seem to be a difficult option to pursue. MHC is also reviewing options for financing from shelter organisations such as Shelter Afrique. All of these options would involve credit at commercial rates pushing up the cost of construction of what is in principal meant to be low-cost housing – international finance would be very risky at current exchange rates.

MHC is hampered by its ageing portfolio of rental properties in need of frequent maintenance and subject to government-controlled rents, often at below the cost of servicing. This combination of factors has meant that MHC has struggled to be financially sustainable and has delivered relatively few new housing units.

Non-Governmental Organisations

As previously mentioned, there are only two large-scale NGOs in Malawi targeting provision of shelter to low-income families as their primary objective.

**Habitat for Humanity** (HFH) was established in 1986 in Malawi and has since built around 7,000 houses in urban and rural areas of which approximately 3,500 have been paid off. HFH delivers housing by obtaining land through local government pledges\(^71\) and providing part-funding to deliver basic infrastructure, in collaboration with other NGOs and government bodies. The site is developed by mobilizing community groups called “affiliates”\(^72\) consisting of prospective homeowners who take ownership for the development and allocate the plots. HFH provide the technical expertise and project management. These community groups guarantee to repay loans back to HFH in the form of building materials and provide volunteer labour, referred to as “sweat equity” to construct the houses. HFH has developed a “Building-in-Stages” approach (BIS), which costs $1,583 (MK 220,000) for a basic 2-bedroomed house. This approach allows low-income families to build in an incremental way once their initial loan is repaid and leverages low cost, locally-sourced materials for the basic housing structure which comply with government regulations. The land tenure is held by the community group instead of by each individual to prevent individuals from selling on a property for a profit.

HFH is forecasting to build at least 400 houses across three urban sites (200 in Lilongwe, 100 in Mzuzu\(^73\), 100 in Blantyre) over the next three years. However HFH is constrained in supplying housing by both access to land pledged by local government and the size of the revolving fund needed to finance construction and demarcation of plots.

**CCODE**\(^74\) is the umbrella organisation for the Malawi Homeless People’s Federations across the country. CCODE works with Shack Dwellers International (SDI) and other shelter organisations\(^75\) to support community-based federations involved in savings schemes to mobilize their funds to develop low cost community housing schemes. The savings schemes were initially intended to fund various income generating activities. Building on this fund, individuals from each Federation then started to contribute MK 50 / week to a separate housing fund (called the Mchenga Fund) to which other donor money and funding was added. Local Federations can withdraw from this fund to construct housing for their community once their groups’ savings are sufficient. Since the first housing scheme in Lilongwe was successfully implemented in 2005, more than 600 houses have been built in Lilongwe, Blantyre and Mzuzu, and a further 600 houses are planned in Blantyre (500 houses) and Kasungu (100). Other Federations have also started saving in Zomba and will be able to access the Mchenga fund once they have accumulated sufficient\(^76\) funds, conditional on land being pledged to the Federation by local government.

These houses are built using innovative, affordable and locally available materials, ranging in build cost from MK 150,000 for a 2-bed house to MK 250,000\(^77\) for a 3-bed house. The Federations themselves apply to the local government to obtain an allocation of land\(^78\) and the land tenure is held by the Federation instead of by the

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71 At zero cost or below commercial rates.
72 Currently there are seven across the country in Embangweni, Mpherembe, Mzuzu, Kavukura, Bumbunyika (in the north), Lilongwe and South Lunzu.
73 300 plots pledged in Mzuzu by local government.
74 Established in 2003.
75 Such as Homeless International.
76 Exact level of funding required before building not ascertained in interviews.
77 Based on estimates provided by Angelogover Federation in Blantyre built in 2006.
78 A single title deed is given to the community to prevent the plots being sold separately.
individuals – this prevents individuals from profiting from sale of houses. CCODE then fund the demarcation of the plots and the houses are built using community voluntary labour, some specialist local contractors and technical expertise provided by CCODE. These developments are located in peri-urban areas and have been seen as an effective mechanism for reducing the pressure on existing overcrowded townships and informal settlements.

Both NGOs cite the high cost of available funding, low repayment rates on outstanding home loans, insufficient funds mobilized by the community through saving schemes and the high cost of infrastructure as the key limiting factors to increasing the supply of low cost housing.

The high cost and difficulty in accessing finance is hindering all of the housing developers including MHC by pushing up the cost of working capital for housing developments, exacerbating the cost of lower cost housing in particular. The difficulty for homeowners to secure finance also slows down the sell-on of newly built properties, which delays the release of capital to developers for the next housing project. The NGOs expressed similar concerns over access and to some extent the cost of working capital albeit they are accessing donor sources of finance.

Other exacerbating factors in the supply of housing is the cost and backlog in the provision of infrastructure as well as the cost of building materials. In recent years, the cost of building materials, most notably iron sheets and cement, have risen by more than 200 per cent and despite global prices having eased, this has yet to translate into lower costs in Malawi probably due to lack of competition, high transport prices, currency fluctuations. Infrastructure costs are cited as a significant burden to all of the housing providers. In particular several private developers quote the provision of access roads, electricity, sanitation and water to a new piece of land as the most significant cost for a new building development. Even at the lower end of the market, where government and other infrastructure providers are tasked with providing the infrastructure, the lengthy application process and backlog in existing work results in infrastructure either being inadequate, being installed after the houses have been built or ending up being significantly more expensive than originally planned.

Other Governmental Housing Delivery Mechanisms

The Rural Housing Programme was established jointly between GoM and the UNCDF and provided training in low cost building technologies and material loans to 1,022 families in rural areas. The houses cost MK 100,000 and are widely reported to be of sound quality and longer life than houses built using traditional methods. Unfortunately, the programme collapsed in the 1990s due to high default rates.

Traditional Housing Authorities (THAs) are serviced plots of land developed in the 1960s in response to rural migration to the urban areas. The THAs were originally managed by MHC with donor funding, but were handed to City Assemblies after decentralization. They have proved to be an effective way for local governments to deliver housing plots to low-income groups who can then build houses of their choice on the land. The drawback to the THA scheme is the lack of funding at local governments’ disposal to service new plots and the rapid urbanization of these plots that has led in some cases to over-crowding and the creation of informal settlements.

Private Self Build

Despite the involvement of private sector, GoM and NGOs, private individuals deliver the majority of housing either through building their own house or buying one from another individual. Self-building is the obvious option available to those who cannot borrow to buy a houses built by private developers, who are not one of the few who have secured MHC housing or who are not part of one of the relatively small-scale NGO schemes. Self-building takes longer since there is a need to demarcate, acquire and register the land, obtain building permission prior to construction and also involve local government-approved inspectors at each step of the building process to ensure that the building meets building regulations. These administrative steps must be

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79 Quoted by all of the private developers interviewed and MHC
80 Electricity, water and roads are provided by mostly parastatal / GoM bodies
81 Information extracted from Manda report on “Housing Finance for low income communities in Southern Africa: The Case of Malawi”
followed if the owner wants the property to be properly registered for future sale or to be used as collateral at a later date.

Self-building is a lower cost option than purchasing a house from a private developer and this option could deliver a house from as little as MK 70,000 (basic rural dwelling excluding any regulatory procedures) for a two roomed house of burnt bricks and iron sheet roof excluding land costs. The house cost can be further reduced by making the construction materials (mud bricks), instead of buying burnt bricks, however this undermines the build quality. Another key cost element is iron sheets. Using thatch is inexpensive, but requires regular replacement compared to iron sheets.

The obvious challenge for self-builders is having to self-fund the land purchase (if not their own land) and construction costs, either borrowing through informal mechanisms or typically from the sale proceeds of crops or other cash income whenever it is available. This usually results in building incrementally over several years. As discussed in the previous section, only one mortgage provider will fund house construction and it requires another house as collateral; all other mortgage providers only fund when the top structure is in place.

### Housing Demand

The Integrated Household Survey 2004 (IHS) shows that 86 per cent of rural Malawians live in their own homes with the balance living in rented, employer provided or authorized free accommodation. In the urban areas over half of the people rent with just over 40% being owner occupiers.

#### Distribution of housing tenure by urban and rural households

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner occupied</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Being purchased</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer provided</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free, authorized</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Free, not authorized</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rented</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Integrated Household Survey, 2004 (NSO)

This desire for home-ownership among the group of renters is supported by feedback from formal lenders who claim that there is an overall trend towards western-style asset ownership. Despite this, FinScope Malawi showed that few owner-occupiers see their house as an asset (less than 30 per cent), as a form of collateral (11 per cent) or as a stepping-stone to acquiring a larger property (8 per cent). FinScope Malawi also found that fewer than 30 per cent of people had plans to enlarge their property. There is a degree of immobility in the market.

It is difficult to quantify the demand for the different types of housing since official housing backlog figures are out of date. There is only indirect evidence to paint a picture of the current demand for housing. For high-income earners (above MK 8 million) ($57,000), demand can be estimated based on the affordability of these houses. To purchase a house using housing finance at current market rates (22 per cent/year) with 15-year repayment based on the loan not exceeding 35 per cent of net income, a buyer would need to have a minimum monthly income of at least MK 116,200 ($830). Based on the FinScope Malawi reported income data, less than one per cent of the population falls into this category. Feedback from private developers suggests demand in

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82 From feedback in interviews with banks
83 Instead 80 per cent of people cited that they would never sell their property and 70 per cent said that they would never move from their homes and would stay there until they die.
this sector continues to be fairly strong, although some predict this might drop off slightly as an increasing proportion of high earners become homeowners.

For middle-income earners (MK 20,000-50,000/month - $140-360), few of the properties provided by the private developers are affordable, which explains MPICO’s challenge in their recent high-density housing project. Sitting tenants in this income bracket would be able to afford an MHC property, but the waiting list of over 100,000 for MHC’s properties indicates the strength of demand and the limited likelihood of getting a property. The alternative for this income group is to purchase a house privately, however few mortgage providers are willing to provide finance for properties with values less than MK 5 million. Since these middle income earners are not eligible and do not desire to live in the low cost housing schemes provided by the NGOs, the main option open to these people is to self-build their homes self-financed up until roof level.

Lower-income earners (< MK 20,000/month - $140) that have not been able to rent an MHC home at MK1,500 per month have only two options. Either they are fortunate enough to join a scheme such as those provided by the NGOs or they must self-build. Those earning less than MK 10,000/month ($70) have little prospect other than to rent, if they are not housed by their employers. They face a life of poor housing and insecurity as they can expect to be forced to move regularly.

**Affordability of different housing providers’ houses**

<table>
<thead>
<tr>
<th>Housing Provider</th>
<th>Typical House Price&lt;sup&gt;65&lt;/sup&gt;</th>
<th>% of population&lt;sup&gt;67&lt;/sup&gt;</th>
<th>MK 5,000 or less</th>
<th>MK 5,000-10,000</th>
<th>MK 10,000-15,000</th>
<th>MK 15,000-20,000</th>
<th>MK 20,000-25,000</th>
<th>MK 25,000-50,000</th>
<th>MK 50,000-100,000</th>
<th>More than MK 100,000</th>
<th>Rate of delivery&lt;sup&gt;66&lt;/sup&gt; (new houses per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Developers</td>
<td>MK 10 million (3/4 bed)</td>
<td>58%</td>
<td>16%</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>~900</td>
<td></td>
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<tr>
<td>MPICO Nyumba Yanu</td>
<td>MK 3.5 million (3 bed)</td>
<td>58%</td>
<td>16%</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>~34 (one-off in 2007)</td>
<td></td>
</tr>
<tr>
<td>MHC&lt;sup&gt;58&lt;/sup&gt;</td>
<td>MK 5,000 per month (3/4 bed)</td>
<td>58%</td>
<td>16%</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>800-1,000 rent, 100 sale, 1,000-1,200 plots for sale</td>
<td></td>
</tr>
<tr>
<td>Habitat For Humanity</td>
<td>MK 230,000 (2 bed)</td>
<td>58%</td>
<td>16%</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>~130</td>
<td></td>
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<tr>
<td>CCODE&lt;sup&gt;59&lt;/sup&gt;</td>
<td>MK 150,000 (2 bed)</td>
<td>58%</td>
<td>16%</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>~200</td>
<td></td>
</tr>
<tr>
<td>Self-build – rural house excl land</td>
<td>MK 70,000 (2 bed)</td>
<td>58%</td>
<td>16%</td>
<td>7%</td>
<td>4%</td>
<td>3%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
<td>Unknown</td>
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</table>

**Source:** Multiple including FinScope Malawi and interviews

In summary there are three clear segments of the population who each have very different housing demands and housing finance needs:

1. Middle to high-income earners who buy land and self-build or buy finished houses within planned, regularised urban locations. These typically qualify for mortgages or will save and build incrementally until they have a mortgage-able structure.

2. The lower middle and low-income earners living in urban areas who rent accommodation in high density unplanned settlements or who secure a plot of land (often not regularised) and build incrementally over a period of time. These individuals require unsecured housing loans since their land tenure is unlikely to be

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<sup>54</sup> Less than 0.5 per cent of the population earning less than MK 20,000 per month have been housed using this scheme assuming two income earners per household.

<sup>55</sup> Based on average prices, average loan repayment periods and applicable interest rates

<sup>56</sup> Based on interviews with private developers, NGOs and MHC – a combination of historical data and future data was used and pro-rata figures were calculated as necessary

<sup>57</sup> Based on FinScope, remaining 6 per cent of population did not know/refused to respond

<sup>58</sup> No sale price information was provided by MHC for this project, therefore the typical monthly rental was used as a proxy of affordability

<sup>59</sup> CCODE Blantyre costs at Angelogover development from 2006, does not include infrastructure costs or land costs
regularised or access to smaller-sized loans (home improvement loans) to build their homes over a period of time.

3. The low-income earners or subsistence farmers in rural areas on customary land who also build incrementally based on their seasonal income flow. These need access to material loans since their housing needs are more basic and they will need to build incrementally in line with their seasonal income flows.

Future challenges for access to housing finance

In order to support the overall aim of this short study which is to provide research in the promotion of innovative housing finance mechanisms to "enhance access to housing finance for the poor", the challenges described below focus on the lower income households. However, many of these challenges apply to middle and high income households and if the housing market is to function effectively at the lower end, housing providers and financiers need an economically sustainable mix of customers to balance their portfolios.

The key challenges fall into two broad interdependent areas:

1. There is an insufficient number of affordable, good quality housing against which finance can be secured. In particular there is a bottleneck of affordable housing for the very low-income group (less than MK 5,000) living in rural areas and for those who do not qualify for bank loans but have a regular income.

2. The unbanked population has insufficient access to housing-related loans.

Both of these broad constraints need to be addressed in order to improve access to housing finance and enable lower income groups to use this finance to secure affordable housing.

Challenges With Provision Of Affordable Housing

The challenges with provision of affordable housing are:

1. There is a shortage of lower cost housing being delivered by private developers. Lower cost housing is available is through the housing schemes for civil servants (MHC) and the HFH and CCODE housing schemes. None of the private developers with expertise of delivering large housing schemes have shown interest in providing low cost housing, with the exception of MPICO, which found that it was not viable to serve.

2. There has been insufficient research into lower cost construction methods - just scaling down low density housing specifications does not deliver housing in an affordable price bracket. The technical experience from the rural housing programme, as well as the know-how from shelter NGOs needs to be harnessed and shared so that the technology can be shared with a wider group.

3. Land, demarcation and plot registration, and infrastructure provision costs are relatively high with long delays - these increase the cost of low-cost housing and subsequently the ability to secure financing. Potential solutions could include that land allocated to MHC which has not been developed due to lack of funds could be pledged to other organisations at marginal costs. Otherwise the providers of these services need to improve their efficiency and speed of delivery.

4. Only two NGOs provide shelter for the lower income groups, which is insufficient to meet demand. These mechanisms for housing delivery are labour intensive and difficult to scale up quickly since they require the management of a revolving fund, as well as rolling out technical building expertise to communities. NGOs also face the challenge of sustaining their revolving funds with relatively high default rates and below market rates interest rates (CCODE).

5. While customary land tenure issues have long been recognized, there is an ever more urgent need for weak land tenure to be addressed in urban areas to enable loans to be raised and property to be transferred. If urban land tenure is not addressed, finance will continue to be inaccessible for most potential buyers.

6. Over 85% Malawians still live in rural area but there is almost no delivery mechanism for housing in rural areas with the exception of limited involvement from HFH. Land title in rural areas is not a major challenge
so provision of housing should be more possible. The housing supply constraint could potentially be addressed by introducing innovative local building methods and/or incremental housing micro-loans that have proved so successful elsewhere.

7. The **cost of finance is prohibitive to private developers and other housing providers**, such as the MHC who fund their operations from the commercial market who then struggle to deliver affordable housing for the low income market.

### Challenges With Provision Of Housing Finance

The challenges with providing affordable and accessible finance are:

1. The main challenge is the **limited capital base of potential lenders**, part of which is due to MFI’s inability to take savings, but also other difficulties in raising wholesale funds. Lending for housing is usually over much longer terms than traditional MFI and bank lending, even if just for materials for self build or improvement. It therefore requires a stronger capital base than most MFIs have.

2. There is a **lack of housing microfinance providers** with only two SACCOs offering housing loans and one bank (OIBM) that offers home improvement loans, as part of their loyalty scheme, but not as part of its core portfolio. Since the unbanked population is relatively high (81%), housing micro-financers are the only formal providers capable of extending housing finance to a wider audience. However, before receiving investment, micro-lenders would need to build their product design and delivery expertise and experience.

3. The **requirement for collateral is prohibitive** for most Malawians either because they do not have a house at all or their existing dwelling is on customary land that is not accepted as collateral. Some, non-collateralised housing loans have been offered but have a poor repayment history. More innovation is required by lenders to overcome this, such as group guarantees, or development partner guarantees.

4. Formal lenders’ **other eligibility criteria are also prohibitive** and rule out many potential applicants e.g. deduction from salary, geographical limitations of houses that will be financed, requirement for an ID, formal employment etc. The difficulty in enforcing loans in the legal system encourages strict criteria.

5. **Non-traditional forms of credit are not available**, such as material credit from suppliers

6. The **high seasonality of income for rural households** will be a key challenge in providing housing finance since there will be a surge in demand at key times of the year and higher risk of defaults during “lean” months. This seasonality is challenging for financial providers to manage but could be linked to other seasonal repayment schedules.

7. **Whilst interest rates are relatively high**, research in the MFI sector shows that access to finance rather than cost is usually more important to lower income groups. Interest rates for individuals are certainly an exacerbating factor which when added to the short loan periods that make many mortgages unaffordable.

FinScope Malawi showed that very few borrowers were accessing loans for housing (less than 4 percent). Of those that said they borrow for housing (63 out of 1,048 that were borrowing), their preferred source was an MFI (33 percent), a friend or family member (18 percent) or a bank/ overdraft facility (17 percent). Since less than 1 per cent of the population qualify for formal mortgages and MFIs do not offer home loans, these individuals are using the only sources of funding that available to them.

### Recommendations

Each of the recommendations for Development Partner Engagement and Housing Finance Sector Stakeholders below address one or more of the challenges outlined in the previous section. Some or all of these recommendations may already be being addressed by one of the numerous key stakeholders such as UN-Habitat, the Ministry of Housing, NGOs (CCODE and HFH) and financial organisations who are operating in the Malawi housing sector.

1. **Urgently undertake research into the housing market, covering housing needs and supply, covering rural and urban areas to establish the housing stock and state, ownership/rental situation and patterns of dwelling improvement, building and sale.**
2. Encourage private sector developers to (re-)enter the high density, lower cost end of the residential housing market by considering pledging low or zero cost land and support in the provision of infrastructure.

3. Support collaboration between past and present housing providers in Malawi and internationally to research and develop lower cost construction methods and reduce building regulations requirements for low cost housing to improve the supply and affordability of housing for poorer households.

4. Identify mechanisms for increasing forecasted provision of housing by NGOs to try to close gap between demand and supply, particularly for the low-income urban population.

5. Encourage collaboration between infrastructure NGOs e.g. WaterAid and shelter providers to provide more efficient, lower cost access to services in a more timely way.

6. Work with utility providers (ESCOM and Water Boards) and road providers (City) to improve the speed of provision of services to serviced plots.

7. Seek improvements by local government and land registry to improve the efficiency of the land/title registration process.

8. Encourage collaboration between NGOs and MFIs so each operates within their core capability of shelter provision or management of revolving funds and credit schemes respectively. MFIs need support to develop appropriate housing products and to access capital or guarantees for longer term lending. These could include smaller incremental products e.g. iron sheet credit schemes.

9. Research innovative methods for other forms of ‘collateral’ to financial organisations such as insurance products, loyalty schemes linking access to business loan repayment performance and group guarantees.

10. Identify whether organisations operating in rural and agricultural communities can start to offer small, seasonal home improvement loans linked with seasonal income and annual housing maintenance.

11. Research existing mechanisms of informal finance and housing provision in rural areas to formulate a more comprehensive strategy for closing the current gap in housing and finance provision.

12. Identify key lessons and best practice from existing SACCO housing loan provision, to determine potential for roll out and best practice.

13. Encourage employer-supported employee housing schemes by further researching how they operate and determining best practice in these.

14. Continue to lobby Government and Parliament to prioritise and pass relevant Financial Sector Bills that will strengthen the finance sector and encourage its competitiveness, such as the Financial Services, the Financial Co-operatives and Microfinance Bills.

**Annex 1 Persons Consulted**

<table>
<thead>
<tr>
<th>Organisation and Website</th>
<th>Name</th>
<th>Position</th>
<th>Contact phone number</th>
<th>Email Address</th>
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<tr>
<td>NBS Bank <a href="http://www.nbsmw.com">www.nbsmw.com</a></td>
<td>Rose Kanyandula</td>
<td>Mortgage Manager</td>
<td>01831775</td>
<td><a href="mailto:rkanyandula@nbs.mw.com">rkanyandula@nbs.mw.com</a></td>
</tr>
<tr>
<td>Malawi Savings Bank <a href="http://www.msb.mw">www.msb.mw</a></td>
<td>Kayisi Sadala</td>
<td>Head of Corporate Banking</td>
<td>01825111</td>
<td><a href="mailto:sadalak@msb.mw">sadalak@msb.mw</a></td>
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<tr>
<td>Ecobank <a href="http://www.ecobank.com">www.ecobank.com</a></td>
<td>Akin Adebayo</td>
<td>Head of Retail Banking</td>
<td>01822808</td>
<td><a href="mailto:aadebayo@ecobank.com">aadebayo@ecobank.com</a></td>
</tr>
<tr>
<td>OIBM</td>
<td>Steve Mgwadira</td>
<td>Head of Credit</td>
<td>01758888</td>
<td><a href="mailto:smgwadira@oibm.mw">smgwadira@oibm.mw</a></td>
</tr>
</tbody>
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90 Face-to-face interviews unless otherwise stated.
Annex 2 References

1. Business Guest Article (Sept 2008), “Interview with Malawi Housing Corporation’s Assistant General Manager Floyd Mondiwa” The Daily Times newspaper (Sept 10 2008)
4. Chikhwenda, E. J. W (Unknown), “Sustainability of shelter provision in Malawi’s Urban Centres: The case of Blantyre City”.
25. Torkelson, Erin (October 2007) SDI report # 109 on the exchange between Malawi Homeless People’s Federation and GoM on World Habitat Day .