FINMARK TRUST

MAKING FINANCIAL MARKETS WORK FOR THE POOR

ACCESS TO HOUSING FINANCE IN AFRICA: EXPLORING THE ISSUES

No. 5

NAMIBIA

ACCESS to housing finance in Africa

Overview of the housing finance sector in Namibia, 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.[1] 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 build on the impact of FinScope™ by promoting and supporting change processes across the continent.[2]

FinMark Trust's Housing Finance theme area[3] 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 fifth 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 and Uganda; a study on Mozambique's housing finance sector has also been published). 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.

Country Profile: Namibia[4]

- **Population:** 2 million (UN 2005)
- **Capital:** Windhoek
- **Area:** 824 292 sq km (318 261 sq miles)
- **Major language:** English (official), Afrikaans, German, Oshivambo, Herero, Nama
- **Major religions:** Christianity
- **Monetary unit:** 1 Namibian dollar = 100 cents
- **Main exports:** Diamonds, copper gold, zinc, lead, uranium, livestock
- **GNI per capita:** US $2,370 (World Bank 2005)

[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.

Exploring housing finance in NAMIBIA

At Namibia's independence in 1990 the country was faced with a biased pattern of human settlement as a result of apartheid policies followed by the colonial government (Itewa, 2002). Urban human settlements were segregated with migrant labour residing in all-male overcrowded hostels. The majority of the population resided in the rural areas and lacked physical infrastructure and decent housing. To address the situation increasing access to housing was identified as one of the critical areas necessary to achieve integrated development in the country.

Based on the importance of housing as one of the identified priorities in achieving integrated development in Namibia, housing finance has a strong policy and regulatory basis in Namibia. The national policies explicitly recognize differences in the upper and middle-income versus the lower segments of the market and advocate provision of housing finance to the lower income segments of the population. The policies recognize that both the public and private sector have a role to play in the effective provision of housing finance. However, they envision that the provision of housing finance will be based on a market-based approach with public financing supplementing private sector shortfalls and catalyzing private financing in segments of the housing market that are perceived as high risk.

This report provides an overview of the housing finance sector in Namibia, including i) a summary of the Namibian economy; ii) the policy and regulatory framework underpinning housing finance in the country; iii) housing supply and demand; and iv) the players in the housing finance sector.

Key findings from the study

- It is estimated that the housing backlog currently stands at 61,710 houses, with the vast majority lying amongst the lower income groups, which account for about 87% of the population. National household survey data suggest that there is a gap in housing provision in the N$4,601 – N$10,500 (US$ 657 – US$ 1,500[5]) income category, which accounts for 7.2% of the population.
- In terms of housing demand 76% of Namibian households, who mostly reside in rural areas, own the properties they live in. Most households (38% – 72%) finance their housing through own savings. It can be argued that this is due to inadequate access to finance. Although, a mere 3% of the households who have approached a housing finance service provider have been refused a loan in the past year, 47% of these households are un-banked and are therefore excluded from other forms of housing finance beyond their own savings. This low banking sector participation continues to hamper the delivery of housing finance.
- According to FinScope™ survey data, housing is still viewed as a consumable by 58% of the households as apposed to a tradable asset. This limits the housing resale market.
- Mortgages are the largest single part of banks' loan portfolios accounting for 43% of their total portfolio, where mortgages to individuals are a dominant portion of this. Commercial Banks and the National Housing Enterprise (NHE) finance the middle to high-income households. The NHE also finances the lower to middle income households together with the Shack Dwellers Federation, Build Together Program and to a limited extent the Clay House Project.
- 90% of the current market for mortgage loans in 2004 was in urban areas with a mean age of 46 years for the household head. A further 5% of Namibian households are estimated to be eligible for mortgage finance but have not yet taken up the facility. Availability of appropriate housing stock for this market segments is, however, lacking in Namibia. Even though these individuals qualify for housing loans from commercial banks and the NHE, there is simply no housing stock in their price range. Households who have housing affordability but who are ineligible for mortgage finance as it is currently structured comprise approximately 23% of the household population
- The relatively old age of the households heads in the current market and market enablement zones suggests that individuals live with family, friends and relatives until they have saved up enough money to buy their own homes, which is mostly from their own savings.

[5] Throughout this paper the assumption will be that that US$1 = N$ 7, which was the exchange rate in September, 2007

Key recommendations

Inadequate housing delivery rates and a lack of readily available data are the main challenges facing the housing sector. To confront these challenges key interventions that can be pursued include:

- Electronic filing of deeds records: Namibia has a housing problem but more detailed information on the extent of the problem and the specific price bracket is not readily available.
- Design: there is a need for attractive and affordable low-cost housing designs that can reduce the barrier created by unaffordable housing stock in the N$ 4,501 to N$ 10,500 (US$ 657 – US$ 1,500) range. Initiatives such as the Clay House Project and Shack Dwellers Federation are currently making strides in developing affordable housing below N$50,000 per unit. The success of these initiatives indicates that the country does have models to deliver affordable housing. The challenge going forward is increasing the delivery rate to meet the demand.
- Development finance: “Affordable” housing in Namibia is no longer affordable. Initiatives to address this challenge are unable to meet the demand due to a lack of bulk financing.
- Fixed interest rates: With increasing inflation, the development of a fixed rate of interest for a period longer than 24 months, across qualifying income groups should be explored. This would make the product more attractive and reduce interest rate risks for the lower income earners.
- Certification standards for valuators and estate agents: to ensure that the housing market represents real as opposed to artificial market signals: This will ensure that houses are appropriately priced in the market.

Namene Kalili, Jonathan Adongo and Taylor Larson of the Namibian Economic Policy Research Unit (Nepru), prepared this report in late 2007 and 2008. The report is largely based on a desk review of existing sources as well as interviews with key respondents.

The intent of this document is to provide a general overview of Namibia’s housing finance sector with a particular emphasis on how it functions with respect to the needs of low income earners. The report is neither definitive nor exhaustive – but rather a basis for engaging in further discussion regarding the housing finance sector in Namibia. Comments, challenges and perspectives are welcome. These should be directed to the FinMark Trust’s Housing Finance Theme Champion, Kecia Rust, by email to Kecia@iafrica.com, or on +27-83-785-4964.

Acronyms and Abbreviations

BON	Bank of Namibia	IMF	International Monetary Fund
BTP	Build Together Programme	NBIC	National Building and Investment Corporation
CBO	Community-Based Organisations	NDP	National Development Plan
CBS	Central Bureau of Statistics	NHAG	Namibia Housing Action Group
CHDG	Community Housing Development Group	NHE	Namibia Housing Enterprise
CHP	Clay House Project	NHP	National Housing Policy
GC	Government Coupon	SACU	Southern Africa Customs Union
GDP	Gross Domestic Product	SDFN	Shack Dwellers' Federation of Namibia
GNI	Gross National Income	T-bills	Treasury Bills

Overview of Namibia's macro-economy

Namibia is a large country of approximately 824,269 km^2. It is located in Southern Africa, bordered on the north by Angola, on the east by Botswana and on the south by South Africa. The country has 13 regions. There are two major urban areas, namely the capital city, Windhoek located inland in the central region some 350 km from the coast; and the centre of the fishing industry, Walvis Bay, located on the skeleton coast some 30 km south of the small coastal resort of Swakopmund (World Bank, 2002).

Namibia is a lower middle-income country and has enjoyed 18 years of independence and political stability. The country has a sound macro economic environment with moderate economic growth that is expected to continue due to the regional commodity boom arising from demand for natural resources. Interest rates have been rather volatile over the past decade peaking at 24% in 2000, bottoming out at 12.25 in 2006 and increasing since then to 15.25% in April 2008. This increase has been in response to rising inflation. Over the period inflation in the housing sector has outgrown real income growth for most households.

Economic Growth

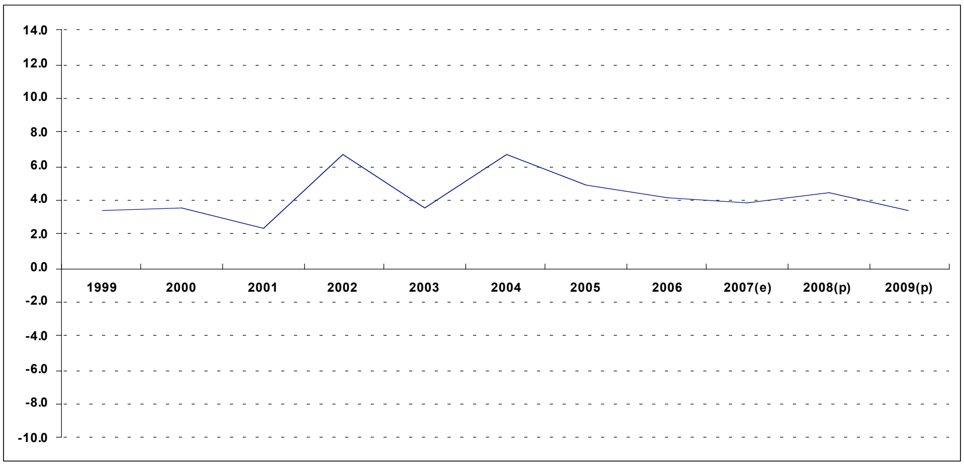
The Tertiary sector consists of service industries. It is the largest, accounting for 52% of Gross Domestic Product (GDP). Although 18% of this is Government, suggesting the large role played by the public sector in economic activity, there is evidence that suggests that government's contribution to GDP is declining. This is evident in the modest budget deficit. In 18 years of independence, the government has accumulated debt equivalent to 31% of GDP, of which 83% is domestic debt, which is not affected by exchange rate fluctuations. The Tertiary sector employs 55% of the labour force, of which government employs 20% (Republic of Namibia: Labour Force Survey 2004).

The Secondary sector consists of manufacturing and processing industries and the utility sector. It remains relatively small, contributing 18% to GDP and consists mainly of Meat and Fish processing. The Secondary Sector has been the engine for economic growth from 1996 to 2006, driven by growth in the Construction and Food and Beverage Manufacturing. The secondary sector employs 13% of the labour force (Republic of Namibia: Labour Force Survey 2004). However, in the utility sector Namibia has experienced periodic power shortages and this situation threatens to become worse as South Africa's power utility ESKOM is expected to continue reducing and eventually end its export of electricity to Namibia and other Southern African countries because of increased demand at home (Eita & Osterkamp, forthcoming).

The Primary Sector consists of natural resource industries, including agriculture and mining (mainly diamonds). The global commodity boom has resulted in rising demand for minerals and precious stones and has resulted in new mines opening. The result is that the moderate growth in the sector has been driven by mining and quarrying, while agricultural sub-sector has performed poorly because of droughts. Growth in the Fishing sub-sector has shown a negative trend. The primary sector employs 32% of the labour force (Republic of Namibian: Labour Force Survey 2004).

The figure below illustrates that real GDP growth in 2007 is estimated at 3.8 per cent compared with 4.1 per cent in 2006 partly due to the poor performance of diamond and other mining activities. Economic growth is expected to accelerate to 4.4 per cent in 2008 as offshore diamond production increases and mineral production, such as uranium, expands. An anticipated decline in diamond production in 2009 is mainly behind the expected drop of economic growth to 3.3 per cent (Eita & Osterkamp, forthcoming)

Real GDP Growth in Namibia



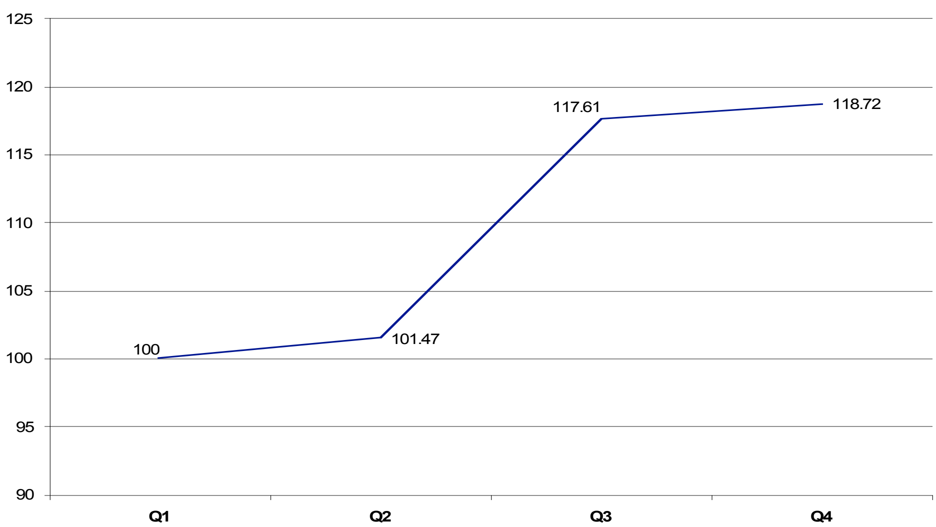
Source: IMF's World Economic Outlook 2007, Bank of Namibia and Model forecast in Eita & Ossterkamp (forthcoming)

Housing Prices

Housing accounts for 21% of the national consumption basket and as such is the second largest household expenditure item in the country after food and beverages. It is a rather broad category and includes utilities i.e. water and energy. With December 2001 as the base year, housing prices shot up to 12.6 basis points by January 2006 and to 131 basis points by December 2007. Based on Consumer Price index, complied by the National Planning Commission, housing inflation outpaced overall inflation until February 2006. Since then overall inflation has increased faster that housing inflation. [6]

First National Bank compiles quarterly house price indices, based on their valuation of property offered for sale and to be financed by them. In 2006, housing prices in Namibia increased sharply, by 18.72%.

Quarterly housing valuation trends for various towns in 2006



Source: Shimuafeni (2006)

With rising housing prices, demand for housing finance is expected to fall. This is already evident in the urban housing market where the average time it takes to sell a house has increased substantially (Oliver, 2007). In addition, the Bank of Namibia (BON), the central bank, warns that "…the pace at which residential property prices are increasing in Windhoek is a source of concern to them and policy makers…" (Bank of Namibia, 2007).

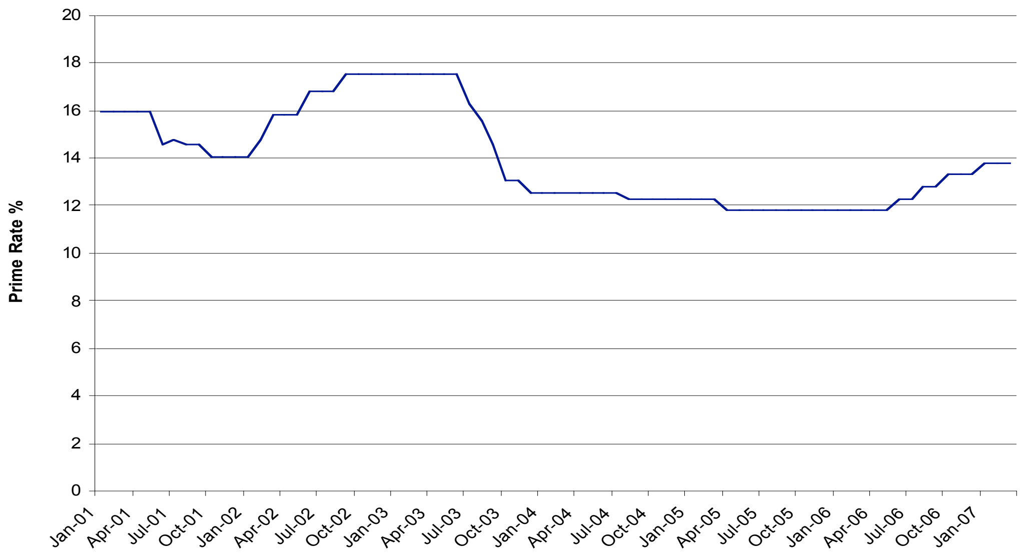
[6] These figures differ from the FNB index, since they are weighted and include rural households as well.

Increasing house prices and the rapid rise in interest rates between 2006 and 2007 represent a real constraint to finance in the urban housing market in Namibia. They negatively affect household demand for housing loans, the ability of housing loan applicants to satisfy the affordability criterion applied by banks and the ability of households to qualify for loans that would have allowed them to purchase their desired houses even a year ago.

Interest Rates

The figure below illustrates that from 2003 the prime rate in Namibia, which is the rate at which commercial banks lend to their most credit-worthy borrowers, has been relatively low.[7] However, since June 2006, in line with its inflation targeting principle and adherence to a common monetary policy with its other Common Monetary Area members, the BON has increased the bank rate, which is the rate at which commercial banks borrow from it, 6 times by 50 basis points each time from 7.5% to 10.5% (The Namibian, 2007). After six increases, homeowners now pay an additional N$286 per month per N$100,000 borrowed.[8] This has led to the BON to raise its concerns regarding the rising interest rate and its potential effect of raising property prices which could increase default rates (Bank of Namibia, 2007).

Prime interest rate in Namibia



Source: Bank of Namibia (2004 & 2007)

Budget

Namibia recorded her first budget surplus since independence in 1990 during the 2006/07 fiscal year equivalent to 1.9 per cent of GDP. The fiscal year 2007/08 is expected to yield another surplus of about 0.3 per cent of GDP. The budget surplus expected in 2007/08 is partly attributed to further increases in revenue from the Southern African Customs Union (SACU) Common Revenue Pool and improved domestic tax collection. The additional income is used to reduce debts as well as to increase expenditures (Eita & Osterkamp, forthcoming) Deficits are projected to be 0.7 per cent and 1 per cent in 2008/09 and 2009/10, respectively, slightly lower than the deficits of 1.1 per cent of GDP for both years projected in the Medium Term Expenditure Framework. The deterioration in the deficit from a small surplus in 2007/08 can be mainly attributed to the decline in SACU receipts following the expected phasing in of SACU free trade agreements with third parties in 2008 (Eita & Osterkamp, forthcoming)

The government raises capital in the financial market by issuing treasury bills (t-bills) and bonds respectively. The effective yield for the 91-day t-bill was 9.8% at the end of the 2007, rising from 8.45% in June 2007. The effective yield for the 182-day t-bill also rose to 10.10% at the end of 2007 from 8.41% in June 2007. This increase is attributed to the rise in interest rates (BON, 2007b and BON, 2008). The yield for the GC08, GC10,

[7] The spread between the bank rate and prime rate remains relatively high at 4.75% compared to 3.5% in South Africa. Therefore banks in South Africa offer lower prime lending rates even though they have a higher bank (repo) rate.

[8] Existing homeowners pay an average of N$35.75 for every 50 basis point increase.

GC12 (10.5%) and GC24 (10.5%) government bonds also rose at the end of 2007. The increase in these yields is also attributed to a rise in interest rates during the fourth quarter (BON, 2008).[9] Fitch ratings agency has given Namibia an investment grade sovereign rating of BBB-. This allows the government to raise capital on international debt markets.

Balance of Payments

Namibia generated her first trade surplus of N$ 642 million, equivalent to 1.4 per cent of GDP, resulting in an increase of the current account as a percentage of GDP from 7 per cent in 2005 to 17 per cent in 2006. However, during the first half of 2007 imports grew more than exports resulting in a trade deficit of N$ 550 million. The export performance was mainly influenced by a decline in diamond production (Eita & Osterkamp, forthcoming).

The trade balance as a percentage of GDP is forecast to exhibit a deficit of 4 and 6 per cent in the years 2008 and 2009, respectively. A lower net inflow of current transfers not fully offset by an increase in tourism earnings contributed to a current account surplus of 13.4 per cent in 2007, down from 16.6 per cent in 2006. The current account surplus is projected to fall further, to 7.0 and 3.8 per cent of GDP in 2008 and 2009, respectively. The expected decline in the current account surplus for the next two years is due to a shrinking SACU common revenue pool because of trade liberalisation beginning in 2008 (Eita & Osterkamp, forthcoming)
The international foreign exchange reserves increased significantly. This resulted in international reserve stock of more than N$ 6 billion, which represents 13.5 weeks of import cover. It hence exceeds the international benchmark of 12 weeks import cover for the first time since independence, indicating a positive outlook for the Namibian economy.

Exchange Rates

The Namibian dollar (N$) is linked on a one to one basis with the South African Rand. The currency depreciated against major currencies in 2007. Despite a slight appreciation at the end of 2007 it continued to depreciate in 2008. In addition, to global economic weakness and the fallout from the credit crunch in the United States housing market, the BON argues that the widening South African deficit on the current account has resulted in a reversal of capital flow which has put downward pressure on the rand and by default the N$ (BON, 2007). The risk of currency depreciation is expected to persist.

Namibia's policy and regulatory framework

The policy and regulatory environment are important in shaping the institutional environment. This section will outline the policies and regulations that govern housing finance in Namibia, which are summarized the table below.

POLICY & REGULATION	EFFECT ON HOUSING FINANCE	COMMENT
POLICIES		
Vision 2030	Revolving housing credit funds	The funds were to be operational in all local and regional authorities by 2005
NDP 2[a]	• Capitalization of credit funds through reinvestment for the upper and middle income market; • Continuation of housing finance programs for the low and lowest income groups; • Utilisation of pension funds for housing purposes	It is envisioned that the provision of housing finance will be co-ordinated by the public sector with continued encouragement of partnerships with the private sector
National Housing Policy of 1991[b]	• The establishment of intermediary organisations such as savings and credit societies to pool the resources of the lowest income groups; • Provide access to housing finance for the homeless; • Provide financing to housing developers; • Create a secondary mortgage market facility	- Advocates a market-based approach in all interventions in the housing finance market even if temporary non-market based interventions are necessary in the short-term; - Advocates community participation at all levels of the housing finance delivery process
REGULATIONS		
National Housing Development Act of 2000	Housing Revolving Funds; National Housing Advisory Committee; Decentralized Build Together Committees	-

[9] No bonds have been issued since March 2007

POLICY & REGULATION	EFFECT ON HOUSING FINANCE	COMMENT
Local Authorities Act 23 of 1992	Financing housing schemes; Housing funds; Providing ancillary land and housing delivery services	This allows local authorities to engage in housing finance delivery
Namibia Housing Enterprises Act	This governs the operations of the Namibia Housing Enterprise	This allows the Namibia Housing Enterprise to develop and finance low cost housing
Banking Institutions Act of 1997	This governs the operations of commercial banks	-
Co-operative Act	This governs the operations of co-operative microfinance institutions	-
Friendly Societies Act of 1956	This governs the operations of non-governmental organizations that operate microfinance schemes	-
Usury Act of 1965	Micro-credit interest rate ceiling	This could constrain the provision of housing finance to the low-income segment
Pension Fund Act	Enables accumulated pension benefits to be used as collateral	This allows housing finance providers to overcome the barrier of untitled land
Deeds Registries Act 47 of 1937 & Registration of Deeds in Rehoboth Act 93 of 1976	This governs the operations of the deeds office	Governs all matters relating to the registration of immovable and movable property, which includes housing
Agricultural (Commercial) Land Reform Act 6 of 1995	Land reform advisory commission	Governs the acquisition of agricultural land by government for the purposes of land reform and redistribution
Communal Land Reform Act	Land Reform Advisory Commission; Land rights including leasehold rights;	Provides the legal basis of the allocation of rights to communal land and leasehold rights in rural areas
Flexible Land Tenure Act	Permission to Occupy (PTO) Certificates by local authorities	Governs the registration of untitled land in the deeds office, which allows the provision of housing finance to communal, urban areas.

Note: [a] NDP 3 was yet to be launched at the writing of this paper; [b] the updated National Housing Policy is currently in draft form

Policy

At Namibia's independence in 1990, increased access to housing was identified as one of the critical areas necessary to achieve integrated development in the country. This resulted in housing finance at the policy level being articulated in Vision 2030, the National Development Plans, the National Housing Policy and the Access to Land and Housing Policy.

Vision 2030 articulates the long-term plan for Namibia. All other plans and policies in the country are targeted towards achieving this vision. Under the objectives of poverty reduction and promoting a healthy human environment, access to adequate housing with water and sanitation facilities are identified as goals to be achieved by 2030 (Vision, 2030, p. 59 and p. 105). This was to be achieved by putting in place operational, revolving, credit funds with all local and regional authorities by 2005 (Vision 2030, p. 107).

The importance of housing is also recognised in each of the five–year National Development Plans (NDPs).[10] NDP 2, which was undertaken from 2001 to 2005, identified housing as one of its four priority areas for integrated development.[11] NDP 3 was presented in stakeholder workshops in 2007; it is anticipated that it will be implemented as official government policy in 2008.

In terms of housing finance, NDP 2 recognises the difference between the upper and middle and the low-income segments of the housing market. Its objectives for the low-income market included ensuring that access to credit is facilitated through the Build Together Program (BTP) and continuation of the support programme for low income groups by the Shack Dwellers' Federation of Namibia (SDFN) and the utilisation of pension funds for housing purposes. NDP3 will focus on increasing low cost housing by strengthening the National Housing Enterprise (NHE) but is silent on the BTP.

The National Housing Policy (NHP) aims to make resources available and to direct their use into the production of infrastructure and facilities so that every Namibian will have access to acceptable shelter, in a suitable location, at a cost and standard that is affordable to the individual and to the country.

[10] Following a transitional national development plan that ran from 1992 to 1995, NDP 1 ran from 1996 to 2000, NDP 2 from 2001 to 2005 and NDP 3 will follow this for another five years.
[11] Education, health and agriculture are the others (NDP 2).

The NHP also recognises the needs of the low-income segment of the housing market. To meet the needs of the lowest income people (including recognised welfare groups) who cannot afford to participate in established formal housing delivery programs, the policy advocates the establishment and use of intermediary organisations such as savings and credit societies aiming to pool the resources of the lowest income groups. For the homeless, the policy states that the primary responsibility of government is to provide them with access to those aspects of housing delivery that are beyond the means of individuals to acquire for themselves including access to loan finance. The NHP advocates that public funds will be supplementary and used to improve and stimulate private sector finance system, especially through the mobilisation and local deployment of private savings.

In terms of subsidies such as guarantees, the NHP's objective is to minimize market distortions and to allow the market to fulfil its resource allocation function freely. Options identified to achieve this include allowing for a market related return on more administratively costly, smaller loans by phasing out subsidised interest rates in respect of all existing public sector housing loans; reducing administrative costs and creating a secondary mortgage market facility.

Some studies argue that the NHP is too prescriptive and affects efforts to provide land to lower income urban settlements (World Bank, 2002).

In 2000, the City of Windhoek, the capital city's municipality, formulated an Access to Land and Housing Policy.[12] This policy was designed to address the increase in informal settlements as a result of the pressures or increased rural urban migration (growth) as well as the upgrading of existing settlements, both formal and informal (backlog). It forms the basis for the City of Windhoek's ongoing initiatives to provide land tenure on serviced plots of up to 300m² and housing to the low-income population residing in informal settlements in the city's peri-urban areas.

Even with this policy, access to serviced land within municipal areas continues to be a problem, so much so, that the City of Windhoek did not offer any serviced land for auction in 2006 (BoN 2007, P20). In addition, the cost of the serviced land is high. This constrains the provision of affordable housing finance to the low-income peri-urban population.

Regulation

Regulations that affect housing financing in Namibia include the National Housing Development Act, Local Authorities Act, Namibia Housing Enterprise Act, Banking Institutions' Act, Co-operatives Act, Friendly Societies Act, Pension Fund Act, Usury Act and the Flexible Land Tenure Act.

The National Housing Development Act was implemented 5 March 2001. It replaced the Native Housing Levy and Contributions Ordinance 22 of 1961 and the Housing Ordinance of the Administration of Coloureds 4 of 1983. Section 8:1 of this Act creates the legal basis for the establishment of housing revolving funds by regional and local authorities to be used for low-cost housing. The objectives and purposes of Housing Revolving Funds are outlined In Section 9 of the Act. This regulation also forms the legal basis for the National Housing Advisory and the Decentralized BTP Committees. The National Housing Advisory Committee advises the Minister of Regional and Local Government and Housing on any aspect of national housing, including the formulation and implementation of specific policies and programmes … (section 5, a).

Decentralized BTP Committees, which are in each region, find their legal basis in Section 26 of the National Housing Development Act. These committees consist of five to ten members, who are elected by inhabitants of the geographical area where the committee is established, and are appointed by the Minister in writing (Section 27). The functions of the Decentralized BTP Committee in a geographical area include informing the inhabitants about the existence, objectives and purposes of the Housing Revolving Fund; receiving applications for assistance; and processing applications.

The Local Authorities' Act forms the legal basis for local authority operations in housing finance. Local Authorities consist of Village and Town Councils, Municipalities and one City Council. They render support in two major ways.

[12] The policy is guided by the Istanbul Declaration of 1996

First, they make affordable serviced land available to beneficiaries. Second, they give technical advice to self-builders and set houses out according to approved building plans.

In addition, local authorities are the driving force behind the BTP through local implementation committees, called Community Housing Development Groups (CHDGs). The CHDG negotiates for affordable land. They also provide Incremental Development Areas under the BTP. These are designated areas where building and planning regulations are relaxed, until the community can afford to build according to code.

The Usury Act limits micro-credit interest rates in Namibia. The usury ceiling is twice the prime rate for microfinance institutions registered with the Namibia Financial Institutions' Supervisory Authority (NAMFISA) and 1.6 times the prime rate for those not registered with NAMFISA. While the usury rate is higher than the prime rate it may still prevent profitable lending where high borrower risk profiles are prevalent e.g. in the low-income segment and result in credit rationing in that target group.[13]

Section 19 and 37 of the Pension Funds Act provide the legal basis through which active retirement fund members can use accumulated member benefits as collateral for housing loans.

The Flexible Land Tenure Act allows the registration of untitled land in the deeds office. This creates a market for housing in communal areas and hence promotes the provision of housing finance even in those areas.

Based on the importance of housing as one of the identified priorities in achieving integrated development in Namibia, housing finance has a strong policy and regulatory basis in Namibia. It is articulated in both long and medium term national policies. The national policies also explicitly recognize differences in the upper and middle-income versus the lower segments of the market and advocate provision of housing finance to the lower income segments of the population.

The policies recognize that both the public and private sector have a role to play in the effective provision of housing finance. However, they envision that the provision of housing finance will be based on a market-based approach with public financing supplementing private sector shortfalls and catalyzing private financing in segments of the housing market that they may perceive as high risk.

Employment and household incomes

Namibia has a small population of approximately 1.8 million or 0.5 people per km^2. Partly due to abundant rainfall, the majority of Namibia's population reside in the northern region (former homelands). Underlying this climatic explanation is that Namibia's skewed settlement pattern was due to restriction of movement imposed on the people by the previous apartheid policy pursued by the colonial government. The majority of the people were restricted to small settlement areas designated according to ethnic tribes as communal land. The remainder of the land was converted into large commercial farming units.

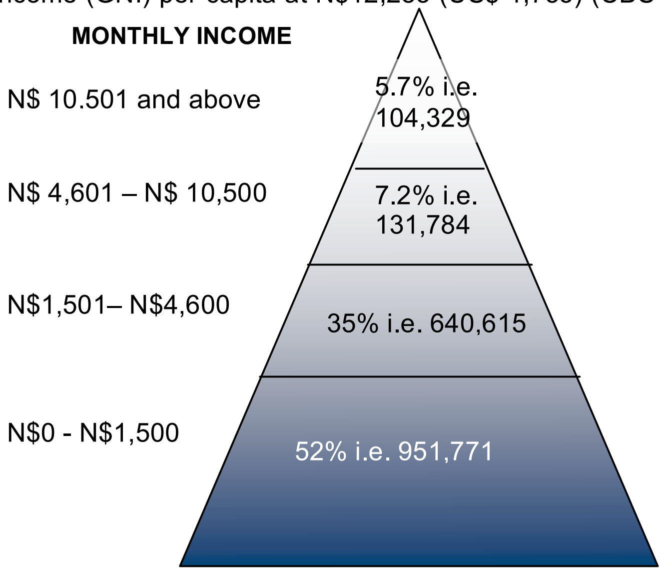
The Namibian labour market is characterized by a severe lack of skilled labour and widespread unemployment among semi- or unskilled workers (Eita & Osterkamp, forthcoming). According to the 2004 Namibia labour force survey the country has a 22% strict unemployment rate, where 43% of the population between 15 and 19 years of age are unemployed and are actively looking for work. This figure decreases as age increases, but remains in double digits until the age of 45. The probability of being unemployed is above 20% for the first 20 years of an individual's economically active life.

[13] Microfinance institutions argue that informal money lenders, who are their competitors rather than commercial banks, impose significantly higher interest rates (United Nations, 2006).

The 2003/2004 Household Income and Expenditure Survey estimates the average household income at N$43,521 (US$ 6,217) per annum i.e. N$8,839 (US$ 1,263) per capita [Central Bureau of Statistics (CBS), 2006]. The National Accounts estimates gross national income (GNI) per capita at N$12,283 (US$ 1,755) (CBS 2007). These income figures put Namibia into the lower middle-income country category.

Despite this categorisation, Namibia has one of the world's highest income disparities. It has a Gini coefficient of 0.59, urban incomes 3 times greater than rural incomes and the top 5% income earners enjoying 30% of the national income as illustrated in the figure below.

Although there is evidence that national Income is increasing, this is attributed more to new job opportunities rather that higher wages. The absence of real income growth and the current inflation in the housing sector has reduced the rate at which new entrants enter the formal housing market as first time home owners.



Source: NPC (2006) and FinScope™ 2004

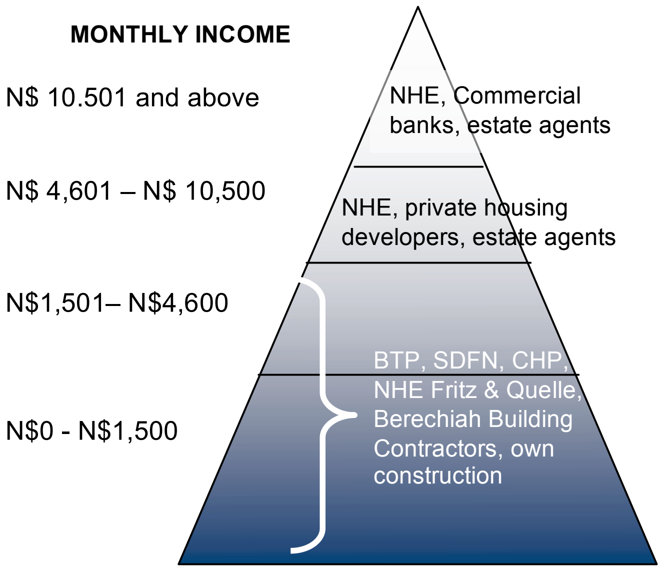
Housing supply and demand

Housing supply

Housing in Namibia is supplied by the government, non-government organisations, private sector and individuals at various income categories.

In the N$0 – N$1,500 (US$0 – US$214) income group, where 52% of the population lies, 91% of the houses are shacks or low cost houses. In the N$1,501 – N$4,600 (US$215 – US$657) income group, where 35% of the population lie respectively, 78% of the houses are low to medium cost housing. The low cost housing is supplied by the BTP and the SDFN, a government and non-government entity respectively. These two have delivered 5,800 low cost houses from 2000 to 2005.

Very little is known about how many new houses are built in this segment by the private sector per annum. However, companies such as Fritze & Quelle and Berechiah Building Contractors have begun to erect low-cost houses in the Progressive Development Area of Mondesa in Swakopmund at the Namibian coast to illustrate the feasibility of low-cost housing delivery by private developers (The Namibian, 2008). In addition, low-cost housing initiatives such as the Clay House Project (CHP) also build housing in this segment. Individuals in this income segment also construct their own housing.



In addition to the two lowest income segments the NHE, a government entity, builds houses for the N$4,601 to N$10,500 (US$ 658 to US$ 1,500) income segments where 70% of the homes are medium to high cost. The entity has delivered 3,245 houses from 2000 to 2006.

For the N$10,501 and above (US$1,501 and above) where 98% of the houses are medium to high cost, houses are supplied by the NHE, private developers and own construction. Data on the extent, location and value of private sector development is not readily available.

Houses that have already been built are resold through auctions, estate agents and private sales. Auctions are mostly used to sell repossessed houses. Estate agents act on behalf of buyers and sellers, and do so for a commission. They are not regulated and in some cases they undertake valuations despite them not being qualified to do so. The BoN argued in the June 2007 report that this increases housing prices, given their commission is based on the sale price.

According to FinScope™ 2004, 17% of the households in the N$ 0 to N$ 1,500 income bracket (US$0 to US$ 214) consider their homes as tradable assets and therefore very little trading takes place in this income segment. 24% of the households in the N$1 501 to N$4 600 (US$215 – US$657) income bracket consider their homes as tradable assets. This slight increase implies a more active housing resale market in this income segment. 36% of the households in the N$4,601 to N$10,500 (US$ 658 to US$ 1,500) income bracket consider their homes as tradable assets. This slight increase implies a more active housing resale market in this income segment. 65% of the households in the N$10 500 and above (US$ 1,501 and above) income bracket consider their homes as tradable assets. This increase implies an active housing resale market in this income segment.

With a large number of households in the low-income segment in Namibia appearing to not view their houses as tradable assets they resort to constructing shacks as temporary, informal residences in the towns where they work. The result is very limited trading of existing housing stock especially in the lower income groups This phenomenon is also seen in the highest income segments where 2% or 740 households that earn over N$10,500 lived in shacks (CBS, 2006).

The extent of turnover in the resale market for houses can be more accurately assessed based on deeds office statistics. In 2006 34,254 title deeds were registered, of which 6,008 were sectional title deeds. These statistics include both residential and business properties. Detailed information on all these transfers are housed at the deeds office in filed documents. Further research should be undertaken to reveal annualised deed transfers, property type, financing and value of the property.

With regards to the type of housing units supplied, 34% are detached or semi detached, 3% are flats, 44% are traditional houses and 17% are shacks. 27% of the urban houses are informal dwellings i.e. shacks, while 71% of the rural houses are traditional houses i.e. a hut or a group of huts.

Housing Demand

The four main housing tenure types include owner occupied with mortgage, owner occupied without mortgage, rental and free occupation. Despite high income inequalities, most (76%) Namibian households own the houses they live in. 65% these households own the property they live in without a mortgage and reside in the rural areas, where 81% of the housing units are owner occupied without mortgage as apposed to 41% in the urban areas. 12% of all housing units are owner occupied with mortgage. This is mostly common in the urban areas, where 27% of the housing units are owner occupied with mortgage, as opposed to 1% in rural areas. 12% of all housing units are occupied by tenants under a rental agreement, and this type of occupation is almost exclusively limited to urban areas, which account for 25% of the housing units, as opposed to 4% in the rural areas. 11% of the housing units are provided free of charge by employers, mostly in the rural areas (14%). This mainly occurs on farms and mines. [14]

The figure below illustrates that the national housing backlog currently stands at 61,710 across four income segments. 73% of the housing backlog is in urban areas. [15]

[14] This does not imply that these households do not own their own houses elsewhere.

[15] These are very rough segments, as the datasets used have minor differences in their respective income segments.

Housing backlog in Namibia

Income	% Population	Backlog (%)	House	Backlog	Players
N$10 501+	5.6%	0.1%	N$255k	706	NHE Banks
N$4 601 - N$10 500	6.4%	0.8%	N$171k	4 201	GAP
N$1 501 - N$4 600	28.4%	7.0%	N$51k	29 554	BTP SDFN CHP
N$0 - N$1 500	42.3%	9.5%	N$23k	27 249	BTP SDFN CHP

Source: NPC 2006

Based on the housing expenditure patterns captured in the National Household Income and Expenditure Survey, 52% of the population earns less than N$1,500 per month (US$ 214) and spends up to N$310 (US$ 44) on housing each month. The households in this income bracket can afford houses to the value of N$23,625 (US$ 3,375), given the prime lending rate of 15.25%. The housing suppliers that target this market segment are unable to meet the scale of demand. The result is a housing backlog in this income bracket that currently stands at 27,249 houses. Given that the housing suppliers in this income bracket deliver 2,276 houses per annum, it would take 16 years to address the backlog in this income bracket, assuming a 3% population growth. The remaining households live in temporary houses made from discarded material, commonly known as shacks, or they live with friends or relatives until they can afford their own shack.

The 35% of the population that lives in households earning between N$1,501 to N$4,600 per month (US$ 215 to US$ 657) spends N$309 to N$682 (US$ 44 to US$ 97.50) on houses with a maximum value of N$43,501 to N$ 69,350 (US$ 6,214.50 to US$ 9,907). These estimates are based on housing expenditure patterns as reflected in the National Household Income and Expenditure Survey for this particular income bracket. This income bracket has the largest housing backlog of 29,554 households. Assuming that the desired delivery rate per annum is achieved by housing suppliers in this segment, it would take 38 years to address the backlog in this segment.

The 7.2% of the population that lives in households that earn N$4,601 to N$10,500 per month (US$658 to US$ 1,500) spend N$682 to N$1,170 (US$ 97.50 to US$ 167) on houses that range from N$65,351 to N$171,700 in value (US$ 9,336 to US$ 24,529). These estimates are based on housing expenditure patterns as reflected in the National Household Income and Expenditure Survey for this particular income segment. Although the NHE supplies houses in this segment, their houses are too expensive for this income bracket. To further complicate matters, the incomes of households in this segment are too high to qualify for BTP and SDFN programs. Furthermore there is no housing stock on the market that range from N$65,351 to N$171,700 (US$ 9,336 to US$ 24,529).[16] This is despite NDP2 recognising that affordable housing stock is important and advocating for *establishing effective mechanisms to meet the demand for appropriate and affordable housing of middle, low and ultra-low income groups … by widening the market through … various strategies in support of the delivery of low-cost housing*. The housing backlog in this income bracket currently stands at 4,201 houses and it is not being addressed at this point in time. This implies that there is market failure in this market for which there is currently no public solution.

A bottleneck also arises in this category as these households hardly ever sell their existing properties, as there are no opportunities to upgrade to better housing. The only option is therefore incremental extension.

The 5.7% of the population that lives in a household that earns more than N$10,501 per month (US$1,500)

[16] The most affordable house on the market at the time of this study cost N$182,000, which consists of a free standing house with 64m² under roof, which includes 2 bedrooms, one bathroom, a living room and a kitchen built on 450m² stands.

spends more than N$1,171 (US$ 167) on houses starting at N$171,701 in value (US$24,528). They represent the "normal suburban" sector. This market segment has a minute housing backlog of 706 houses.

Overview of the housing finance sector

The availability of housing finance is related to the number of players and their effectiveness in penetrating their potential market. This section will discuss the various housing finance players to give some indication of the diversity, capacity and competition in the sector. The discussion on the housing finance players will be structured by whether the housing finance providers offer secured or unsecured lending.

Secured lending

Secured housing finance is backed by some form of collateral. Usually, this collateral is the purchased house itself. However, in cases where titling is inadequate or does not exist, structured financing techniques are used to provide housing finance backed by pensions. Commercial banks are the main providers of secured lending for mortgages and pension-backed loans.

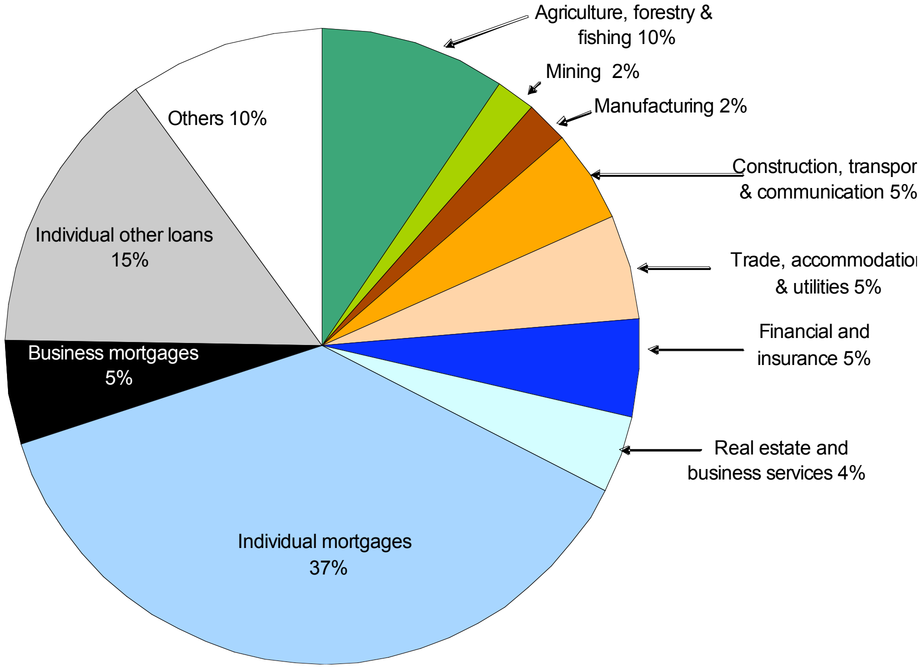
Bank Windhoek, Nedbank, First National and Standard Bank are the four commercial banks in Namibia. Except for Bank Windhoek, the others are subsidiaries of South African banks. First National Bank and Standard Bank control more than 60 percent of the total assets, loans, and deposits in the industry. Although these banking groups are financial conglomerates, banking remains in all cases their main source of revenue (IMF, 2006).

Mortgage loan providers

As illustrated below, mortgages are the largest single part of banks' loan portfolios (43 percent). Out of these mortgages to individuals are overwhelmingly dominant at 37%.

Standard Bank Namibia increased its home loans from just 29.5% of the banks lending portfolio in 2000 to 40.7% from 2000 to 2006. First National Bank increased home loans from 34% of its gross lending to 53.7% from 2000 to 2005. Although Bank Windhoek has gradually cut the percentage of home loans since 2000; the total amount lent for home loans since 2000 rose 67% from N$795,836 to N$2,419,724 in 2006.[17]

Commercial banks' loans and advances by economic activity (%) in 2006 Source: IMF (2006)



[17] The average lending rate was 11.2% in 2006 (BoN 2007, p. 97)

The World Bank and International Monetary Fund (IMF) expressed concern that this high exposure to the mortgage market represented a systemic risk to the financial system from potential adverse shocks in the real estate market (IMF, 2006).

The FinScope™ survey data illustrates that 90% of mortgage loan holders or those who currently have access to the mortgage product in 2004, reside in urban areas. The mean age of these mortgage holders was 46 years of age. This indicates that there is a lack of new entrants into the mortgage loan market at the lower age groups. The FinScope™ data, reveals that only 13% of mortgage holders are younger than 30 years. Individuals live with family, friends and relatives until they have saved up enough money to buy their own homes.

Pension-backed loans

Delivery of the mortgage product requires titled land. In communal areas in Namibia land is untitled. In these areas commercial banks in Namibia provide pension-backed loans against private pensions. Pension-backed loans can be viewed as a structured financing product. These products use off-balance sheet, or non-recourse financing techniques to assess loan applications. It is possible to provide these pension-backed housing finance products based on stipulations in the Pension Fund Act.

FinScope™ 2004 found that only 1.55% of the household head respondents received a private pension in 2004 and hence have access to pension backed loans.

Unsecured Lending

In Namibia only 14% (74,000 households) of the households can afford to or have already purchased formal housing using a mortgage bond. In addition, the fact that the large parts of Namibia are designated as communal land, complicates access to conventional housing finance. Alternative players are required to provide housing finance. To the extent that this market segment cannot qualify for housing finance based on the conventional affordability criterion applied by commercial banks. Efforts to cater to their housing finance needs cannot rely on their provision of collateral. Unsecured housing finance, which requires no collateral, is one solution.

Summary of unsecured housing lending in Namibia

	Non-governmental, NGO	Government	
	Shack Dwellers Federation	National Housing Enterprise	Build Together Program
Min household income/ month	<2000	>1700	<2000
Min loan size (N$)	1	80,000	1
Max loan size (N$)	20,000	350,000	40,000
Interest (%)	5%	prime[18] - 1%	4%
Min house size	34m²	64m²	-
Erf/Stand	150m²	450m²	-
Cost	N$20,000	N$182,000	N$40,000
Monthly Instalment	N$132	N$2,296	N$242
Current delivery of houses	192	229	2,084
Desired delivery of houses	600	1,200	3,000
Total Delivery	1,500	3,245	4,300

Note: There is no data currently collected for other micro credit providers e.g. SACCOs and SCAs who would form a purely private, unsecured lending solution

Housing Micro Credit Providers

Registered micro credit providers in Namibia include term and cash lenders that are privately owned or are branches of commercial banks, savings and credit co-operatives (SACCOs) and savings and credit associations (SCAs). SACCOs and SCAs are allowed to take deposits from, and make loans to, their members. Informal savings clubs (okwiiumbilas) and burial societies are highly informal and are not required to register as long as

[18] Prime lending rate

they have fewer than 20 members and less than N$500,000 in deposits (IMF, 2006). **Error! Reference source not found.** below illustrates the registered micro credit providers in 2005.

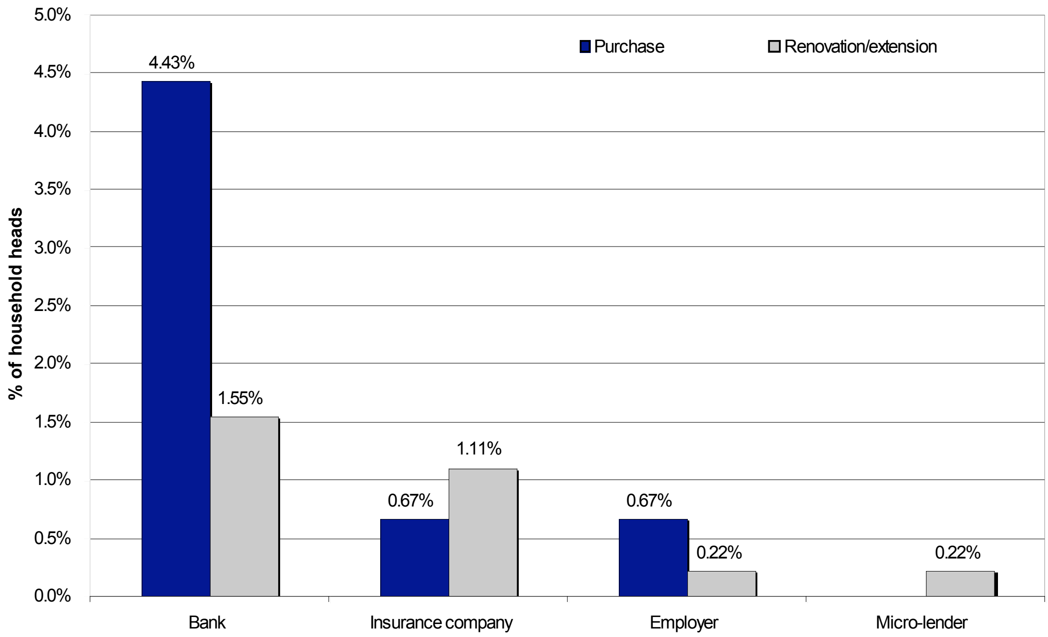
Registered Microfinance Institutions in Namibia in 2005

Institution	Location of Data	Total Number
Micro-lenders, NGOs and commercial bank, microfinance branches	Namibia Financial Institutions Supervisory Authority	145
Savings and Credit Co-operative and Multi-purpose Co-operative providing Microfinance	Division of Co-operative Development	62
Koshi Yomuti*	GTZ	1,994 savings accounts*
TOTAL		**208**

Note: The Small Business Credit Guarantee Trust Microfinance Scheme and the Commonwealth Youth Credit Initiative were not operational at the time data collection was conducted for this study. *Koshi Yomuti figure is as of June 30, 2007 Source: Adongo & Stork (2005).

While there is unfortunately no housing finance data captured by micro credit providers in Namibia there are anecdotal statements that some micro loans are used for renovations and extensions. FinScope^{TM} 2004 data also highlights a few instances of this (0.22%) as illustrated the graph below, although banks are dominant in all areas of housing finance.

Sources of housing finance in Namibia in 2004



n = 451 Source: FinScope^{TM} 2004

Shack Dwellers' Federation of Namibia (SDFN)

According to the 2003/2004 Namibia Household Income and Expenditure Survey, 61,699 families live in shacks.[19] To address this issue there has been a growing interest in using 'community-based' shelter microfinance within comprehensive slum upgrading programs. This development strategy links a development agency, the central government and the municipality, where the slum is located, into a holistic upgrading project. The project then links with an organization, usually an NGO e.g. Namibia Housing Action Group, which is able to offer small-scale loans for housing purposes through community-based structures while providing administrative assistance (Tomlinson, 2007).

In Namibia, community shelter microfinance is provided by the SDFN and to a much lesser extent by the Clay

[19] This is higher than the backlog of 45,000 estimated by the BTP program, which has negatively implications on the BTPs targets.

House Project (CHP)[20]. The SDFN was established in 1998. It is a network of housing saving schemes that aims to improve the living conditions of low income groups living in shacks. The objective of the SDFN is to help poor communities to save money to improve their quality of life. Provision of housing finance is only one component of its overall microfinance activities.

In 2007 there were 434 savings schemes under SDFN, with over 20,000 members. These were mostly in urban areas. Each group in a savings scheme manages its own project and members are encouraged to contribute daily to a savings pool. A summary of SDFN savings from 2002 to 2006 is illustrated below.[21]

Shack Dwellers Federation of Namibia Savings

	2002[22]	2003[23]	2004[24]	2005[25]	2006[26]
Groups	188	235	286	334	393
Members	8,407	10,836	11,023	10,918	15,102
Daily Savings (N$)	999,747	1,237,234	1,614,187	1,632,900	3,306,215
Land Savings* (N$)	565,107	1,615,515	1,649,785	766,240	1,099,048
Total Savings (N$)	**1,564,854**	**2,852,749**	**3,263,973**	**2,399,140**	**4,405,263**
Daily Savings (US$)	95,033	164,526	250,262	254,743	-
Land Savings* (US$)	53,717	214,829	255,781	119,538	-
Total Savings (US$)	**148,750**	**379,359**	**506,042**	**374,281**	**-**

Note: * Saving by the community to acquire land for residential development.
Source: Shack Dwellers Federation 2006

Once group members start saving, they can apply for a loan from a revolving fund that provides micro enterprise loans, housing and service loans. Housing loans account for the major part of the total loans disbursed (IMF, 2006).

The SDFN is actively involved in finding a solution to the squatters in the peri-urban areas of the country. The organisation purchases blocks of land for its members from municipalities through Service Loans. This land is then subdivided into smaller plots and services to the plots are installed. To increase affordability, two houses are built on one plot as sectional titles, where the minimum plot size is 300m².[27]

Service loans in 2006

Town	Households	Loans (N$)	Average loan size per HH (N$)
Oshana	7	13,095	1,871
Ohangwena	1	2,000	2,000
Omusati	45	90,000	2,000
Oshikoto	71	14,871	209
Otjozondjupa	41	82,600	2,015
Erongo	27	39,500	1,463
Khomas	150	278,125	1,854
Total	**342**	**520,191**	**1,521**

Source: Shack Dweller's Federation of Namibia (2006)

The government grants N$ 1 million to the SDFN's Twahangana fund each year through the Ministry of

[20] The CHP has built more than 200 clay houses in Otjiwarongo in the last five years at a cost of N$47,000 per standard unit. The standard house is 6,9m x 6,9m (47,61 m²). Currently the CHP subsidize the clay houses with a 50% grant from the German Govenment. Even unemployed people are eligible though the job opportunities it creates. They are building about 50 houses per year, while the demand is more than 300 per year. Currently the CHP is searching for funds and loans for the construction of 1000 clay houses within five years in Otjiwarongo.
[21] Although the savings per member seems low, the SDFN membership consists of very poor individuals residing in informal dwelling, located in peri-urban areas.
[22] US$1 = N$10.52
[23] US$1 = N$7.52
[24] US$1 = N$6.45
[25] US$1 = N$6.41
[26] US$1 = N$6.89
[27] The National Housing Policy states that the minimum plot size for decent housing is 300m^2

Regional, Local Government and Housing. The Twahangana Fund also receives funds from international donors as well as the BTP Loans Fund of municipalities around the country. These funds are supplemented by member savings (IMF, 2006). The funds are used to finance bonds, renovation and extensions for group members, who typically earn less than N$2,000 per month.[28]

The Twahangana fund is a bridging fund that helps alleviate the bureaucracy of the BTP. The Fund constructs houses and the costs are reimbursed by the BTP once the building is complete. There are no restrictions on the sale of the property, but the SDFN encourages members to sell their houses to other members who do not have proper housing.

Summary of Twahangana housing fund in 2006

Town	Households	Loan value (N$)
Oshana	9	125,000
Ohangwena	4	40,000
Omusati	17	252,000
Otjozondjupa	30	347,100
Caprivi	3	38,000
Erongo	17	340,000
Omaheke	1	15,000
Khomas	73	2,478,875
Total	**154**	**3,635,975**

Source: Shack Dweller's Federation of Namibia (2006)

Twahangana requires participants to save up for the purchase of the land (Land Savings) before providing Service and Housing loans. In rural areas, a letter from the headman is required before building can commence. Pensioners do not pay interest under the social housing fund, but are limited to N$12,000 (US$1,714). Loans are limited to N$20,000 (US$2,857) (N$12,000 for pensioners). The housing loan recipients must take out credit life cover under the BTP. Should the owner pass away, the loan amount is covered by the insurance and the dependents inherit the property.

Between 2000 and 2005 the Twahangana Fund delivered 362 houses and in 2007 had a further 300 under construction. The houses are built by members; under the guidance of a semi skilled builder who is paid N$2,500 (US$357) for each house completed. All houses are 34m² under roof, consisting of one bedroom, one living room and one bathroom. Furthermore the SDFN buys raw materials as a group and negotiates group discounts.

Twahangana fund houses

	2000	2003	2004	2005	Total
Houses Constructed	66	91	114	91	362
Funds Used (N$)	1,096,142	1,041,500	1,004,000	995,944	4,137,586
Funds Used (US$)	144,419	138,497	155,659	155,373	593,948
Investments per house (US$)	2,188	1,522	1,365	1,707	1,641

Source: Shack Dwellers Federation 2006

Historical evidence shows that although housing loan recipients can repay their loans over 220 months (18 years) they choose to repay loans in 11 years. The SDFN gives recipients are given the option to repay loans up to 240 months or 20 years, given income insecurities within their target market and their objective to provide decent housing to their members. Even though 19% eventually default over a short period of time, written communication does reduce default. The SDFN offers flexible options with rental being the last resort to cover the bond repayment.

The SDFN's Social Fund provides loans between N$ 10,000 (US$1,451) and N$ 12,000 (US$1,714) for a one room house to pensioners, people with disabilities and terminally ill individuals at zero percent interest and at N$50 (US$7) repayment per month.

[28] The average income of participating households is N$800 per month.

Summary of social fund in 2006

Town	Households	Loans (N$)	Loans (US$)
Hardap	2	20,000	2,903
Karas	5	50,000	7,257
Kavango	30	20,645	2,996
Omaheke	1	12,000	1,742
Total	**38**	**102,645**	**14,898**

Source: Shack Dweller's Federation of Namibia (2006)

Looking to the future, the SDFN would like to increase the number of home loan recipients to 600 per annum and increase this figure so that by 2030 they will have financed housing for all their members. They aim to achieve this by mobilising another 3,000 households to save N$1,000,000, providing more secure land tenure for members and securing land for 1,000 households each year for development.

Government Housing Loan Providers

"Government recognises housing as a fundamental human right and every citizen should be assisted in one way or another to meet this need" (GRN 2007, P26). Government does this through seed financing for low income groups through the National Housing Enterprise and the Build Together Program.

National Housing Enterprise

The NHE is the largest, low-cost housing provider in Namibia. It was established in 1993 as a parastatal of the Ministry of Regional and Local Government and Housing to provide innovative housing solutions in order to alleviate national housing needs. It replaced the National Building and Investment Corporation (NBIC) and took over its loan book.

The legal basis for the NHE is found in the National Housing Enterprise Act, which was enacted in 1993. Section 4 of the Act gives the NHE the authority to take cession from any person of any mortgage registered over immovable property (section 4,G); to give cession to any person of any mortgage registered in favour of the NHE (section 4,H); and to lend money upon the security of a mortgage or notarial bond or any other security determined by the board (section 4, I).

The NHE used to be financed by the Namibian, German and Chinese governments but no longer receives funding from government. The NHE borrows money from the financial sector. The NHE is able to generate additional income, since it develops and finances new houses to the tune of N$ 6.5 million (US$ 0.93 million) or N$20,774 (US$ 2,968) per house developed in 2005. 50% of NHE total income comes from non core business (fixed deposits, redemption funds and "others"). This implies that the NHE is diverting more and more funds to investments rather than developing low cost housing.

From 1983 to 1993, the then NBIC delivered an average of 620 houses per annum. From 1993 to 1999 the NHE delivered an average of 625 units per annum. Since 2000, the NHE delivered 3,245 houses. The trend indicates that the NHE's delivery rate from 2000 decreased rather rapidly from 816 houses in 2000 to 229 in 2006.

Audited financial reports point to inadequate financing for the decline in housing delivery. The NHE borrows money at 11.06% and lends at 14.25% (prime less 1%) while competing with commercial banks that borrow as a last resort from the Central Bank at 10.5% and lend at 15.25% (prime rate). The NHE borrowed N$199 million (US$ 28.4 million) - N$15 million at 72.5% of prime, N$30 million at 81% of prime and N$109 million at prime from the banking sector. These rates are uncompetitive, considering that NHE competes with commercial banks, Furthermore, Commercial Banks have a spread of 3.7%, while NHE has a spread of 3.19%. Not only is the NHE's spread lower, its lending rate is also higher than that offered by commercial banks.

The NHE argues that the decline in housing delivery was due to the scarcity of serviced land for development (NHE 2006). The NHE did not develop any erven in the 2004/5 financial year as apposed to 104 in the previous financial year or 560 erven per annum from 2000 to 2003.

NHE Houses built since 2000 by town

TOWN	2000	2001	2002	2003	2004	2005	2006	Total
Windhoek	196	219	338	112	62	152	172	1,251
Walvis Bay	377	289	33		45	161	57	962
Swakopmund	-	80	124	100	-	-	-	304
Rundu	-	-	100	109	-	-	-	209
Ruacana	25	-	-	-	-	-	-	25
Oshakati	-	35	104	-	-	-	-	139
Otjiwarongo	12	-	-	-	-	-	-	12
Opuwo	75	-	-	-	-	-	-	75
Ongwediva	-	29	-	-	-	-	-	29
Ondangwa	-	-	-	10	20	-	-	30
Okahandja	-	11	33	-	-	-	-	44
Mariental	2	10	-	-	-	-	-	12
Luderitz	45	62	134	22	20	-	-	283
Keetmanshoop	18	-	-	-	-	-	-	18
Katima Mulilo	44	-	-	-	-	-	-	44
Karasburg	-	15	-	-	-	-	-	15
Eenhana	22	-	-	-	-	-	-	22
Total	816	750	866	353	147	313	229	3,474

Source: Namibia Housing Enterprise (2006)

The NHE provides loans ranging from N$80,000 to N$350,000 for households that earn more than N$1,700 per month. NHE charges prime minus 1% annual interest for these loans i.e. 14.25% (15.25% - 1%) in November 2007. Its loan applicants do not need collateral because the financed house serves this purpose. However, the participants must have a saving account. If a person does not have one NHE will help them open one. People who fall outside the formal employment sector can qualify for a loan by paying a 20% deposit. If they do not have the deposit, then NHE will help them save up for the deposit.

The harsh reality is that 52% of Namibian population lives in households that earn less that N$1,500 a month and therefore can't afford the N$182,000[29] NHE core house. This is a free standing house with 64m² under roof, which includes 2 bedrooms, one bathroom, a living room and a kitchen built on a 450m² stand. One needs to earn at least N$6,900 to afford such housing and therefore a mere 5.7% of the population live in households that can afford such housing. The ever increasing housing prices raise the question of who will be able to access housing finance, which may increase renting

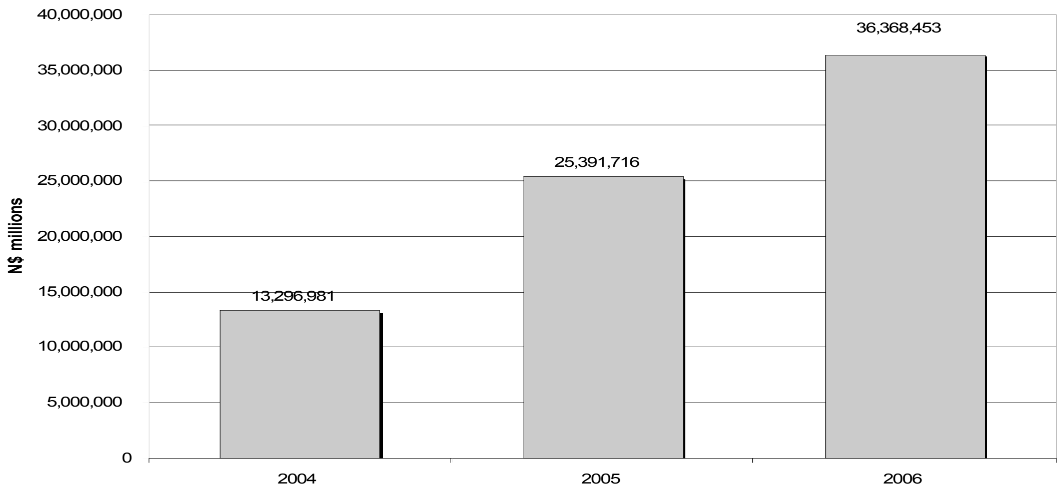
NHE checks the qualifying criteria every two years and participants are required to take out credit life cover.[30] Clients are free to choose their own insurer, with the cheapest product starting at N$25.00 per month. NHE makes provision for 10% bad loans, but the actual default experience is much lower at 2.5%.

The NHE has 1,200 active loans valued at approximately N$36 million.[31] These loans are offered in both proclaimed and un-proclaimed areas. High building costs have increased the cost of their basic houses from N$40,000 to N$80,000, despite the bulk discounts.

[29] This is the cheapest house currently on the Namibian market and this particular house is in Ondangwa and is therefore not representative

[30] It can be argued that NHE savings are used to assess the credit risk of borrowers, which is a key feature of microfinance.

[31] Therefore, even though the value of loans has increased, the number of houses financed has decreased.



Note: US$ 1 = N$ 7 Source: NHE (2006)

NHE provide products, ranging from financing for Project Houses to Study Loans for their home loan clients and their dependents. These and other products are illustrated below.

NHE products

Product Type	Description	No of Loans	Value (N$)
Project Houses	Houses built by NHE	445	46,518,398
Home Loans	Mortgage loan	74	5,281,120
Home Improvement Loans	Loan to improve existing home	14	4,014,757
Study Loans	Study loans for NHE's clients and their dependents	5	57,000
Building Loans	Loans for self builds	3	295,834
Package Loans	Home loan plus personal property loan	2	348,058
Bulk Financing	Lending to developers for on-lending[32]	2	381,355
Total		545	56,896,522

Note: US$ 1 = N$ 7 Source: Namibia Housing Enterprise (2005)

Through improvement loans, the NHE provides short-term loans to clients who wish to extend or upgrade their houses to cater to households in the lower income segment who are to a certain degree limited to incremental extensions of their homes. A considerable amount of money (7%) was spent on fourteen Home Improvement Loans and it is doubtful that such clients do not have access to conventional financing. Such loans attract prime (15.25) less 1% interest.

Due to reduction in housing delivery the NHE was restructured in 2007, to improve efficiency and deliver 1,200 housing units per annum. It is too early to tell if the restructuring has had any effect, since this information is contained in the audited financial reports, which must first be approved by cabinet before they become public information.

Looking towards the future, the NHE plans on introducing a rental option on the houses it develops to allow households that cannot afford to qualify for a home loan to be able to rent. As part of its restructuring, the NHE advertised the sale of houses in November 2007 for the first time in several years. It currently has 89 units available, with a further 40 units available in the near future and 800 units in the next 12 months. Therefore its intentions to improve housing in Namibia are evident within 6 months of restructure. NHE would also like to increase the maximum value of housing loans beyond N$350,000 in order to accommodate the increase in housing costs.

[32] NHE provided bulk financing to developers in the past. The clients whom the developers lent to were screened according to NHE lending criteria, with a repayment term of 20 years. This facility has not been used for the past two years due to budgetary constraints and NHE's direct involvement in servicing land.

There is no time restriction on selling NHE houses and therefore recipients can sell the house if they are no longer able to maintain the loan. But the NHE plans on ending this practice to rule out the possibility of speculative buying of such properties, which tends to increase housing prices. A submission has been made for possible amendment to the deed of sale to reflect this change in the sales contract.

Furthermore recipients have a surrender option, whereby they are able to surrender the home, in which case they are not refunded for their repayments. In such a case they can be placed on the waiting list for a smaller home. A total of 8 houses were surrendered in the 2004/5 financial year, because the bread winner lost their jobs or passed on. Non payment is allowed to continue for three months, thereafter legal proceedings are initiated to have the houses repossessed. 9 houses were repossessed in the 2004/5 financial year.

The National Housing Policy states that the eventual aim is that once the private sector is prepared and able to cater for housing demand through its developers and financiers, NHE will phase out its operations as a developer and provider of loans. However, the policy also states that the NHE will continue to provide mortgage finance to those income groups whose financial standing is not yet compatible with private sector requirements but, at the same time, existing loans which meet these requirements should be disposed to the private sector wherever possible. The extent to which this is happening given the NHE scaling up its operations and moving upmarket is doubtful.

Build Together Program

The BTP is governed by the National Housing Development Act. It was established in 1992 and was awarded the Habitat Scroll of Honour in 1993 and World Habitat Award in 1994. Its central principle is to give people ownership and access to national housing infrastructure and finance. The BTP is administered by the Ministry of Local Government and Housing but its implementation is decentralised to the regional and local levels. Revolving funds are provided to local authorities to advance loans for low cost housing for low income households in both urban and rural areas through municipalities, village and town councils. The funds are used to purchase building materials and are paid directly to the supplier of the materials. All loans are disbursed and collected by banks.

The BTPs operations are categorized into four main sub-programs *viz*. housing, social housing, informal settlement upgrading and single quarter transformation. With the exception of the social housing projects, where it is more of a rental agreement, loan recipients purchase houses.

- Housing loans are provided to low income households that earn less than N$2,000 (US$ 286) per month in peri-urban, proclaimed and un-proclaimed areas. These loans are limited to N$32,000 (US$ 4,571) payable over 20 years at 5 to 9 percent interest. These subsidized interest rates are financed by taxpayers, who provide the capital for the revolving fund through the national budget. By the end of the 2005 financial year, 2,084 houses were delivered under the housing sub-programme at a total cost of N$26,410,620 (US$ 3,772,945). This is a very small amount of money, considering that the housing cost per unit is less than N$13,000 (US$ 1,857). Due the decentralized nature of the BTP program statistics for the full delivery of the program are unfortunately not easily available. The current financiers plan on increasing the housing delivery rate to 4,800 per annum.

- Social housing loans are provided to small local authorities and regional councils to facilitate housing for pensioners and people living with disabilities on an economically sustainable basis. This is achieved by cross subsidising the welfare beneficiaries' rental with market related rentals from the other tenants.

- Informal settlement upgrading provides grants to small local authorities and regional councils to provide basic services in informal settlements. N$6 million was budgeted for this purpose and a total of 9,000 households benefited individually or collectively from this subprogram in 2005/6.

- Single quarter transformation loans are provided to upgrade single quarter houses into family units. N$25.8 million (US$ 3.7 million) was availed for this purpose in the 2005 financial year. It is not clear how much was actually spent.

Single Quarters

Single quarters are living premises comprising either a room or set of rooms with shared ablution blocks and kitchen facilities. They were constructed during the pre-independence, apartheid regime in Namibia to support the migrant labor system Employers and local authorities built long lines of rooms similar to barracks.

Under the migrant labor system only men were recruited from rural areas to work in factories and service industries in the towns as contract labor. The legislation at the time did not allow these workers to bring their families along. After independence men invited their families to live with them. As a result the single quarters became severely overcrowded causing major social and health problems. These overcrowded and unhealthy conditions have been experienced in all single quarters throughout the country

Source: Itewa (2002)

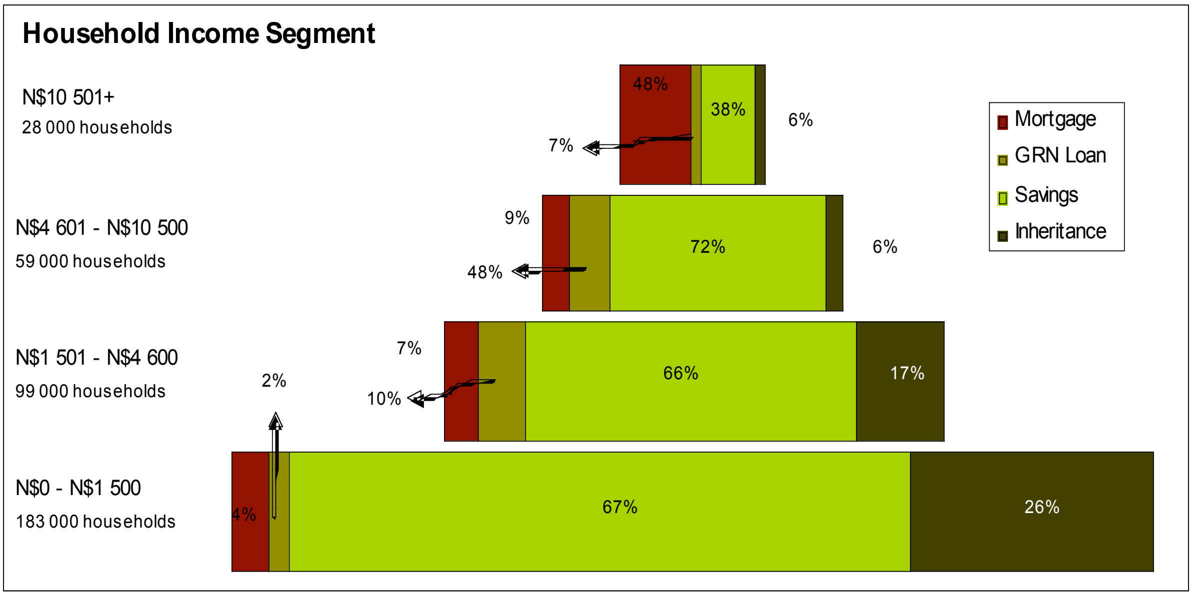
Households with housing loans from other institutions are not eligible for BTP. Furthermore, current BTP beneficiaries are ineligible for further loans until their loan has been settled in full.

In 2000 it was decided to decentralize the BTP in an effort to reduce the default rates that were as high as 75%. However there is no indication that default rates have dropped. The BTP process is bureaucratic and time consuming. Its best completion time in 2006 was 34 months. For example it takes 12 months to get approval from the Surveyor General's Office. Such delays arise from a lack of qualified and experienced surveyors, engineers, town and regional planners.

To address the needs of those who are excluded from private and public housing finance solutions, government grants are available. The National Housing Policy states that "*the Government intends to subsidize only those earners whose monthly family income is less than a pre-determined amount set by the Minister from time to time. This subsidy will be in the form of a one-time up-front cash payment to the local authority or developer on behalf of the purchaser upon sale of the plot of land with or without improvements*."

Product Use

The graph below illustrates the use of housing finance products across the different income segments.



Source: FinScope™ 2004

According to the FinScope™ 2004 data, 4% of the households in the N$0 – N$1 500 (US$ 0 to US$ 214) bracket, finance their houses through mortgage loans, 2% finance through Government loan schemes, 67% through own savings and 26% inherit their houses.

In each category a majority of houses are financed through own savings. Own savings are more prevalent in the lower income segments. 19.6% of the houses are inherited, while 9.1% are financed through mortgages. Of these households, a mere 3% that have approached a bank have been refused a loan in the past year. More importantly 47% of these households are un-banked and are therefore excluded from other forms of housing finance beyond own savings. This implies that low banking sector participation in the country continues to hamper access to housing finance with 47% of households not having a bank account.

Conclusions

Housing has been one of the main objectives of the past two NDPs, but the delivery rates have been below expectations. NHE was expected to deliver 7,937 houses, but only managed to deliver 2,622. Housing is less prominent in NDP 3, where there is no mention of the BTP. Therefore more can be done and should be done to reduce the housing problem in the country. Hopefully this would be achieved through policy and regulatory instruments outside NDP3.

Increasing house prices and the rapid rise in interest rates between 2006 and 2007 represent a real constraint to finance. They negatively affect demand for housing loans and the ability of loan applicants to satisfy the affordability criterion applied by banks, even for loans that they would have qualified for a few years ago.

Access to serviced land within municipal areas continues to be a problem, so much so, that the City of Windhoek did not offer any serviced land for auction in 2006 (BoN 2007, P20). In addition, the cost of the serviced land is high. This constrains the provision of affordable housing, especially in the low-income segments.

Large parts of Namibia are designated as communal land. This complicates access to conventional (on-balance sheet) housing finance, although housing microfinance can still be provided.

55% of the adult population in Namibia is unbanked with the vast majority of the households financing their housing from own savings. This low banking participation continues to hamper access to housing finance.

Households in Namibia do not appear to view their houses as tradable assets and therefore resort to constructing temporary, informal or modular housing in the towns where they work. The result is very limited trading of existing housing stock especially in the lower income groups.

Home owners in Namibia are old, with an average age of 45 years, where 75% are over 61 years of age. This indicates that Namibians typically take a very long time (25 - 29 years) to become homeowners. In the meantime they reside with family, friends or relatives, as they accumulate enough savings to buy their own homes. They also rent, but this is limited.

The lack of housing stock of N$65,351 to N$171,700 (US$ 9,336 to US$ 24,529) houses in the $4,601 to N$10,500 per month (US$658 to US$ 1,500) income segment needs to be addressed. Even thought the backlog is only 4,200 houses in this category this is a potential N$500 million development opportunity. These houses are medium to high cost and the households can certainly afford mortgages as 72% of these houses are currently financed from own savings. The absence of housing supply for this income bracket, forces households to rent, squat or buy cheaper houses and develop them incrementally.

To improve the housing finance market in Namibia, key areas of intervention should include:

- Electronic filing of deeds records: Namibia has a housing problem and but more detailed information on the extent of the problem and the specific price bracket is not readily available.
- Design: there is a need for attractive and affordable low-cost housing designs that can reduce the barrier created by unaffordable housing stock in the N$ 4,501 to N$ 10,500 (US$ 657 – US$ 1,500) range. Initiatives such as the Clay House Project and Shack Dwellers Federation are currently making strides in developing affordable housing below N$50,000 per unit. The success of these initiatives indicates that the country does have models to deliver affordable housing. The challenge going forward is increasing the delivery rate to meet the demand.
- Development finance: “Affordable” housing in Namibia is no longer affordable. Initiatives to address this challenge are unable to meet the demand due to a lack of bulk financing.

- Fixed interest rates: With increasing inflation, the development of a fixed rate of interest for a period longer than 24 months, across qualifying income groups should be explored. This would make the product more attractive and reduce interest rate risks for the lower income earners.
- Certification standards for valuators and estate agents: to ensure that the housing market represents real as opposed to artificial market signals. This will ensure that houses are appropriately priced in the market.

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