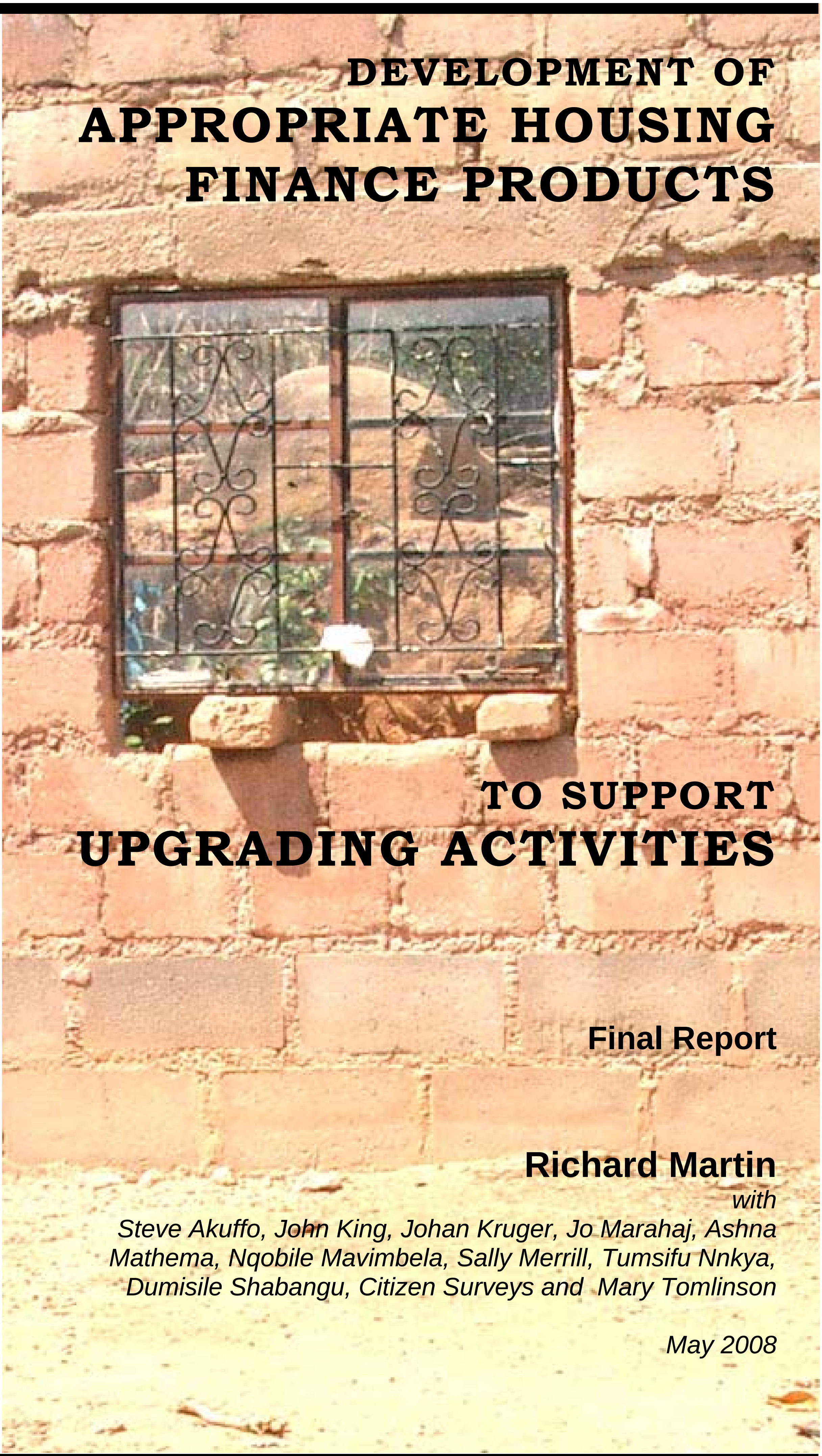

DEVELOPMENT OF APPROPRIATE HOUSING FINANCE PRODUCTS

TO SUPPORT UPGRADING ACTIVITIES

Final Report

Richard Martin

with

Steve Akuffo, John King, Johan Kruger, Jo Marahaj, Ashna Mathema, Nqobile Mavimbela, Sally Merrill, Tumsifu Nnkya, Dumisile Shabangu, Citizen Surveys and Mary Tomlinson

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May 2008

Cities Alliance

Cities Without Slums

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ACRONYMS

AFDB	African Development Bank
AUHF	African Union for Housing Finance
CBO	Community Based Organisation
CHF	Cooperative Housing Foundation
CIUP	Community Infrastructure Upgrading Programme
CRDB	Co-operative and Rural Development Bank
CU	Credit Unions
CUA	Credit Union Association
DANIDA	Danish International Development Agency
DCC	Dar es Salaam City Council
DFID	Department for International Development
DOH	Department of Housing
EPM	Environmental Planning and Management
ERSO	Experimental Reimbursable Seeding Operations
FINCA	Foundation for International Community Assistance
GAMA	Great Accra Metropolitan Area
GDP	Gross Domestic Product
GHAMFIN	Ghana Micro-finance Institutions Network
GOG	Government of Ghana
GTZ	Gesellschaft für Technische Zusammenarbeit
HBE	Home-based enterprise
HFF	Housing Finance Forum
IBC	International Bank of Commerce
IDA	International Development Association
ILO	International Labour Organisation
LAP	Land Administration Project
LGRP	Local Government Reform Programme
LTV	Loan to value
MDG	Millenium Development Goals
MFA	Microfinance Associations
MFI	Microfinance Institution
MHUD	Ministry of Housing and Urban Development
MLGRD	Ministry of Local Government and Rural Development
MLHSD	Ministry of Lands and Human Settlements Development
NBC	National Bank of Commerce
NBFI	Non-bank Financial Institutions
NGO	Non-government organization
NMB	National Microfinance Bank
NHC	National Housing Corporation
NHFC	National Housing Finance Corporation
NHDP	National Housing Development Programme
NHSDP	National Human Settlements Development Policy
NLP	National Land Policy
NSDP	National Spatial Development Perspective
NSSP	National Sites and Services Project
PHP	People’s Housing Process
PRIDE	Promotion of Rural Initiative and Development Enterprises
PWP	Priority Works Project
RDP	Reconstruction and development programme
ROSCA	Rotating savings and credit associations
SACCO	Savings and Credit Organisation
SACCOS	Savings and Credit Cooperative Society
S$L	Savings and Loan Companies
SARS	South African Revenue Service
SAT	Sinapi Aba Trust
SBS	Swaziland Building Society
SDI	Slum/Shack Dwellers International
SDSB	Swaziland Development and Savings Bank

SDP	Sustainable Dar es Salaam Project
SG-SSB	Societé Générale - Social Security Bank
SHS	State Housing Company
SNHB	Swaziland National Housing Board
SNL	Swazi Nation Land
SSNIT	Social Security and National Insurance Trust
SUF	Slum Upgrading Facility
TWLAT	Tanzania Women Land Access Trust
UDP	Urban Development Project
UESP	Urban Environmental Sanitation Project
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
USRP	Urban Sector Rehabilitation Programme
USAID	United States Agency for International Development
WAT	Women Advancement Trust

ACKNOWLEDGEMENTS

The project was made possible by a grant of $250,000 to the African Union for Housing Finance by the Cities Alliance, supported by a grant of $100,000 by the United States Agency for International Development (USAID). In addition the project received the generous support of the members of the African Union for Housing Finance in the selected countries, namely the Swaziland Building Society, the National Housing Finance Corporation, the National Housing Corporation of Tanzania, and the HFC Bank in Ghana. Implementation was supported actively throughout by the staff of the AUHF and the World Bank office in Pretoria

This project's achievements have been due to the intelligence, hard work and writing and presentation skills of many people, as well as the patience and insights of the large number of willing and unwilling interviewees, from Ministers down to the most humble resident. We thank them all immensely, and only hope that this work will lead to a meaningful improvement in the lives and access to housing finance of many people.

In the course of the project a total of 16 reports have been prepared under this project. The text of this report relies heavily on this material which has been edited substantially to meet the needs of the readership of this document. The original documents also include many references which have not been included in this report.

The reports prepared under the project are as follows (in order of production within each category):

Background Reports

Sally Merrill and Mary Tomlinson (2006) Housing Finance, Microfinance and informal settlements upgrading: an assessment of Ghana

Sally Merrill and Mary Tomlinson (2006) Housing Finance, Microfinance and informal settlements upgrading: an assessment of Tanzania

Quantitative Reports

John King (2006): Mbabane Urban Upgrading and Finance Programme, Socio-Economic Study.

Nqobile Mavimbela (2007): Assessment of housing and housing finance needs of households in urban informal settlements, *Socio-economic studies, Selected informal settlements, Swaziland Ghana Tanzania and South Africa.*

Tumsifu Joan Nnkya (2007): Housing conditions, borrowing and lending in informal settlements in Dar es Salaam.

Steve Akuffo (2007): Housing conditions, borrowing and lending in informal settlements in Accra.

Citizen Surveys (2007): Ekurhuleni Informal Settlement Survey

Jo Maharaj (2007): Analysis of Ekurhuleni Surveys

Qualitative Reports

Ashna Mathema (2006): Financing in informal settlements – interviews with lending institutions and borrowers

Ashna Mathema (2006): Qualitative study, household interviews, Accra, Ghana.

Ashna Mathema (2007): Qualitative study, household interviews, Dar es Salaam, Tanzania.

Ashna Mathema (2007): Qualitative analysis from household interviews, Final Report.

Swaziland

Dumisile Shabangu (2007) Report of SDI Visit

Dumisile Shabangu (2008) Progress report on SDI Champions

Dumisile Shabangu (2008) Lessons Learned

Pilot Study

Johan Kruger (2008): Proposals for a pilot housing project in Makangarawe, Tanzania.

All photographs by Ashna Mathema or Richard Martin, except aerial photographs and where stated

NOTES

All currency references have been expressed in US Dollars, to make comparisons simpler. However the conversion rate has been simplified as follows:

Tanzania Shillings TSHS 1,000 = $1 (in practice the figure was usually between 1,100 and 1,200)
Ghana Cedis 10,000 = $1 (in practice the figure was usually around 9,000). Since the time of the surveys, the currency has been re-valued at the rate of 10,000 old cedis to one new cedi.
Swaziland Emalageni: E6 = $1
South African Rand: R6 = $1

Percentages have been rounded in most cases.

To be consistent, references to the four countries follow a geographical pattern, starting with the Swaziland in the south, progressing to South Africa, Tanzania and finally the most northerly, Ghana.

EXECUTIVE SUMMARY

Housing finance has traditionally been secured by mortgages on the property concerned. This requires a system in which titles can be mortgaged, a legal system which allows the lender to take possession of the property in the event of default, and lenders which have access to sufficient capital, whether through savings or the capital markets.

In many countries one or more of these conditions do not apply. The majority of people in Africa are anyway excluded because they do not have title to their property.

Meanwhile, the need for housing finance was increasingly being expressed by the poor themselves. Lenders often found that loans purportedly being taken for business were being used for housing.

It was against that background that this project was developed. The membership of the African Union for Housing Finance consists almost entirely of traditional mortgage lenders, whether commercial banks or housing finance institutions. They have found their market shrinking for many years. The project was designed to explore the potential for them to expand their market by developing new products which can be used. It was recognized that these products would differ substantially from the traditional mortgage, and could require new ways of working. As a start, the project focused on four countries, Swaziland, South Africa, Tanzania and Ghana. Within each country, there were host institutions and supporting local governments, namely:

Country	Host institution	Supporting local government
Swaziland	Swaziland Building Society	Mbabane City Council
South Africa	National Housing Finance Corporation	Ekurhuleni Metropolitan Municipal Council
Tanzania	National Housing Corporation	Dar es Salaam City Council
Ghana	HFC Bank	Accra Metropolitan Assembly

The project had the following components:

1. Country overviews

Studies funded by USAID gave a comprehensive overview of the situation in Tanzania and Ghana. They covered:

1. The formal housing finance sector
2. Housing policy and slum upgrading
3. Microfinance lending
4. Potential for microfinance for housing

Projects in Swaziland and South Africa which were being supported by Cities Alliance offered similar data.

2. Establishment of Housing Finance Forums

Housing Finance Forums were established in Swaziland, Ghana, and Tanzania. They presented an excellent opportunity to bring together government, regulatory bodies, banks, pension and insurance companies, NGOs and micro-finance institutions, and academics working in the field of urban development and housing.

3. Undertaking surveys

The project undertook quantitative and qualitative surveys. It also benefited from an overlapping of the data collection needs of other Cities Alliance funded projects.

The quantitative surveys were undertaken by locally based consultants, as follows:

Country	Number of households surveyed	Survey undertaken
Swaziland	824	October 2005
Ghana	300	October 2006
Tanzania	380	October 2006
S. Africa	6,852	November 2006
Total	**8,356**	

From this rich material, it is possible to sketch a picture of conditions within the settlements concerned.

3.1 Swaziland

There is a wide variety of housing in the settlements surveyed. Most of them, while small and overcrowded, are permanent. There are many indications that the owners take pride in the houses, even though they are so small. The same is seldom true of tenants who neither wish to invest in the property, for obvious reasons, nor take the time and trouble to beautify it.

Renting is common, and typically rented rooms are built as separate units within the compound, which is called a homestead. Many properties have one or two rooms for rent, but some have large numbers, typically built in rows.

3.2 South Africa

The South African situation is very different: the houses (usually called “shacks”) in the settlements selected for study are all built out of temporary materials – mainly second-hand corrugated iron. Timber and plastic sheeting are also used.

The houses, although externally so uninviting, are often relatively well furnished and attractive inside. However they are small, and 75% of the families use only one room for sleeping. Water is supplied by the municipality through standpipes, although in one settlement the water is taken from local borehole which suffers from reliability problems. Pit latrines provide sanitation. Less than 1% have electricity.

3.3 Tanzania

The sample in Dar es Salaam included relatively high density and well-established settlements, as well as newer, lower density areas which are currently still under development.

The settlements are all built on comparatively flat terrain. One is located next to a small river, and is subject to flooding during heavy rains. The houses vary considerably in size, the mean size being $34m^2$, and almost all are built with concrete blocks.

73% of the households in the survey obtained their water from a river. 70% of the respondents shared their bathroom with others.

60% of the households surveyed had an electrical connection: just over half of these were official metered connections, and the rest were unofficial connections.

3.4 Ghana

Some of the settlements studied were well established, with houses of over 60 years old. The majority were built in the traditional form of a compound in which the majority of the rooms are rented out. Houses in the established settlements are usually built of concrete blocks or mud bricks. Other settlements were newer, and one was a comparatively recent settlement in which the houses are wooden, and obviously built as relatively temporary construction.

Most settlements included in the survey are comparatively well served with roads, but one is built on marshy soil at the edge of a stagnant and very polluted lagoon. The water table is high and during rains it is subject to flooding.

One of the matters for concern in Accra is the amount of money spent by families on paying for water from vendors, or paying to use public toilets. These are, in fact, privately owned in the majority of cases, and a matter for concern is the amount of money that some households have to spend on water and sanitation.

Electricity is virtually universal in Accra – 91% of the households surveyed were connected. Ghana has a special tariff for poor people, which applies if a small amount is used monthly. The power is therefore used for lighting, and cooking is mainly done with charcoal.

3.5 The Residents

Those in full-time formal employment were 51% in Mbabane, 33% in Dar es Salaam, 35% in Ekurhuleni (SA), and 19% in Accra.

What is very striking however, is that in Mbabane 20%, and 31% in Ekurhuleni, considered themselves unemployed, whereas none of the household heads in Dar es Salaam or Accra did so. In Accra 93% of all household members said they had worked for pay or profit in the previous 12 months. Two thirds of the household members in Dar es Salaam were engaged in informal employment.

In Accra, employment was dominated by retail trade and service industries. 6% were in manufacturing and 8% in construction. In Ekurhuleni, 71% said that they had no skills. Those who had skills were mainly in the manufacturing sector, such as machinery operation and driving.

3.6 Incomes and expenditure

Accurate data on incomes are notoriously difficult to obtain. Commonly, incomes are undeclared, and it is only when expenditures are discussed that the discrepancy becomes evident. However, it is of great importance to note that income levels were shown to be higher than expenditure in three cases, even if only by a small margin.

3.7 Borrowing and lending

The quantitative survey strongly suggested a demand for improved housing and services. Income levels, and the presence of an economic cadre with surplus income for investment support this supposition. However, most residents lack access to the formal banking sector. The majority of respondents indicated they would upgrade rather than seek new plots.

3.7.1 Swaziland

Many households have saving accounts, yet a very small number secure loans for housing investments. Residents of the project area are aware of the operations of commercial banking institutions, including commercial banks, the building society, and credit and savings societies.

The existence of community-based savings and finance schemes suggest that these may be a viable means to provide access to finance for low income groups, particularly female-headed households. The findings suggest that there is scope for linking formal and informal savings schemes, perhaps through such mechanisms as community mortgages.

3.7.2 South Africa

30.8% of the population state that they are saving on a regular basis. Just over 20% have one or more bank accounts. Also of interest is that about 30% of the families in Ekurhuleni are members of burial insurance schemes, and about 2% contribute to private pension schemes. Of all the households interviewed 11.5% save their money with the post office or through SACCO (Savings and Credit Co-operative). A similar percentage use revolving credit clubs (stokvels).

3.7.3 Tanzania

54% keep savings at home, 43% have an account in a formal bank, and 8% are members of a SACCOS. Saving for household emergencies seems to dominate in the three settlements. However, in two of the three settlements surveyed, house construction is the second most important reason for saving. The amount in the bank accounts varies from $30 – $500, but the majority have slightly less than $100. The majority of households are ready to take up loans of up to $10,000, which was also the most frequently mentioned value of respondents' houses.

3.7.4 Ghana

30% of the respondents reported having savings accounts, while 42.4% reported engaging in a revolving savings club (susu). The mean amount saved is about $60, with mean per capita savings per month of about $16. Respondents who took loans borrowed between $50 and $1,500 with the majority borrowing between $100 and $500. The borrowing pattern of respondents did not seem to follow any regular pattern. Borrowing was not regular or often.

About 82% reported they would take a house improvement loan of between $100 and $1,500 if it were available. They were willing to repay from $5 to $700 per month. The majority would pay a maximum of $50 per month.

4. Housing finance

The study also undertook a detailed assessment of housing finance in the countries concerned, and found a variety of situations. Micro-finance is growing, and micro-finance institutions are increasingly developing housing finance products. There are innovative arrangements, for example where a bank starts its own microfinance subsidiary, as the HFC Bank in Ghana has done; there is a Building Society in Swaziland, for example, which has already undertaken lending to residents of informal settlements.

There are many credit and savings cooperatives and credit unions. Some have weak management and charge low interest rates which threaten their sustainability. Others are well run and operative both profitably and are effective. However, most of them have difficulty in raising the capital which would be required if they were to make loans for housing.

5. Market analysis

The report analyses the lessons learned from the perspective of both borrowers and lenders.

The four countries represent a wide variety of different situations and it is not easy to generalise. There are obvious similarities between Ghana and Tanzania in that they both have strong non-profit microlenders, and a culture of group lending is well established.

There are similarities between Swaziland and South Africa too: they share many elements of their economy. However, South Africa has a very active commercial micro-lending sector, and although the scale of housing micro-lending is small, the banks are actively participating in the lower income market. By contrast, Swaziland's experience with micro-lenders and co-operatives has been at small scale, and many members of the communities are sceptical about their integrity. It is hoped that the current initiative with the support of Slum Dwellers International will start a new trend.

A thread which runs through all countries is the small number of people who are clients of the formal banking sector. This suggests that if they want to acquire more clients, banks should consider doing things differently. Housing finance might be an entry point for low income customers.

But it may be useful to bring out some key findings.

5.1 From the perspective of the borrowers

Demand: In all countries (with the possible exception of South Africa) there is a demand for housing finance, especially for incremental development, and has a term of 3 – 5 years. However, there is resistance to using the property – even where the borrower has title – as security for the loan.

Interest rates: Interest rates are less important to borrowers than the availability of the funds. Borrowers often assess rates in comparison with informal community-based money lenders, and whose rates are many times higher than any micro-finance lender. In general terms, borrowers are more concerned about the affordability of repayment than specific interest rate. The same holds true for all countries, and even those where there is a strong banking sector.

Availability of housing finance: In none of the countries, with the possible exception of South Africa, is housing finance readily available for the poor. However, in Tanzania and Ghana the strength of the micro-finance sector is such as to suggest that the methodologies currently used for enterprise loans could be adapted to housing.

Housing as an economic good: Low income people have a very good appreciation of the economic potential of housing.

Relationships: It is important for the borrower not to feel intimidated, and to feel respected, by the lender.

5.2 From the perspective of the lenders

Default rates: Formal sector lenders are beginning to appreciate that the risk of lending to this income group is far lower than they used to imagine. Study of the default rate of micro-lenders (especially the well developed ones in Tanzania and Ghana) shows that default is very low.

Savings: Savings are crucial indicators of both an ability to make payments on a regular basis (therefore a demonstration of whether the sum is affordable), and of reliability. A savings record is there-fore the best starting point in appraising whether a customer is reliable.

Relationships with the customers: The basis for success in lending to this income group is for the lender to form a strong relationship with the borrower. This requires time and patience to develop. Traditional banking methods and operational operating systems must therefore be adapted to a people-centred way of working.

Relationships with micro-lenders: It sometimes makes better commercial sense for a formal sector financial institution to form a partnership with a micro-lender, or form a subsidiary for the purpose. For the micro-lender this addresses a typical problem of how to access funds in the quantities required. This is the route chose by the HFC Bank in Ghana.

For the bank, the micro-lender can operate more effectively in appraising loan applications due to its community connections, and can operate without the expense of a formal branch network.

Providing the typical banking products (such as electronic cards to operate a savings account), which the CRDB in Tanzania does, allows the bank to bring its micro-finance customers into the banking system, while giving the micro-lender the cachet of a relationship with a household name.

Enterprise and housing loans: Micro-lenders can make the transition from enterprise loans to housing loans with very modest risk. As it is, most lenders recognise that a proportion of many micro-loans goes to housing, and many micro-lenders are entering the housing market.

Corporate social responsibility: Lending for low income housing can position financial institutions as being sympathetic to the poor, and thereby earn themselves political and commercial kudos. Their role can further be enhanced both commercially and reputationally by adding value to their services, for example by offering a service to their customers in cost estimating, selecting small contractors, or in the ordering and supply of building materials.

6. Developments under the project

6.1 Swaziland

The Swaziland Building Society, the project's counterpart institution, identified three key components for development to strengthen its relations with lower income communities. The first was to establish savings groups which could be linked, at a later stage, to borrowing. The second was to establish champions within the communities for the concepts of savings and borrowing for housing. The third is to simplify procedures and help ordinary people to participate in the Society's services without experiencing the current sense of alienation experienced by poor people in the Society's premises.

Slum Dwellers International assisted with the development of savings groups and organised exchange visits to share ideas with Swaziland on how the poor can be organized to participate in savings schemes for the purposes of improving their conditions in the settlements, specifically to improve shelter.

An excellent start has been made with starting savings groups in four of the settlements in Mbabane, and building interest in many others.

These savings groups can form the basis for a very productive relationship between the Mbabane City Council and the Swaziland Building Society so that when the settlements are upgraded the communities can use their savings effectively.

At the same time the Swaziland Building Society is working with other savings groups, as well as studying methods of bridging the gap between ordinary community members and the Society. This may involve using champions within the community to help potential borrowers to understand the value and consequences of borrowing whether to buy a plot, build or improve their house.

6.2 South Africa

The original intention under the project was to link developments with another Cities Alliance project in South Africa – EMM Upgrading for Growth. The counterpart institution in South Africa, the National Housing Finance Corporation, supported the concept, and dialogue was undertaken with micro-lenders who received wholesale funding from the NHFC. They also expressed interest in such a relationship.

Many of the ingredients for appropriate housing finance for lower income groups are in place. However, the market is distorted by the government's capital subsidy scheme. The effect of this is that there is no or very little market for housing finance for new housing in the lower income groups. People would rather wait their turn in the housing waiting list than spend their own money on house construction.

The other market is for housing extensions and small scale construction on the plot of existing authorised houses. The potential for this market is very great, but its role has not been explicitly recognised by current housing policy. The second issue in South Africa is that currently commercial lenders have been very reluctant to lend to people without formal employment. It is hoped that more work can be done to widen the coverage of banks and micro-lenders to the informal sector, and possibly develop partnerships between commercial micro-finance institutions and NGOs and CBOs working in the housing sector – especially those engaged as support organisations under the People's Housing Process.

6.3 Ghana
Unconnected with the project, but developing simultaneously has been an innovative concept of a **formal bank** forming a subsidiary to operate as a **micro-finance lender**, which might offer a useful example to other banks. This combines the specialized skills and market positioning typical of micro-finance lenders with access capital offered by a bank. In this case, the bank (HFC Bank, the project's counterpart institution in Ghana) teamed up with the Co-operative Housing Foundation, an American NGO which has specialized in the field of micro-finance for housing. CHF claims that it brings an understanding of international best practice in micro-finance operations coupled with experience in wealth creation for disadvantaged target groups.

In Ghana it is also considered useful to assess the experience of other banks in the field of low income housing.

6.4 The Tanzanian Pilot Project
Concept
In March 2007 the Housing Finance Forum developed idea concept for a pilot project to design a lending product for a local bank, which would operate with the support of community savings groups and the municipality. The target group were to be people who had started their houses and who lacked the funds to complete them, or those who wanted to expend their house, normally for renting purposes.

The basic financial structure proposed aimed to address the financial sector's risk concerns and meet as many of the community requirements as possible. The financial components are based on the creation of three separate accounts, supported by insurance, as described below:

Guarantee Fund: This will operate on the well known principle of utilising peer pressure as a credit enhancement mechanism. It is suggested that a levy of 5% be placed on all monthly instalments and credited to an interest-bearing savings account held in the name of the community, most likely through a local SACCOS. This fund will be 100% refundable to the participating individuals after losses have been absorbed to ensure the maximum peer pressure is exerted on delinquents and serve as a community based incentive.

Individual Member's Savings Account: In order to build up a savings history and create protection for the bank, it is suggested that each individual member will be required to save the equivalent of six months instalments of the estimated loan amount before qualifying for an individual loan. This savings account will be ceded to the bank and accrue interest at the relevant long term fixed deposit rate.

Loan Loss Provision Fund: It is proposed that a loan loss provision as a non-interest bearing fund be created on the balance sheet of the bank. Based on the available history of defaults in the microfinance market, a 3% cover is suggested. It is also suggested that a portion of this fund be repaid to the client on discharge the individual loan obligation. A figure of 60% after losses is suggested but this must be negotiated.

Insurance: both life and property insurance form an integral part of the proposals to protect both the individual and the financier. Compulsory insurance on a group basis will be built into the instalments with the bank as beneficiary with any remaining balance, after redeeming the bank exposure.

7. Housing policy
The two USAID reports referred to above covered this field in respect of Tanzania and Ghana, while the project was able to access other sources in relation to Swaziland and South Africa.

8. Strengthening the capacity of AUHF members
The AUHF holds annual conferences and Annual General Meetings. The project has been presented to these meetings each year, and has created much interest. An overview of the findings and recommendations was presented to the Conference held in Accra, Ghana, in September 2007. These presentations have created considerable interest.

The project also financed a brochure aimed at providing publicity to the Cities Alliance supported AUHF initiative, by explaining its objectives and the AUHF achievements, and acts as an incentive to potential members to join.

9. International attention
The project has attracted much international attention. Particularly, this has included the following:

- Collaboration with UN Habitat in Nairobi, especially in connection with the Slum Upgrading Facility (SUF) project, which operates in Accra and Dar es Salaam.
- Collaboration with UN Habitat in support of their Experimental Reimbursable Seeding Operations and other Innovative Mechanisms to Catalyse Investments in Pro-poor Housing and Infrastructure (ERSO).
- USAID invited the Project Leader and Ashna Mathema to study the housing finance system in Morocco, with a view to using the experience from the AUHF project, and Morocco in Egypt and other countries in which USAID is active.
- Following preparation of a study of housing finance in Zambia, and holding of a Housing Finance Forum, on the same lines as this project, FinMark Trust, South Africa, has stated its wish to co-fund a similar project in Zambia. Work on this project has already started, pending approval of the grant application by the Cities Alliance.
- The Project Leader has also been invited to share the experience of the project at the Housing Finance Forum held in Zambia in October 2007, and at a conference on Housing Finance to be held in Dar es Salaam in May 2008, which is co-funded by FinMark Trust, Rooftops Canada, and Habitat for Humanity International.

10. Next steps for the AUHF

As the market for high income formal sector housing finance is limited, the membership of the AUHF has become aware of the potential for new products and markets. There has therefore been tremendous interest in this project from AUHF members. The extraordinary interest in the training workshop held in Accra in September 2007 bore witness to this.

To leverage the enormous range of lessons learned from the project, and to train member institutions in the methodology in both market analysis and product design, further training workshops will be required.

11. Next steps for the Cities Alliance

This work has made an impact far greater than its modest budget of $250,000 would suggest. It has already started changing attitudes and practices, and builds on work throughout the world in this field. There is tremendous potential to build on the results achieved, and thereby make a major impact.

The problem with the project as originally designed was the limited time frame. Two and a half years are simply not enough to help multiple agencies and countries identify problems, undertake field research, analyse the research and design appropriate products. These activities all take time, and the innovative nature of many of them requires additional work.

The most important role for the Cities Alliance would therefore be to support a second phase which will give time and funds to support the further development of the ideas and practices developed to date, and allow the effective market testing of products.

In addition to this there are areas which can be developed further. To highlight some:

Capital enhancement: Much interest has been devoted lately to the question of how the limited amounts of cash which poor people may have saved either in financial terms or by way of housing assets can be leveraged to give them access to greater sums.

Another approach is to look as financial assets per se, of which pension funds and life insurance are the best examples. Some countries allow pension or life insurance funds – whether private or public – to be used either as collateral, or withdrawn for housing purposes. Such a system has a potentially very important role to play in low income housing and deserves both wider exposure and advocacy.

Partnerships: Many formal sector financial institutions are naturally apprehensive about entering the market of informal housing.

Further work should be undertaken to help formal sector institutions work more effectively in partnerships with both micro-finance institutions and community based organisations. Effectively structured and managed, these partnerships can offer an extremely practical and effective way of bridging the gap.

Pilot projects: There could be very valuable lessons learned from the Tanzanian pilot, but it is to be hoped that other pilot projects will be initiated which reflect the conditions in other countries.

Vertical integration: One of the issues which has often been raised is that of technical assistance and support. There could be tremendous opportunity for lenders to enhance their package by including technical assistance in the field of design and supervision, and to assist the clients by linkages with building materials suppliers and even contractors. Alternatively community-based training programmes in these fields could be of value.

Other experiences: As noted in the report there has been great interest in this work from many agencies, including USAID, UN-Habitat, and FinMark Trust. USAID funded a study of the situation in Morocco which has been of great value in view of the scale of micro-finance in that country, and the role that it is playing in the national housing programme. The Morocco experience is also valuable in the manner in which conventional banking practice has changed to accommodate a new market. USAID has expressed interest in supporting a new AUHF/Cities Alliance project in Egypt. FinMark Trust has also proposed co-funding of a similar project in Zambia, and at the time of writing a project proposal for that country is being finalised. Desjardins International Development has also expressed an interest in collaborating to study the mass savings schemes in French West Africa, for example Burkina Faso, to which they claim 80% of the people in the country contribute to. Is this success do to cultural, institutional, financial or managerial factors? Perhaps there might be something to learn from these experiences by other countries in Africa?

PART 1: THE PROJECT

1. Introduction

Housing finance has traditionally been secured by mortgages on the property concerned. This requires a system in which titles can be mortgaged, a legal system which allows the lender to take possession of the property in the event of default, and lenders which have access to sufficient capital, whether through savings or the capital markets.

In many countries one or more of these conditions do not apply, and the majority of people in Africa are excluded because they do not have title to their property. In retrospect it is remarkable that it has taken so long for this fact to be recognized, and for new approaches to be sought.

The field in which the most promising advances have been made are in micro-finance, the concept that started with the Grameen bank which used group solidarity as a guarantee against default by rural women who had hitherto been considered unbankable. The concept revolutionized attitudes to lending, as it demonstrated the level of commitment which the poor represent to loan repayment.

The Grameen model has been replicated in a wide variety of countries and for a variety of different target groups, but until comparatively recently was used primarily for loans for business. In such loans, the increased profits which result from the borrowing may be used to repay the loan.

Housing is typically seen as a social good, and far from yielding money can consume it, in terms of maintenance, taxes and utility costs. Thus funding of housing for the poor was often seen as the responsibility of government rather than the private sector. Loans for house construction were typically packaged as part of an upgrading or site and service package administered by central or local government.

However, the last two decades have seen a huge decline in the level of government funding for housing. As a result, the focus has increasingly changed to the private sector, or, especially in the case of the poor, to NGOs.

Incremental housing – the main source of demand for housing finance (Mbabane, Swaziland)
Top: Redevelopment of low standard walling
Middle: modern door and window frames
Bottom: new bathrooms and kitchens

NGOs have typically played two roles. The first has been the role of the financial NGO as either a retailer of wholesaler of finance. Where it is a wholesaler, the funds are on-lent through community-based savings and credit organisations. In both cases the group security system is often used.

The second role, pioneered by the British NGO, Homeless International, has been to offer guarantees to local borrowing, thus encouraging banks to lend to the poor.

Meanwhile, the need for housing finance was increasingly being expressed by the poor themselves. Lenders often found that loans purportedly being taken for business were being used for housing. They therefore started to consider the implications of lending for housing, which typically required larger sums (and therefore longer repayment periods). Some lenders also felt the need to verify the quality and value of the product being financed which required technical skills which they typically lacked.

Informal settlement upgrading has been undertaken in a number of cities in the region over the years, beginning with Lusaka in the mid-70s and including Nairobi, Addis Ababa, Dar es Salaam, Mbabane and Johannesburg, to name a few. However, in almost all cases, past upgrading efforts have not been sustained because a) national enabling environments in terms of legislation, capacity, finance and political will have not been in place, and b) funding for upgrading has been largely external and projectised, resulting in the cessation of work once external support ends.

One of the strategic objectives of the Cities Alliance is to facilitate the upgrading of informal settlements. CA supports a variety of alliances and partnerships that seek to move beyond the anecdotal level to programmatic upgrading. A key common denominator in any successful alliance of this type is ownership by durable institutions that are firmly grounded in the regions in which they operate.

The African Union for Housing Finance is a durable, grounded regional institution of this type. AUHF was established in 1984 and is an association of 37 mortgage banks, building societies, housing corporations and other organisations providing funding for shelter and housing, in 14 countries on the continent of Africa. AUHF has considerable experience in donor cooperation including past and ongoing activities with Canadian CIDA, USAID and the World Bank. The aims and objectives of AUHF are:

- To promote greater understanding of savings and home-ownership in Africa, including the rights and responsibilities of both lenders and borrowers,
- To assist in the application of appropriate technology and the improvement of housing in Africa,
- To encourage members to conduct their business in an ethical manner, to raise technical and financial standards, and to help members expand the scope of their activities,
- To consult with governments and international organisations in meeting housing needs in Africa, and
- To develop training programmes, information exchanges and to carry out research.

AUHF recognizes that formal mortgage banking sector services only reach a very small part of the African population, i.e. those who can afford a conventional mortgage, and is therefore actively seeking alternative ways to assist informal sector borrowers as well as lenders, such as community banks, peoples' banks, saving associations and credit unions. The AUHF is an important regional alliance in terms of knowledge networking, advocacy for change, and as a finance partner to provide support to broader programmes for the scaling up of upgrading activity.

It was against that background that this project was developed. The membership of the African Union for Housing Finance consists almost entirely of traditional mortgage lenders, whether commercial banks or housing finance institutions. They have found their market shrinking for many years. Among their problems has been the lack of housing with title on which to lend, the high interest rates, and low income levels relative to the cost of conventional housing solutions. Some of these high costs are due to unrealistic standards imposed on new development by local and/or central government, especially in terms of infrastructure.

The project was designed to explore the potential for them to expand their market by developing new products which can be

Another source of demand – Finance to complete half- finished houses (Dar es Salaam, Tanzania)

used. It was recognized that these products would differ substantially from the traditional mortgage, and could require new ways of working. Chief among their characteristics would be to lend without security of land title. The immediate reaction of mortgage lenders was to ask how they could limit their risk. The project therefore aimed to explore the nature of the market, targeting residents of the informal settlements, and to conduct some pilot projects which would test the market in terms of both the bankability of the borrowers, and the systems the lender had to develop to manage a new way of lending.

The economic potential of housing:
Right: building to rent (Mbabane)
Below: Work from home enterprise(Mbabane)

2. The Project Design

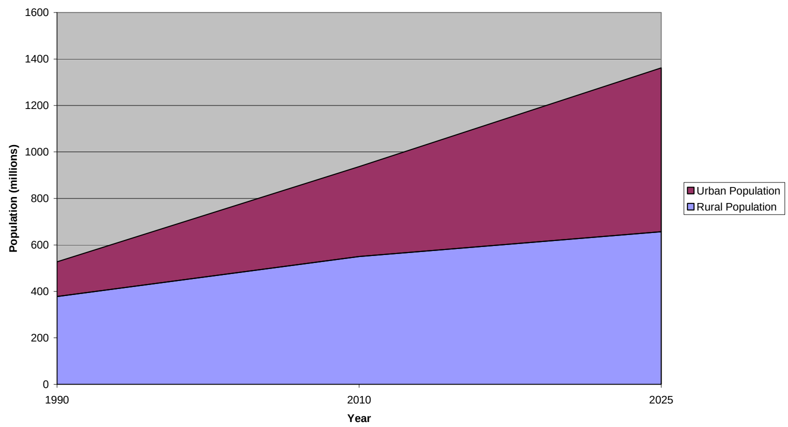
2.1 Project Plan

The following section describes the project as originally planned.

Background and issues to be addressed

The rapid migration of people from rural areas to cities and towns is among the most profound demographic events that Africa has experienced. While Africa was 80 percent rural 30 years ago, its level of urbanization now stands at about 40 percent, and this shift will continue over the coming years. Demographic forces and lessons learned require a revised urban development strategic approach in Sub-Saharan Africa (SSA). SSA is now urbanizing faster than any other region in the world

Figure 2.1 Growth of urban population of Sub-Saharan Africa



Source: J.L. Venard, Urban Planning and environment in Sub-Saharan Africa, UNCED Paper No. 5 (AFTES) 1995.

In general, urbanization rates in SSA are substantially higher than overall population growth rates, with the urbanization growth rate 1988-98 remaining at a steady 5% while the total demographic growth rate declined from 2.9% to 2.6%[1].

As the number of urban residents has grown, so has both the absolute number of those living in urban poverty and the proportion of the poor living in urban areas. Currently, about 40% of households in the region's capital cities live below the poverty line (though in some cities this is very much higher -the figures for Kampala, Lagos and Addis are 77%, 66% and about 60% respectively.) More importantly, the urban poor as a proportion of the total poor population in the region is climbing. In Nigeria, for example, between 1985 and 1993, the urban population living in poverty remained almost stable at 31%, while the total urban population grew at over 5% per annum (against total demographic growth of around 3%.) Over the same period the incidence of rural poverty dropped from 49.5% to 36.4%.

In other regions of the world, urbanization has been positively correlated with growth and poverty reduction. Urbanization in Africa has not contributed, through economies of scale and value added production chains, to overall growth in GDP. East Asia and Africa have had similar rates of urbanization (4-5% per annum) for the period 1970-95, but GDP growth in East Asia accelerated by about 3.7% p.a. while GDP declined by .66% p.a. in sub-Saharan Africa.' There are many causes of this phenomenon in SSA including rapid migration to urban areas following the end of apartheid regimes, macroeconomic mismanagement, war, famine, and flight from failed rural small holder regimes imposed by centrist bureaucracies compounded by rural labour redundancies stemming from corporatisation of export-oriented agriculture.

But the causes of urban in-migration in the region do not fully explain the persistence of poverty in SSA cities and towns, as shown most dramatically in the burgeoning informal settlements in and around most of the region's major cities. In most of SSA, there has historically been a lack of systematic political support and institutional capacity for sustained informal settlement upgrading

[1] *Source: J.L. Venard, Urban Planning and environment in Sub-Saharan Africa, UNCED Paper No. 5 (AFTES) 1995.*

programs and provision of low cost housing opportunities in general. This situation is now changing as a result of a variety of factors including a) the broad trend throughout the region toward responsive democracy and decentralization of government functions, b) country-specific commitments to the attainment of Millennium Development Goals and broad poverty alleviation targets, c) the initiation of City Development Strategies in growing numbers of cities, supported regionally by institutions like Africities and in country through the SA Cities Network, d) examples within the region of success in dealing with urban renewal and upgrading in South Africa, Namibia, Swaziland, etc, and e) the governance and development objectives embodied in NEPAD and the new African Union .

The development of effective lending programmes to support the upgrading of informal settlements is dependent upon several factors:

1) Supportive Policy Environment: The existence of a supportive policy and regulatory framework is a pre-condition for the introduction of sustainable housing finance programmes for low-income households. This framework must address a range of topics including capital adequacy and usury requirements and risk abatement mechanisms including collateral security and debtor recourse. The collection and analysis of policy related information accordingly constitutes a vital first step toward the development of appropriate policies and financial products to support upgrading programmes.

2) Market Knowledge and Awareness: Existing financial intermediaries generally lack an understanding of the low-income market due to operational histories which biased lending activities away from this segment. For sustainable lending to take place, these financial intermediaries must develop a proper understanding of the characteristics of this market segment including market opportunities (including the scale of demand and borrowing capacity), market constraints (including borrower affordability and risk profiles) and other market features and requirements (including payment mechanisms and default mechanisms). The collection and analysis of this information is necessary to build institutional support and capacity for the development of financial products to support upgrading programmes. A pilot initiative to determine the nature, scale and character of demand for housing finance within informal settlements located in Gauteng, South Africa has already been completed. This pilot initiative was undertaken by the AUHF in conjunction with the Housing Finance Research Project.

3) Operational capacity: Lending to low-income households requires tailored lending products and clearly focused operational practices and capacities. These operational capacities are currently either skewed towards higher-income markets or have been constrained by various factors including the institutional viabilities, the absence of appropriately framed lending products, rigid collateral requirements, inappropriate payment mechanisms and poorly implemented default procedures. The development of appropriate housing finance products and identification of operational capacity constraints is accordingly key to future lending activities.

4) Participatory approach: The sustainability of development interventions is directly linked to the quality of participation by the ultimate beneficiaries. The participation of beneficiaries enhances the match between beneficiary requirements and product design and ensures that demand-side requirements are met. It is accordingly anticipated that community stakeholders will be

Participation on design solutions taking place in Mbabane

involved in the beneficiary survey process and also during the development and piloting of new lending products.

Objective

Extracts from the approved grant application

The objective of the project as stated in the project document was to facilitate the development of appropriate housing finance products to support upgrading activities in four African countries. This directly supports the scaling up informal settlements upgrading through the development of viable financing schemes in project cities. This entailed a knowledge building process, the development of a policy agenda, the actual implementation of new financing products and the dissemination of information on lessons learned. What follows is an extract from the approved Grant Application.

Methodology, and sequencing of activities

The development of innovative housing finance products to target low-income households within informal settlements will require focused local engagement and four members of the African Union for Housing Finance ("AUHF") have volunteered to lead this process within their national contexts i.e. the Ghana Home Finance Company Limited (Ghana); the Tanzania National Housing Finance Corporation (Tanzania); the Swaziland Building Society and the South African Banking Council, referred to as the Lead Institutions were to undertake work according to the following phases:

Phase 1a: Policy Research and Advocacy

A supportive policy and regulatory framework is key to the promotion of lending within low income communities. During the first phase of work, the Lead Institutions engaged with financial intermediaries within their national contexts in order to:

- Establish housing finance forums ("HFFs") focused on lending to low-income households and within informal settlements. These forums should be structured to take account of differing local conditions, but should include the broadest possible representation of financial intermediation including traditional banks, community banks, non-government organisations engaged in lending activities, co-operatives and micro-lending institutions. The housing finance forums are to be maintained for the duration of this project.
- Work with the HFFs to identify and analyze national, provincial and, where appropriate, local policies and regulatory frameworks which impact on the upgrading of informal settlements and/or which impact upon lending to low-income households within informal settlements and to identify key policy impediments to the development of conductive lending environments. The findings of this work should be disseminated widely to all participants within the HFF and other relevant stakeholders.
- Establish a process of dialogue between the HFFs, key national government departments (including national departments responsible for the upgrading of informal settlements, land registration, banking regulation and finance), and key non-government organisations and community groups, to lobby for the development of policy environments which are supportive of lending to low-income households in informal settlements. This process is to be institutionalized in a manner appropriate to local circumstances but detailed action plans are to be prepared to reflect activities to be undertaken.

This phase of the work was completed over the first 12 months of the grant..

Phase 1b: Building market awareness and knowledge

Simultaneously with Phase Ia, the Lead Institutions will work in partnership with key municipalities to develop greater awareness and knowledge of the characteristics of the low income market segment. The City of Accra, the City of Dar es Salaam, the City of Mbabane and the member cities of the South African Cities Network ("the Lead Cities"), have indicated a strong interest in developing city-wide slum upgrading programmes and have acknowledged the importance of housing finance within these upgrading initiatives. The Lead Cities have all expressed a keen interest in developing partnerships with the Lead Financial Institutions to undertake the following activities:

- Obtain and collate information on the scale and location of informal settlements within the lead cities. This process should be co-coordinated closely with existing CA funded activities in order to avoid duplication and maximize synergies.
- Undertaking surveys of a representative sample of residents within informal settlements in order to develop a lending profile of prospective borrowers within informal settlements.
- Disseminate the findings of the above-mentioned processes in a structured manner to financial intermediaries, municipalities, non-government organisations and national government departments.

This phase of work is to be commerce immediately upon approval of this grant and is expected to be completed over a period of 12 months.

Extracts from the approved grant application

Phase II: Developing Appropriate Housing Finance Products and Capacities

Based upon the work in the proceeding phase, Lead Institutions and HFF members embarked upon locally-driven processes to:

- Develop demand-driven housing finance products appropriate to their local contexts. This process is to be supported through the provision of technical expertise to design and adapt appropriate finance products and institutional arrangements to support upgrading.
- Identify institutional capacity constraints within existing financial intermediaries and identify mechanisms and options to address these constraints.

This aspect of the work only gained momentum once work under Phase Ia and Phase Ib was completed and continued for a further period of 6 months thereafter.

The development of new products will be managed by the Lead Institutions whilst the AUHF will assume overall coordinating responsibility for the work and will disseminate information on lessons learned during the product development phase amongst AUHF members and housing finance institutions and other potential partners, both regionally and internationally, to scale up lending for upgrading.

Phase III: Implementing Lending Activities

Based upon the work in the proceeding two phases, the Lead Institutions and HFF members were to pilot the new housing finance products through at least one project located in the area of jurisdiction of the Lead Cities. This was not possible due to a number of factors, but it is hoped that this aspect of the work is expected to continue after the project period.

During this phase, the Lead Institutions will be responsible for the day-to day implementation of the pilot projects. The AUHF will assume overall responsibility for the co-ordination of implementation activities and will disseminate information and lessons learned during the pilot lending phase among AUHF members and housing finance institutions and with other potential partners, both regionally and internationally.

Extracts from the approved grant application

Outputs

- Establishment of Housing Finance Forums (HFFs);
- Initiate a process policy of policy dialogue between HFFs and national government;
- Undertake upgrading and housing finance policy assessments in respect of Ghana, Tanzania, Swaziland and South Africa under the direction of Lead Institutions and these assessments and disseminate to African housing financial institutions via the AUHF;
- Undertake demand-side beneficiary surveys will be undertaken in Accra, Dar es Salaam, Mbabane and South African Cities Network member cities which will enhance knowledge of the low-income market segment;
- Develop appropriate, locally determined and demand-driven housing finance products will be developed to support lending in Ghana, Tanzania, Swaziland and South Africa;
- The capacity of African housing finance institutions should be strengthened through the project as a result of the provision of information, technical support, knowledge sharing and new upgrading partnerships will be established between housing finance institutions, national and local governments. Collaboration within the AUHF will also be strengthened through the initiation of clear, tangible and programmatic delivery orientated activities.
- Undertake and evaluate pilot housing finance upgrading projects will be undertaken and evaluated.

3. The Project as implemented: an overview

1. Overviews of the housing finance situation
Studies funded by USAID[2] and undertaken in 2005 gave a comprehensive overview of the situation in Tanzania and Ghana. They covered:

- The formal housing finance sector
- Housing policy and slum upgrading
- Microfinance lending
- Potential for microfinance for housing

A meeting of the housing finance forum in Tanzania

2. Establishment of Housing Finance Forums
Housing Finance Forums were established in Swaziland (November 2005), Ghana (December 2005), Tanzania (February 2006). They presented an excellent opportunity to bring together a variety of stakeholders, including government (Ministries responsible for housing and finance), regulatory bodies (central banks), banks, pension and insurance companies, NGOs and micro-finance institutions, and academics working in the field of urban development, housing.

3. Undertaking surveys
The project undertook quantitative and qualitative surveys. It benefited from an overlapping of the data collection needs of other Cities Alliance funded projects, namely the Mbabane Upgrading and Finance Project in Swaziland, and Upgrading for Growth in Ekurhuleni in South Africa.

The quantitative surveys, undertaken by locally based consultants, were as follows:

Table 3.1 Quantitative surveys undertaken

Country	Author	Number of houses surveyed	Survey undertaken	Final report
Swaziland	John King	824	October 2005	April 2006
Ghana	Steve Akuffo	300	October 2006	Sept 2007
Tanzania	Tumsifu Nnkya	380	October 2006	Sept 2007
S. Africa	Citizen Surveys	6,852	November 2006	Feb 2007
	Total	**8,356**		

Some preliminary analysis of the Ekurhuleni study was undertaken by Jo Maraharaj in August 2007, and a summary report to compare and consolidate the findings of the four surveys was prepared by Nqobile Mavimbela in October 2007.

The qualitative surveys in Swaziland, Ghana and Tanzania were undertaken by Ashna Mathema, and completed in June 2006, October 2006 and January 2007, respectively. A report consolidating the findings of the three studies was completed in March 2007.

Survey in progress, Swaziland

5. Housing policy
The original project document put some emphasis on the documentation of housing policy in the four countries. The two USAID reports covered the field in respect of Tanzania and Ghana, while in

[2] Merrill, Sally and Tomlinson, Mary: Housing Finance, and Informal Settlement Upgrading: an assessment of Tanzania. Urban Foundation, Washington, August 2006
Merrill, Sally and Tomlinson, Mary: Housing Finance, and Informal Settlement Upgrading: an assessment of Ghana. Urban Foundation, Washington, June 2006

Swaziland the situation was being addressed under a parallel study. In South Africa the subject was covered comprehensively in the Government's policy document.

6. Appropriate, locally determined and demand-driven housing finance products will be developed to support lending

A summary of the project achievements in this respect is as follows:

Ghana

The HFC bank, the counterpart institution in the project, had already developed two products which were relevant to the project, namely their informal sector banking scheme, which is a saving and loan system operated by the bank for the market women in Accra. This demonstrated the dramatic potential of daily savings for the accumulation of capital, and the potential that this has as a basis for loans whether for housing or businesses.

During the project the HFC Bank, in collaboration with the Cooperative Housing Foundation, has also started a subsidiary micro-finance institution for lending for housing.

Swaziland

Learning from the experience of Ghana, the counterpart institution, the Swaziland Building Society, has started to look at the potential for daily savings. It has been collaborating with the Mbabane City Council, and has had significant support from Slum/Shack Dwellers International, especially their Zambian arm.

They have also identified the need to create an environment in which residents of informal settlements feel less intimidated by them, for example by appointing community based agents who can assist people to start accounts or make applications for loans.

Tanzania

The Housing Finance Forum in Tanzania formulated a project which will be an opportunity to field test a new product in low income housing lending. This consists of a tripartite collaboration between a community, the local authority, and financial institutions.

The community identified is Makandarawe, a rapidly developing peri-urban settlement which is characterized by a high proportion of unfinished houses of comparatively high quality.

The financial institution identified is the Azania Bank, but other banks have also expressed interest in participating.

The community already has an established system of representation under the local government administration, which will be supported by Women Advancement Trust (an NGO with particular interest in housing, and an interest in creating a micro-finance arm), supported by Dunduliza, a financial umbrella NGO which specializes in providing technical support and oversight for Savings and Credit Societies (SACCOS). Dunduliza is supported by Desjardins International Development (DID), the international development arm of Desjardins in Montreal, which is a very important player in savings and loans in Quebec.

Makandarawe, proposed site for a pilot project in Dar es Salaam

The project has financed the development of a short-term loan product, which has created much interest among the banks in Tanzania. This is documented in the report: Proposals for a Pilot Housing Project in Makangarawe, Tanzania, by Johan Kruger. The proposals are described in detail in Part 4 of this report.

South Africa

The project was intended to support the upgrading of six settlements in Ekurhuleni – the Cities Alliance supported "Upgrading for Growth" project.

This was delays in formulating and implementing that project, and it was not possible to develop a product within the time available. Nevertheless, there are certain features within the South African system which the project has identified for further development and applicability to other countries. The most important of these is the development, by several lenders, of an effective and well-tested system of commercial micro-finance loans based on salary deductions by the employer, and linked to building materials suppliers.

7. Strengthening the capacity of AUHF members

The AUHF holds annual conferences and Annual General Meetings. The project has been presented to these meetings each year, and has created much interest. A overview of the findings and recommendations was presented to the Conference held in Accra, Ghana, in September 2007. These presentations have created considerable interest.

The project also financed a brochure (the cover is shown on the right) aimed at providing publicity to the Cities Alliance supported AUHF initiative, by explaining its objectives and the AUHF achievements. It was also designed to act as an incentive to potential members to join.

8. International attention

The project has attracted much international attention. Particularly, this has included the following:

Collaboration with UN Habitat in Nairobi, especially in connection with the Slum Upgrading Facility (SUF) project, which operates in Accra and Dar es Salaam.

Collaboration with UN Habitat in support of their Experimental Reimbursable Seeding Operations and other Innovative Mechanisms to Catalyse Investments in Pro-poor Housing and Infrastructure (ERSO).

USAID invited the Project Leader and Ashna Mathema to study the housing finance system in Morocco, with a view to using the experience from the AUHF project, and Morocco in Egypt and other countries in which USAID is active.

Following preparation of a study of housing finance in Zambia, and holding of a Housing Finance Forum, on the same lines as this project, Finmark Trust, South Africa, has stated its wish to co-fund a similar project in Zambia. Work on this project has already started, pending approval of the grant application by the Cities Alliance.

The Project Leader was also been invited to share the experience of the project at the Housing Finance Forum held in Zambia in October 2007, and at a conference on Housing Finance to be held in Dar es Salaam in May 2008, which is co-funded by FinMark Trust, Rooftops Canada, and Habitat for Humanity International.

The remainder of this report describes the findings in more detail.

PART 2: POLICIES AND EXISTING CONDITIONS IN THE SELECTED SETTLEMENTS

4. Housing policy

4.1 Swaziland

Swaziland is a relatively rural society, with approximately 75% of the population living in the rural areas.

Of the housing in the urban areas, about 50% is informal. Most of these settlements were developed with the consent of the authorities, either traditional leaders – who have official custodianship over Swazi Nation Land – or government agencies such as the Regional Administrator.

Government has found it very difficult to provide housing on an economically sustainable basis to low income city residents. There have been many different public agencies involved in housing provision, which have been incorporated under the umbrella of the Ministry of Housing and Urban Development since 1991.

Many of Swaziland's urban informal settlements retain a rural atmosphere(Mangwaneni, Mbabane)

Swaziland has not developed a comprehensive national shelter strategy, however, it developed a National Housing Policy. The policy was written in 1990 and its basic thrust is to provide an enabling environment for the community to improve its own shelter. In 1993, a Housing Policy for Urban Areas was developed by the Ministry of Housing and Urban Development (MHUD).

The National Housing Policy identified a number of weaknesses in the existing housing market and aimed to strengthen these areas. It highlighted six areas that needed attention. The first aimed to strengthen housing markets by utilising "turnkey" and joint venture arrangements, issuing requests for proposals for private developments under land availability agreements, and encouraging the private sector to develop rental flats, etc.

The second area aimed to make housing finance more available, especially to low income earners through a range of more flexible finance options while institutional strengthening was the third cornerstone of the policy. It outlined the key players in the housing process, namely the Ministry of Housing and Urban Development, the Swaziland National Housing Board, the City Councils, the infrastructure authorities, the Deeds Registry Office and the Surveyor General's Office. It specifically outlined the actions necessary to strengthen each institution.

The fourth area identified by the policy as being in need of attention was the area of land reform. It encouraged the development of a national land policy to improve the administration of land in the country and looked at the concept of alternative forms of tenure. It also indicated the necessity of pricing land so that it is affordable, particularly to the poor.

The fifth area focuses on construction. The policy aimed to introduce new, lower building standards that recognised traditional methods of construction, and encouraged banks to lend money for housing based on these methods.

The final area embraced by the housing policy was the issue of urbanisation. Under this heading, concepts such as simplifying development control, planning for future expansion and the development of structure plans were introduced.

The policy focuses more on home ownership and should really consider other forms of housing tenure such as rental. A major policy decision that rent control would not be introduced into the country was taken in 1996.

The National Housing Policy established the goals which Swaziland needs to achieve in order to improve shelter and human settlements. It has embraced the notion of providing an enabling strategy for housing and undertaken a number of projects designed to improve the way the housing market operates. There is still much to be done in this area and many of the strategies are still in their infancy. However, despite the work done so far, Government is finding it difficult to keep pace with the rate of urbanisation.

The Government is also finding it impossible to facilitate housing for the poor. Even providing small plots (200 square metres) with minimal services is proving to be out of reach for some low income earners. Government policy is that it is financially unable to provide any housing subsidies. The harsh reality is that there will always be an income threshold, below which the Government and co-operating agencies will be unable to provide any type of formal housing.

It is apparent that the principle of enabling shelter strategies does much to improve land management and streamline policies and procedures, but does little to enfranchise low income earners into the formal housing market. Certainly, improvements in the urban policy framework are necessary. Government is aware that low income earners are the most vulnerable members of society, and in housing terms, they are the ones least able to obtain secure and affordable accommodation.

New housing being developed in Swaziland by the Government

Since 1980, approximately 1,200 low cost plots have been formally delivered by the public sector. The Swaziland National Housing Board (SNHB), and other institutions, e.g. Swaziland Provident Fund, provide housing to middle and upper income groups. Fully serviced plots with houses are provided on a cost-recovery basis and demand has exceeded supply. The SNHB also has a number of properties on the rental market, but is increasing development of plots for sale.

According to the government's official Report to Habitat II, (June 1996),

> *A number of public sector housing projects have been unsuccessful due to problems of affordability amongst the target beneficiaries. Most upgrading projects have not included an income survey and have been priced beyond the reach of low income earners. In these instances the standard of services has been too high. As a result the residents cannot afford the plots and titles are not transferred. Thus there is no return on investment, and since titles are not transferred, residents do not pay rates and the infrastructure is not maintained.*

Since that was written the Swaziland Urban Development Project demonstrated affordable standards, but there remains a lack of demand for titles, probably because there is a high level of de facto security, and the costs of participating in the formal system (i.e. paying for land title, and then paying rates) are perceived to be higher than the benefits of having secure, and mortgageable title.

Housing finance

The level of affordability is directly related to the ability of a potential plot owner to secure finance. The housing market is dominated by the Swaziland Building Society (SBS) a viable and self-financing development and housing finance institution. The Swaziland Development and Savings Bank (SDSB) also has a significant mortgage portfolio, and the commercial banks provide a few mortgages for the upper and middle income settlements of the market.

In an attempt to assist the low income sector with home finance, the Growth Trust Corporation – the financial arm of the Swazi Business Growth Trust – extended its lending programme from small and medium businesses to finance housing loans. It has financed mortgage loans and also loans for building on Swazi Nation Land (where the land is held by the tribe), provided the borrower can provide sufficient guarantee.

Land law

In principle all land in Swaziland belongs to the nation, known as Swazi Nation Land (SNL), though under colonial rule freehold was introduced in certain areas.

Leasehold over any SNL requires the signed consent of the King, and although it is uncommon there are several precedents. In the past leasehold has been granted for large agro-industrial investments (e.g., the sugar and timber estates).

The World Bank funded Urban Development Project (UDP) pioneered the introduction of a 99-year lease on urban land as the primary vehicle for providing individual security of tenure that could be used as collateral for housing improvement. When applied to SNL, this form of tenure is not widely viewed as alienating the land from the Nation, although in practice it halts the allocation and use rights administered by chiefs. Sensitively applied, the leasehold system offers one solution to balancing the needs of both traditional controls and the needs for access to land and services for infrastructure development and growth in the urban and peri-urban areas.

Women and land rights

According to the 1997 census, women head 35.2% of the country's households. The figure is higher in rural areas at 39.7% (due to the absence of men as migrant workers) and lower in urban areas at 26.9%, although in the UDP informal settlement areas the figure was 31% in 1992.

The incidence of female-headed households is significant due to legal barriers to women gaining rights to SNL land and to title to land and housing in urban areas. Traditionally, a woman has no rights on SNL. If she wants residential rights on SNL, she can only obtain them through her husband or another male relative, even her (minor) son.

Furthermore, the Marriage Act assigned married women minority status under which the husband owned and could dispose of property without the consent of the wife. Also, the Deeds Registry Act provides that if a single woman (owning property) marries she must declare the fact to the Registrar. If she is married in community of property, which is the normal arrangement, her Title Deed is re-registered in her husband's name to reflect the rights of her husband over the property. Legally only the rights of women married out of civil rites and with a recorded ante-nuptial agreement were protected.

Going back to the start of the UDP in the early 1990s, it was clear that to achieve the goal of the government and its partners - sustainable improvement in living conditions through secure tenure

Women's rights to own land have now been protected (Mbabane, Swaziland) for the informal urban and peri-urban settlers – two fundamental issues that represented the vested interests and entrenched values of the traditional establishment were going to have to be addressed and overcome.

However, an important legal precedent *Swaziland's new Constitution became effective in* has been established in terms of women married under customary law owning title deed land. Endorsed by the high court, this interpretation permits these women to register land in their own name, placing them in a better position than those married under civil rites.

Following the recent adoption of a new constitution in 1996 which guaranteed equal treatment for men and women, it is expected that there will be a strong move to introduce a rapid programme of reform to end discrimination and bring existing legislation into line with the constitution's requirements.

Housing finance – the contribution of the UDP

One of the aims of the UDP was to bring the local banking sector into the low income land and housing market – an area where they had previously been noticeably absent. It was envisaged that financial institutions, in particular the Swaziland Building Society, would be prepared to offer loans for plot purchases[3] and house improvements on the security of the 99-year lease.

After protracted negotiations resulted in a government guarantee to cover a portion of possible repayment defaults, SBS duly introduced a special low-value loan scheme for low income plots lessees that had less onerous income eligibility criteria. The expected rush for formal financing never materialised, however, and by January 2006 only fifteen of the approximately 1,800 plot holders had taken a formal bank loan.

The expected rush for formal financing did not materialise – one of the houses which did not apply

It is considered[4] that there are several reasons for this:

- The retail banks continued to regard the low income sector as high risk for low returns;
- By the time the plot sales process got underway in 1999/2000, the country had suffered an economic downturn, and HIV/AIDS had begun to take a serious toll of the heads of household in the project areas, who were generally the breadwinners;
- Many people in the lower income groups are reluctant to take on long-term debt, due to fears of future job insecurity. This sense of insecurity also translates into a reluctance to use their houses as collateral;
- Insufficient targeted marketing of available loan finance products was undertaken by the banks and building society.

Further research undertaken in connection with the present (AUHF) project revealed other factors:

1. That if residents were to buy the plots that they occupied they would thereafter be included in the formal system and have to pay property taxes.
2. That there is, at present, a very limited housing market within the communities and settlements concerned. Therefore there is little value in a marketable instrument (the title deed) which they would acquire when they purchase the land.

4.2 South Africa
Background

[3] The plot purchases referred to here are to purchase the land on which the residents already lived. The prices were set at the level of recovering the capital cost of infrastructure upgrading – mainly roads and stormwater drainage.
[4] Lowesby (2007): A brief History of Urban Development and Upgrading in Swaziland, Cities Alliance.

Housing policy in South Africa can only be understood if the legacy of apartheid is appreciated. One of these legacies was a lack of trust of government, and consequently a strong desire to approach housing development in a new way. The communities were to have a say in housing solutions, especially the location and design of housing, though private developers were to take primary responsibility for the development. Another legacy was a huge backlog in housing supply – the emphasis was therefore on numbers. Lastly, there was an imperative to address the basic needs of the poor – this required the provision of subsidies to make housing affordable.

When these highly laudable principles were tested in practice, some of the principles were eroded in order to meet the very ambitious target of more than 1 million houses in five years. Community participation – through what was termed Community Compacts – was found to be slow and cumbersome, and was, in due course, made an optional component. In the long run, the programme was essentially developer driven – as a result the location of housing projects was determined by the availability of the cheapest land. The quality of the housing design and layouts was also typically very unimaginative.

Majority rule was achieved in 1994, but there were many complex transitional phases in terms of governance after that. The first was that the final Constitution was only adopted in 1996, and local government systems were not finalised until 2000. Because of this, local government remained little more than an observer in the majority of housing delivery, and to this day implementation of central government's plan to give the larger local government units devolved powers in relation to housing has been repeatedly delayed.

In 2003, about ten years after the introduction of the new policy, a revised policy was introduced: extracts from this document follow[5].

The standard public sector house built during the apartheid era in South Africa (Soweto, Johannesburg)

Housing demand

The nature of demand for government-assisted housing in South Africa has changed significantly over the last five years:

- An average population growth of 2.1% per annum has resulted in the population increasing by 10.4% or over 4.2 million people between 1996 and 2001. If this growth has been sustained since 2001, the extrapolated population for 2004 is 47.5 million people
- In addition, the country has experienced a 30% increase in the absolute number of households, where only a 10% increase was expected. This has been caused by the drop in average household size from 4.5 people per household in 1996 to 3.8 in 2001.
- Urban populations have increased as a result of both urbanisation and natural population growth. One fifth of urban residents are relative newcomers to urban areas (i.e. first generation residents) and urban areas are expected to continue to grow at a rate of 2.7% per annum.

Housing supply

- Over the last 10 years, state-assisted housing investment of some R29,5 Bn has provided 1.6 million housing opportunities

[5] Breaking New Ground: A Comprehensive Plan for the Development of Sustainable Human Settlements, as approved by Cabinet and Minmec, 2 September 2004; Department of Housing, Pretoria, September 2004

and has allowed 500,000 families the opportunity to secure titles of old public housing stock. The lack of affordable well located land for low cost housing resulted in the housing programme largely extending existing areas, often on the urban periphery and achieving limited integration. Post-1994 extensions to settlements have generally lacked the qualities necessary to enable a decent quality of life.

- A central challenge has been to transform the extremely complicated bureaucratic, administrative, financial and institutional framework inherited from the previous government. This on-going process presents significant challenges to build capacity particularly at provincial and local spheres of government and maintain the rate of housing delivery, which peaked in 1997 at some 323 000 units for that year.
- The 1.6 million subsidy-houses that have been built have not become "valuable assets" in the hands of the poor. In addition to this the inability of recipients of subsidy-housing to pay for municipal services and taxes has meant that such housing projects have been viewed as liabilities to municipalities and have not assisted many of the country's major cities struggling to come to grips with rapid changes to economic conditions since South Africa's inclusion into the global economy.

Slow down in delivery

The past few financial years have seen a decline in the actual numbers of houses produced annually. The slowdown in delivery has been attributed to a variety of factors:

- Declining delivery linked to the withdrawal of large construction groups from the state-assisted housing sector due to low profit margins. The withdrawal of these groups has left capacity gaps in construction, project management, financial management and subsidy administration.
- Since 1994, it has been government's intention to facilitate increased private lending for - and investment in – low and medium income housing whilst eliminating geographic discrimination (redlining) in the origination of housing loans. The Financial Services Charter has since identified new lending for affordable housing as one of four targets to be achieved.
- The identification, acquisition, assembly and release of state-owned and private land in terms of the revised procurement framework has proved to be a slow and complex process.
- Capacity constraints exist in all spheres of government, but have been experienced most acutely local government level. The ability of local government to facilitate the establishment of sustainable housing environments is threatened by a lack of capacity to effectively package and align departmental funding streams, employ innovative planning principles, acquire affordable land and sustain a dedicated group of officials.

Need for change

At its inception, the Housing Policy and Strategy (1994) focused on stabilizing the environment to transform the extremely fragmented, complex and racially-based financial and institutional framework inherited from the previous government, whilst simultaneously establishing new systems to ensure delivery to address the housing backlog. The significant achievements of this programme have been recognized both nationally and internationally. Significant socio-economic, demographic and policy shifts have also occurred over the past 10 years[6].

New housing vision
Whilst Government believes that the fundamentals of the policy remain relevant and sound, a new plan is required to redirect and enhance existing mechanisms to move towards more responsive and effective delivery. The highlights are as follows:

Expanding the scope of the housing mandate
The current housing mandate restricts subsidies to households earning less than R3,500 per month (approximately $500). This was premised upon the assumption that end-user finance would be accessed for the construction of houses by income groups above R3,500 per month. This has not in fact occurred. In order to address this problem, a new subsidy mechanism is to be introduced for medium income households (earning R3,500 to R 7,000 p.m.) by providing a mechanism to overcome the down-payment barrier. This mechanism will be linked to household savings and loans from financial institutions.

Shifting from product uniformity to demand responsiveness
The dominant production of single houses on single plots in distant locations with initially weak socio-economic infrastructure is inflexible to local dynamics and changes in demand. The new human settlements plan moves towards more responsive mechanisms which address the multi-dimensional needs of sustainable human settlements[7].

Enhancing the role of the private sector
The new plan envisages a continuation and deepening of the partnership between government and the private sector vis-à-vis the development of sustainable human settlements. In particular, the support of the private sector will be required in the following areas:

Construction capacity and the collapsing of the subsidy bands
The withdrawal of large construction firms from the state-assisted housing sector has meant that the conditions for public-private partnerships for housing construction in the primary market have been reduced and the rate of construction has accordingly dropped. In order to promote the participation and contribution of the private sector in housing construction, the existing 3 subsidy bands are to be collapsed to enable households earning below R3500 to access a uniform subsidy amount.

Giving individuals a greater role in housing design (Soweto, Johannesburg)

The provision of housing finance
Housing finance from financial institutions is key to the development of the primary and secondary housing market. The new sustainable human settlements plan will introduce the following interventions to support lenders to meet their commitments under the Financial Sector Charter including:

[6] A range of new national policies, programmes and initiatives have likewise been introduced including the National Spatial Development Perspective, the draft Urban Strategy, the Urban Renewal Programme and the Integrated Sustainable Rural Development Strategy; the Strategic Development Initiatives (SDIs) and the Expanded Public Works Programme. Provincial development frameworks have been established and Municipal Integrated Development Plans (IDPs) have been prepared.
7 This plan must respond to the needs and circumstances of communities through a diversified range of support measures which are able to accommodate qualification and affordability variations, tenure preferences and investment priorities. There is also a need to stimulate the supply of a more diverse set of housing environments and settlement types through greater choice of housing types, densities, location, tenure options, housing credit, and delivery routes (e.g. self-help, mutual self-help, contractor supply etc.).

- **Funding for Social Housing** – Funding is to be provided for social housing institutions through public private partnerships and/or Special Purpose vehicles.
- **Loss Limit Insurance** - Government may investigate the introduction of a risk sharing mechanism to limit the lender's loss to a more normal proportion of loan value in the event of default.
- **Fixed Interest Rates** - The Department will work with the financial sector to develop mechanisms to address volatile interest rates including the development of fixed rate loan products.
- **New Product Development** - While significant attention has gone into extending the mortgage loan product down market for the benefit of low income earners, this product is not appropriate for everyone. Specifically, no appropriate loan products exist to service secondary transactions in an incremental residential property market. A significant proportion of households in this sub-market lack the formal employment and levels of income necessary to support medium to long-term instalment mortgage loans. Alternatives linked to savings/ insurance products, which generate cash endowments are accordingly to be developed in conjunction with the financial sector.

Creating linkages between the primary and secondary residential property market

Housing represents the most significant investment that most families make and is often their only provision for long term security. Currently, the secondary property market (i.e. sale of existing, as opposed to new houses) is dysfunctional at the lower end of the market. Mechanisms must be introduced to support the development of a functioning residential property market and to enhance the linkages between the primary and secondary residential property market. The new human settlement accordingly introduces the following inter-related interventions:

Supporting individual housing demand

Under the existing subsidy scheme subsidies may only be accessed through new housing projects. This makes it difficult for people to acquire housing in other circumstances. In response, the Department will now reintroduce and promote a subsidy instrument which will enable individuals to obtain a subsidy to purchase an existing property.

Removing barriers to housing trade

Section 10A of the Housing Act prohibits the sale of government-subsidised property for a period of eight years. This section was enacted to protect subsidy beneficiaries from downward raiding. The provision has also had the unintended consequence of undermining beneficiary choice and housing mobility and has created a significant barrier to formal secondary transactions. For this reason, the Housing Act is to be amended to reduce the prohibition period following occupation to five years.

From housing to sustainable human settlements

Housing primarily contributes towards the alleviation of asset poverty. This contribution is to be strengthened in the new human settlements plan through supporting the development of sustainable human settlements and the development of housing assets.

The Cabinet has adopted the National Spatial Development Perspective (NSDP) as an indicative framework to inform decisions on infrastructure investment and development spending. This document notes that the housing programme (among others) is not addressing the distortions of the inherited apartheid space economy.

At the heart of this initiative is the move beyond the provision of basic shelter towards achieving the broader vision of sustainable human settlements and more efficient cities, towns and regions. Among the key ingredients of this new policy are:

Progressive Informal Settlement Eradication

Informal settlements must urgently be integrated into the broader urban fabric to overcome spatial, social and economic exclusion. The Department of Housing (DOH) will accordingly introduce a new informal settlement upgrading instrument to support the focused eradication of informal settlements. The new human settlements plan adopts a phased in-situ upgrading approach to informal settlements, in line with international best practice. Thus, the plan supports the eradication of informal settlements through in-situ upgrading in desired locations, coupled to the relocation of households where development is not possible or desirable[8].

Higher density housing in South Africa

Promoting Densification and Integration

Densification policy - Suitable policy instruments and adjustments to promote densification in urban areas are required.

Residential development permits – The DOH will investigate the introduction of mechanisms such as residential development permits. These permits are used extensively in the international context and facilitate income integration by obliging developers either to set aside units within residential developments for lower-income groups or, alternatively developing lower-income residential accommodation in adjacent areas. In this instance it is proposed that 20% of all residential development would constitute low cost to affordable housing and would be prescribed through the permit.

Fiscal incentives - The DOH, in conjunction with the Treasury and SARS[9], will investigate the development of fiscal incentives to promote the densification of targeted human settlements and whilst introducing disincentives to sprawl.

Enhancing the location of new housing projects

The location of housing projects has been criticized as reinforcing apartheid spatial settlement patterns[10]. The objective of spatial restructuring demands a more decisive intervention in land markets. The new human settlements plan envisages the following interventions:

- Accessing well-located state-owned and parastatal land
- Acquisition of well-located private land for housing development
- Funding for land acquisition
- The DOH will investigate the introduction of fiscal incentives (and disincentives) to support the development of well-located land.

[8] It is recognized that high rates of urbanization within large cities and secondary towns will also necessitate the introduction of a fast-track land release and service intervention mechanism to forestall the establishment of informal settlements.

[9] South African Revenue Services – the tax collection agency

[10] The Draft National Urban Strategy makes it clear that restrictions will increasingly be placed upon the number and scale of future peripheral subsidized housing projects, whilst acknowledging that a lack of funding provides very little manoeuvring space, especially when considering the price of well-located land.

Supporting Urban Renewal and Inner City Regeneration
Urban renewal is a targeted intervention by government to resuscitate declining urban areas. Housing plays an important role in a range of urban renewal interventions focused on urban centres and exclusion areas such as inner cities and historical townships[11]. Many municipalities are striving to avoid this by promoting, amongst others, affordable inner-city housing.

- **Encouraging Social (Medium-Density) Housing** – Social housing interventions may also be used to facilitate the acquisition, rehabilitation and conversion of vacant office blocks and other vacant/dilapidated buildings as part of a broader urban renewal strategy.
- **Increasing effective demand** – The introduction of a new incentive to facilitate access to loan finance in the middle income group above the R3 500 income limit and the re-introduction of demand-driven individual subsidies will have the effect of increasing effective demand for existing, well-located property. This is expected to provide an incentive for the redevelopment of properties within inner city areas.

Developing social and economic infrastructure
There is a need to move away from a housing-only approach towards the more holistic development of human settlements, including the provision of social and economic infrastructure.

Enhancing the Housing Product
There is a need to develop more appropriate settlement designs and housing products and to ensure appropriate housing quality in both the urban and rural environments. The new human settlements plan accordingly proposes the following:

- **Enhancing settlement design** – The DOH will investigate the introduction of enhancing measures and incentives to include design professionals at planning and project design stages, and will develop design guidelines for designers and regulators to achieve sustainable and environmentally efficient settlements.
- **Enhancing housing design** - There is a need to focus on "changing the face" of the stereotypical "RDP" houses and settlements through promotion of alternative technology and design. The DOH will investigate measures and incentives to enhance housing design and promote and alternative technologies, including support and protection of indigenous knowledge systems.
- **Addressing housing quality** - The DOH will undertake an audit of and develop a programme to address the poor quality of houses built before the introduction of national norms and standards and the NHBRC Warranty Scheme. Municipalities must also play an increasing role to ensure compliance with building plan approvals and township establishment conditions.


Enhancing the housing product and settlement design, (Soweto, Johannesburg)

Existing and new housing instruments

[11] Inner city areas are traditionally integrated into the benefits of the urban economy, which are close to transport hubs and commercial enterprise and work localities. They also have higher order social amenities including hospitals, libraries and galleries. They accordingly provide a key focus for urban restructuring.

A range of housing instruments were developed to respond to the policy imperatives of the first 10 years of delivery. It is not anticipated that any of these instruments will be discontinued or terminated. Rather, existing instruments will supplemented by new instruments which focus attention on sectors which have been previously neglected. These instruments place greater emphasis on flexibility and responsiveness to local circumstances particularly the physical context within which housing is to be delivered.

The Informal Settlement Upgrading Instrument

There is a need to respond positively and proactively to processes of informal housing development which are taking place across the country. A more responsive state-assisted housing policy, coupled to delivery at scale is expected to decrease the formation of informal settlements over time. There is however a need to acknowledge the existence of informal settlements and recognize that the existing housing programme will not secure the upgrading of informal settlements. There is also a need to shift the official policy response to informal settlements from one of conflict or neglect, to one of integration and co-operation, leading to the stabilization and integration of these areas into the broader urban fabric.

The new human settlements plan adopts a phased in-situ upgrading approach to informal settlements, in line with international best practice. Thus, the plan supports the eradication of informal settlements through in-situ upgrading in desired locations, coupled to the relocation of households where development is not possible or desirable[12]. Upgrading projects will be implemented by through partnership between National, Provincial government and municipalities.

Redirecting the People's Housing Process[13]

Housing authorities at all levels are moving in the direction of increased use of the People's Housing Process (PHP). The PHP achieves its two main goals of 'more for less' and improved beneficiary commitment to housing outcomes by increased productivity through 'intellectual equity' (not primarily cost reduction through 'sweat equity'), and by increasing beneficiary 'ownership' through the exercise of considered choice. It is also used as a vehicle for the mobilization of sweat equity as an alternative to existing beneficiary contributions.

The People's Housing Process allows individuals to design their own home

The Social (Medium-density) Housing Instrument

Enhancing the mobility of people and promoting a non-racial, integrated society is a key government imperative. The emphasis on the need to deliver housing products that provide adequate shelter to households whilst simultaneously enhancing flexibility and mobility, typically entails the establishment of institutional mechanisms to hold housing as a public asset over a period of time. The direct objective of the social housing instrument is accordingly to facilitate the production of effectively managed institutional housing in the areas where demand for institutional or managed housing, of all types, exists.

Research on backyard rental accommodation

Backyard rental accommodation in the form of backyard shacks, student accommodation and granny flats, is increasingly recognized

[12] It is recognized that high rates of urbanization within large cities and secondary towns will also necessitate the introduction of a fast-track land release and service intervention mechanism to forestall the establishment of informal settlements.
[13] The "People's Housing Process" is the name given in South Africa to aided self-help housing.

as an important component of the overall private rental sector and is plays a significant role in the residential property market. Little public policy research has however been undertaken in this realm. In order to develop appropriate policies, the Department requires more information on the scale, conditions, rental charges and facilities which are provided within this sector and the linkages between this sector and the broader residential property market.

Developing a Rural Housing Instrument

The existing supply-side and commoditized housing programme reflects a significant and inherent urban bias. There is a need to address this through a stronger focus on rural housing instruments, whilst acknowledging that rural housing interventions are likely to be strongly directed towards the installation of infrastructure rather than the development housing.

Redefinition of Roles, Responsibilities and Processes in Government

The key initial requirement for improved institutional arrangements in the sector is to achieve a clear understanding of the role of each sphere of government.

Expanding the role of Local Government

The previous housing programme granted private developers a leading role in the delivery of housing within a supply-driven framework. The new housing plan shifts away from a supply-driven framework towards a more demand-driven process. The plan accordingly places a substantially increased emphasis on the role of the State in determining the *location* and *nature of housing* as part of a plan to link the demand for and supply of housing. This does not detract from the role of the private sector as the primary vehicle for the delivery of housing.

This approach will enable municipalities to assume overall responsibility for housing programmes in their areas of jurisdiction, through a greater devolution of responsibility and resources to municipalities. It is assumed that municipalities will proactively take up their housing responsibilities given that clear guidelines and resourcing will be forthcoming from the national sphere.

The housing chapter of Municipal Integrated Development Plans must be considerably enhanced to include municipal housing needs assessment, the identification, surveying and prioritization of informal settlements, the identification of well located land for housing, the identification of areas for densification, the linkages between housing and urban renewal and the integration of housing, planning and transportation frameworks, and will link these to a multi year implementation plan.

Community participation will be a key component of this process. In this regard it is also considered vital that local ward councillors be actively involved in the planning process to work with their constituencies.

National and Provincial Institutional Reforms

As the process of municipal accreditation and accompanying shifts in delivery responsibilities proceeds, the roles and responsibilities of the National Department of Housing and Provinces will increasingly shift towards policy formation, monitoring, and facilitation.

A review of national housing institutions will be undertaken to improve efficiency and oversight and to ensure an improvement of the interface between the institutions, their clients and communities.

4.3 Tanzania

At a Special Session of the UN General Assembly, held in June 2001, the Vice President of Tanzania stated that his country fully subscribed to the Declaration and Agenda of Habitat II, which aims at improving the standard of living for all people within sustainable human settlements. At that time he noted that in meeting this goal the government of Tanzania was committed to:

- promoting secure land tenure through its National Land Policy (NLP);
- promoting adequate and affordable shelter for all and sustainable human settlements through its National Human Settlements Development Policy (NHSDP) 2000;
- decentralizing and strengthening local authorities through its Local Government Reform Programme (LGRP); and
- implementing the Sustainable Cities Programme, co-sponsored by UN-Habitat and the United Nations Environmental Programme (UNEP), which focuses on community infrastructure upgrading, settlement regularization and solid waste management in towns throughout the country.

The country is currently reviewing its housing policy with a focus on improving the lives of slum dwellers. The government is therefore looking to enact regulations that will facilitate access to land for low-income housing delivery, register informal settlements, and issue residential licenses that can be used by inhabitants as collateral for loans for housing construction and enterprise purposes. They have also recognized that they cannot solve housing problems without investment from the private sector, with domestic capital being viewed as part of the solution for increased development.

A brief history of shelter initiatives in Tanzania

Informal settlement in Dar es Salaam

1960 – 1980. Starting with independence in 1961, the Government recognized the importance of shelter and initiated housing programs targeting low-income households. These programs were featured in its national 5-year plans and annual budgets, and implemented during the 1960s and 1970s. The National Housing Corporation (NHC) was established in 1962 to provide low-cost public housing for low- and middle-income households on sites made available through the clearance and re-development of slums. It also provided housing loans to enable local authorities and individuals to build houses. From 1964 to 1974 the NHC built approximately 1,400 units in various urban areas. Most of the houses were built under slum clearance and redevelopment programmes, with the former owners being given tenant-purchase agreements. The rest were made available to the general public for rental. Because of the high cost of the programme, and the fact that it generated social disruption and displacement of households, high compensation costs and so on, the policy was changed in the early 1970s.

In 1972 the policy shifted from the clearance of slum and squatter settlements, and the provision of low-cost housing, to the upgrading or improvement of settlements, coupled with encourageing households to build their own houses with support from the National Sites and Services Project (NSSP) financed by the World Bank. These early infrastructure-based, upgrading programs were capital intensive and carried out in a top-down manner, which led to a lack of ownership by the communities and as a consequence a lack of maintenance. By the early 1980s the World Bank ceased assistance due to poor performance.

1980 – 1990. Economic difficulties and the discontinuation of donor funding forced the Government to change its policies in the 1980s and 1990s. Housing as a sector was left off of the national plans and budgets, resulting in no programs for servicing urban land for housing or maintaining the services and infrastructure provided in the upgrade projects. Only a very few housing projects were implemented through the National Housing Corporation and public employers. Individuals were expected to meet their own needs, with government providing un-serviced plots to land seekers, however, never remotely near the scale required. Developers were therefore faced with building on un-serviced land and increasingly in unplanned and unserviced areas.

Without any housing programmes during the past two decades, production was left in the hands of individual households, who have increasingly been forced to build in the unplanned settlements, where land is available. Developers build without having to engage with either bureaucracy or regulations and hope that in time these areas will eventually be upgraded and the land rights registered.

The resumption of slum upgrading activities.
High rates of urban population growth, at over 6% per annum, rising levels of poverty and a lack of a sustainable housing policy resulted in the urban population increasingly housing itself in informal settlements. Following a hiatus, in terms of slum upgrading during the 1980s, settlement upgrading was resumed in the 1990s under the Sustainable Dar es Salaam Project (SDP). In addition, in 1992, UNCHS (Habitat) introduced the Environmental Planning and Management (EPM) approach to Dar es Salaam to improve the capacity of the city council to better plan, coordinate and manage urban development functions in partnership with other organizations.

Hanna Nassif Community Upgrading Project. The Hanna Nassif Community-based Upgrading Project was initiated in 1992 through the SDP, with support from the UN-Habitat, the International Labour Organisation (ILO), the United Nations Development Programme (UNDP) and the Ford Foundation. Hanna Nassif is an area of 50 ha located 4 km from the Dar es Salaam City Centre. In 1998, there were approximately 20,000 residents (5,045 households) in 1,777 residential housing units.

The objectives of the project included: 1) improving living conditions and expanding employment opportunities in unplanned settlements in Dar es Salaam; 2) demonstrating the feasibility of a community-based approach to urban settlement upgrading based on stakeholder participation, community contracts and labour-intensive methods; 3) building capacity within the Dar es Salaam City Council (DCC) with a view to being able to scale up delivery in future; and 4) solving the problems of flooding by creating a storm water drainage system in the community.

The project did not deal with land tenure issues, as all land formally belonged to the government. Hence, very few households have had their plots surveyed and registered to obtain a Certificate of Occupancy. The project did bring in the National Income Generation Programme as a means of assisting residents in earning income through using community-based construction methods.

Precht's (2005) study, *Informal settlement upgrading and low-income rental housing,* in which interviews were carried out with 23 landlords in the Hanna Nassif community provides some interesting rough findings about how improvements to rental stock are being financed. Rental stock generally takes the form of rooms added to the existing buildings. Questions as to how much money it costs to create an additional room, resulted in a variety of answers, from between USD$70 to USD$440. Income from formal employment and self-employed informal business activities were the most important sources of finance, both for the creation of additional rental units and the improvement of existing ones. Savings from rental income were also an important source.

The survey revealed an innovative way of financing based on taking rent advances in-kind from tenants. One out of 10 landlords made tenants realise the improvements and then allowed them to live rent-free for a pre-determined period of time. Approximately 9% of landlords received salary advances of USD$350 to $440 from their formal employers. None of the landlords interviewed managed to access finance from a formal financial institution.

Following the Hanna Nassif project, the SDP collaborated with the World Bank on the upgrading of an additional seven communities in Dar es Salaam, under its Urban Sector Rehabilitation Project (USRP). Delays resulted in the project being restructured into a Community Infrastructure Upgrading Program (CIUP), but only 2 communities were upgraded by the year 2000. Irish Aid provided technical assistance and the IDA funded infrastructure provision.

This project also provides an important lesson learned: an example of a failed credit facility in a slum upgrading project. The credit facility established for the Hanna Nassif Slum Upgrading Programme was intended for business loans. There was no direct lending for housing, but the profits from the business loans were intended for housing upgrading, among other activities. However, when the participants realized that the credit facility funds came from the Ford Foundation, they stopped paying, and the credit facility is now closed.

Tanzania's National Housing Development Programme (NHDP): 2003 – 2013. As previously described, as a signatory to the 1996 agreement reached at Habitat II, the Government of Tanzania is undertaking a review of its policies. The National Housing Development Programme (NHDP): 2003 to 2013, which has been prepared by the Ministry of Lands and Human Settlement Development (MLHSD) as part of the review, is set within the framework of other key national policies and strategies, including: the Development Vision 2025, the Poverty Eradication Strategy, the Local Government Reform Programme and the National Environmental Strategy.

The NHDP is made up of seven elements: land; services; finance; building materials, design and costs; technology and technical services; and institutional arrangements. It is not the task of this exercise to describe in detail all of the proposals set out in the NHDP, however, in a nutshell they include:

- making land and shelter available through the surveying of new plots, the servicing of un-serviced partially developed planned areas to facilitate development of un-developed plots and occupation of completed un-occupied houses, regularization and upgrading of unplanned housing areas to enhance tenure security and re-development of old planned areas to optimize land utilization commensurate with its present value;
- promoting the production and use of locally available building materials, adoption of appropriate building technology and use of technical services; and
- creating an attractive environment for financial institutions to participate in financing shelter and infrastructure development.

In order to carry out the above, there is recognition that the success of the NHDP depends on the existence of an appropriate institutional and legal framework at all levels of implementation. It therefore identifies a number of institutional impediments, which it uses as the basis for proposing changes to the current institutional arrangements and changes to the legal framework necessary for carrying out the National Housing Programme.

Considering the diffuse number of functions to be carried out, there are a wide range of necessary actors for the provision of finance, building materials, land and infrastructure services, technical services and so on, requiring the participation of government institutions, the private sector, civil society organisations and donors.

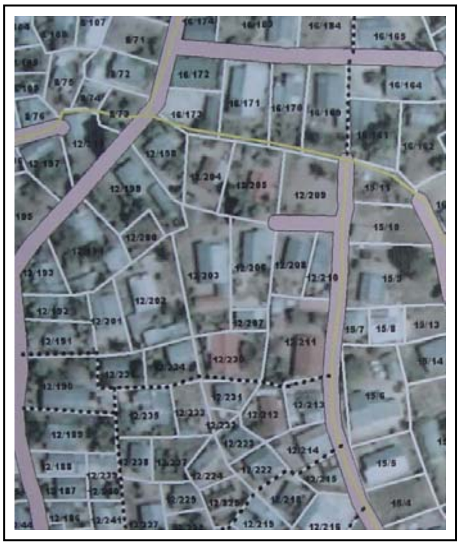
In sum, the key central government ministries in the housing sector are: The Ministry of Lands and Human Settlements Development, the Ministry of Regional Administration and Local Government, the Ministry of Finance, the Ministry of Works, the Ministry of Communication and Transport, the Ministry of Water and Livestock and to a limited extent, the Ministry of Foreign Affairs.

Lastly, the NHDP: 2003 – 2013 proposes an Action Plan for realizing all of the above, including timeframes, responsibility for carrying out and so on. Briefly the intention is to publicize the Programme to gain acceptance from strategic actors; establish Housing Officers in the MLHSD and District and Urban Council; to review the current legislation and establish a basic law; and to establish housing committees at national, district, urban and ward/ village levels and build the capacity of the committees.

Land Policy. Urban land problems, which have resulted from the government's failure to cope with rapid population growth and increased urbanization, include an acute shortage of planned land, lack of, or rundown, infrastructure in planned areas and a proliferation of informal settlements. Unplanned/informal settlements are addressed within a number of policies and pieces of legislation, e.g. the 1995 National Land Policy, the 1999 Land Act and the 2000 National Human Settlement Development Policy acknowledges the existence of informal settlements, prohibits their removal and commits government to upgrading them. According to all these policies/laws the major strategy to address informal settlements is *regularization*.

There are many cases where layout plans for peri-urban areas have been prepared by both the municipal authorities and central government, but orderly development in accordance with these plans remains a dream because neither local nor central government authorities have adequate resources to provide basic infrastructure services or pay full, fair and prompt compensation to the persons who have developed and own the land.

A weak institutional framework, conflicting legislative instruments and ineffective cost recover mechanisms also compound the situation. For example, the Town and Country Planning Ordinance 378 empowers the Minister for Lands and Human Settlement Development to approve layout plans, while at the same time the Local Government Urban Authorities Act 8 gives the Minister responsible for Local Government and Regional Authorities the mandate to approve layout plans, creating a potential area of conflict which needs to be addressed. Local authorities are responsible for planning of land use, including surveying and carrying out compensation measures, however, the MLHSD maintains a controlling function, due to the lack of capacity and resources at the local level.



Satellite imagery used in the regularisation and upgrading programme(Makandarawe, Dar es Salaam)

The 20,000 Plot Programme. The major attempt to curb informal housing land development and boost the supply of planned and surveyed plots is the recent program for planning and surveying 20,000 residential plots in ‘unplanned areas’ of Dar es Salaam, a project being undertaken by the Ministry of Lands and Human Settlements Development, which was started in the 2002/2003 financial year. This programme provides, a less secure ‘junior’ title (initially for 2 years but to be extended to 5 years) for owners of land in certain areas of Dar es Salaam, which should provide owners with a form of collateral.

When it comes to the ‘planned areas’, these formal areas are granted a 33-year lease once an area has been formally surveyed. Plot owners are able to approach the local authorities for an aerial photo of where the plot is located, which together with a house description and a picture of the owner should then act as a trigger for the local authority to go out and survey the land.

UN-Habitat Involvement. The UN-Habitat Executive Director and UN Under-Secretary General, Anna Tibaijuka, during her visit to Tanzania in May 2005, said her agency was determined to assist Dar es Salaam to become a viable city instead of a sprawling slum city. She told reporters that the agency would set up a guarantee fund to enable low-income earners, especially women, to access commercial bank loans to build decent low-cost housing. This would require the government creating the right environment for people to access affordable housing loans. Tibaijuka noted that factors such as the country’s high interest rates and the fact that most households do not have a title deed that can be used as collateral are major constraints.

Habitat attempted to work with two of the Tanzanian commercial banks to fund housing projects, but it found little interest. Subsequently it began working with Azania Bankcorp (now Azania Bank) to develop a housing project for low-income women. This project first requires the city of Dar es Salaam agreeing to the purchase of 2 plots of land close to the city centre on which medium-density housing will be built for sale to low-income women. In order to implement the project, the Tanzanian Women Land Access Trust (TWLAT) was established by Habitat to assist low-income women to purchase their own home. TWLAT will act as the intermediary between Azania Bank, which has agreed to house a USD$100,000 guarantee from Habitat, and the women that will be borrowing money from the bank to participate in the project.

The women that will be participating in the project are being assisted by TWLAT to form cooperatives made up of 6 members, who will stand surety for each other. TWLAT is assisting the women to set up savings accounts with Azania Bank and to begin saving a specified amount. Once the required amount has been saved, and the title deeds become available from the city, the women will be entitled to take out a loan at 12% interest for 10 years.

4.4 Ghana

Background

Over the past fifteen years, however, similar to other West African cities where rapid rates of urbanization have put pressure on land and its value, squatter settlements have sprung up in Ghana. The Government of Ghana (GOG), as a signatory to the United Nation’s global effort to improve the livelihoods of the poor through the Millennium Development Goals (MDG) framework, has agreed to undertake initiatives aimed at achieving a range of targets, including Goal 7, which sets a target of improving the lives of 100 million slum dwellers.

In his State of the Nation address to Parliament on 3 February 2005, His Excellency President J A Kuffour identified the lack of adequate and affordable housing as one of the critical problems facing Ghana and announced the government's intention to initiate a review of the national housing policy with the aim of developing a more realistic and responsive framework within which to deal with low-cost housing.

The Ministry of Works and Housing in association with the Architects Registration Council, the Building and Road Research Institute, IHSA & A Consult, the UN-Habitat national office, the Centre for Housing Rights and Evictions (COHRE) and the People's Dialogue for Human Settlements has been organizing and coordinating a series of consultations which are feeding into a National Housing Policy Review and Action Plan.

The National Housing Policy: from serving the middle-class to serving the lower-class

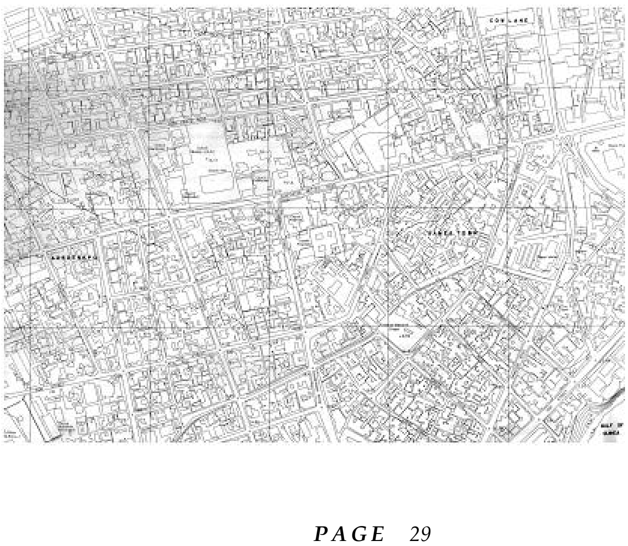
Ghana's housing policy has traditionally been focused on providing houses for the middle-class, either for rent or ownership. In fact, the HFC was initially set up as a housing institution in order to finance the houses being built by government.

Between 1970 and 1995, government's State Housing Company (SHC) built 30 000 houses for both rental and ownership. Over time the cost of the programme became prohibitive due to it being commercially unviable. In the case of houses for ownership, the SHC did not apply market-related interest rates, and as for the rental stock, the rents were highly subsidized. Today any housing built by the SHC is far too expensive for civil servants to purchase and so it is doing very little business. The SHC is looking to government to re-capitalize it, a move that is most unlikely.

The result is that Ghana's housing policy is currently undergoing a fundamental re-think with a shift in focus away from the delivery of middle-class housing towards upgrading its expanding slum settlements for the poor. Moreover, in future, government intends facilitating rather than building houses itself, e.g. contributing the cost of land and services to the upgrading and urban renewal projects it intends to support.

While no data is available on the number of households requiring this type of delivery approach, enough income data is available to suggest that there is a very large proportion of households that once in possession of land, are only able to afford small amounts of credit to put towards the financing of their own house building, using an incremental construction method. Local experts reinforced the view that providing microfinance in the form of a slightly larger 'housing' loan is better suited to the needs of the majority of Ghanaian households than mortgage finance, as it allows them to build a house at their own pace, avoid large down-payments, high developer costs and get around their lack of suitable collateral.

The highly dense environment of inner city informal settlements in Accra (Jamestown)



History of Slum Upgrading in Ghana

Ghana is currently re-drafting its housing policy with the intent of updating it and changing its direction towards reducing and improving slums. Prior to this change in direction, even without a stated upgrading policy, the GOG has carried out upgrading efforts in various urban development projects since the mid-1980s. Starting in the mid-1980s, the objectives of upgrading projects in Ghana has been to increase the health, general well-being and productivity of low-income communities by providing basic infrastructure and improving municipal services.

1985 – 1996. In 1985, the World Bank began providing support to the Ministry of Works and Housing, in a pilot infrastructure upgrading project in the East Maamobi community of Accra, the Accra District Rehabilitation Project (ADRP). The project focused on using a multi-sector approach for providing infrastructure (i.e. roads, drainage and footpaths) for 19 000 people.

Between 1988 and 1996, further schemes were carried out under the Priority Works Project (PWP) and the Urban 2 Project. These schemes were located in Ashaiman in Tema (70 000 people); West Nima in Accra (36 000 people); Ward E in Tamale (32 000 people); and Suame Magazine in Kumasi (70 000 people). They again focused on infrastructure deficiencies and upgrading to address environmental concerns, and were ‘top down’ in nature, designed and fully funded by the GOG.

1997. In 1997, the Urban Environmental Sanitation Project (UESP) was initiated, focusing on primary drainage, citywide sanitation and solid waste management, launching a new wave of upgrading initiatives in the country. These projects, while focusing on appropriate functional standards, also injected the concept of cost-per-hectare limits as a means of keeping a lid on the overall cost of the project.

The UESP also, for the first time, included community participation. Participation involved the beneficiaries in the planning and design phases, and in being able to take part in sustainable maintenance arrangements. The project was supported by the World Bank and driven by the Ministry of Local Government and Rural Development, rather than the Department of Works and Housing as had occurred previously. Local governments were given responsibility for managing the implementation process, as well as contributing 10% of the capital costs as a means of promoting ownership.

One of the informal settlements in Accra to have been upgraded (Nima) (Photo: Steve Akuffo)

In examining the various upgrading initiatives carried out over the past fifteen years, it is clearly the case that they focused on engineering infrastructure provision rather than social infrastructure facilities (e.g. schools, health clinics). Nor, up to now, have the projects addressed tenure issues, direct cost-recovery or micro-finance schemes.

Challenges for Carrying Out Slum Upgrading in Ghana Today

Some 1.9 million urban residents live below the poverty line, which results in a multitude of challenges for the various tiers of government. For example:

- Low-income communities in Ghana’s urban areas continue to expand and densify due to Ghana’s overlapping and complex land system, making it extremely difficult to address housing issues;
- During the period of decentralization, the local government system has remained in flux, with little attention to upgrading slum areas;
- Even with some history of upgrading, systems, policies and procedures required to carry out upgrading at scale have not evolved; and

- Slum communities continue to suffer from inaccessibility, water not available on an individual household basis, poor drainage and sanitation and a lack of maintenance

Urban Land Administration and Reform: the case of the overlapping system

The land system is characterized by the coexistence of overlapping systems, namely traditional, state and private. Land struggles in each of the systems entail distinct political geographies with different key stakeholders at the centre depending on the land system in question.

More specifically, the formal (modern) system operates alongside a system in which the chiefs allocate land. Moreover, the rightful owner of land can include a stool or skin head[14], a clan head, a family, a member of a family and so on. It is therefore not uncommon for land claims to clash and most land, particularly in Accra, has been litigated over on more than one occasion.

While the chief-driven system is obviously more prevalent in the rural areas, it does often affect the urban areas as well, especially the peri-urban areas. These overlapping systems act as a major impediment to efficient planning and the functioning of a land and housing market. And, without clarity around title, banks are generally unwilling to use a title deed as collateral for a mortgage loan.

In addition, land use planning and its politics historically was mainly a local affair. Alienated and marginal groups in past land struggles expressed their grievances via the local political/legal context, where today they have organized to be able to nationalize and internationalize their struggle as a means of preventing removals.

In addition to overlaps with respect to ownership, overlaps also continue into the administrative arrangements. For example there are a variety of institutional arrangements responsible for the mapping of land, land management, titling, conveyancing and deeds registration.

The Land Policy of 1999 highlighted the fact that the current system impedes economic growth. Finding a way to reform the land system has therefore become a high priority of government, which has embarked on a Land Administration Project (LAP) which aims to establish a system for issuing new land titles in accordance with the Land Title Registration Law of 1986. The LAP has focused on identifying the major obstacles in the system and creating the space for inter-agency interaction to improve coordination.

The Administrative System

Within the ten regions of the country there are a total of 5 cities, 36 town councils and 185 designated urban areas. The government has decentralized its administration and the Local Government Act of 1993 established 110 Assemblies (metropolitan, municipal or district). The Greater Accra Metropolitan Area (GAMA) includes the cities of Accra and Tema, Ghana's new port town, located 20 km to the east of Accra.

GAMA accounts for approximately 20% of GDP and employs about 10% of the national work force. Accra and Tema house the majority of Ghana's industries, from micro-enterprise to large plants. The financial sector, government sector, and multi-national corporations have their head offices in Accra. The port of Tema handles about 75% of all shipped goods.

[14] In Ghana the chiefs in the south sat on 'stools' and the chiefs in the north sat on 'skins'.

The early projects, as previously described, were located in central government, with planning and design carried out by the Technical Services Centre of the Ministry of Works and Housing. The introduction of the decentralization policy shifted the responsibility to the Ministry of Local Government and Rural Development (MLGRD), through its Local Government Project Support Unit, along with the City and Municipal Councils. In particular, the UESP required the Local Assemblies to set up small project units able to procure and manage the upgrading work, supported by local consultants.

The MLGRD will be leading future upgrading, working off a UN-Habitat platform. MLGRD will take responsibility for overall project management and the Local Assemblies will take responsibility for day-to-day management. In addition, other ministries, for example, Environment and Science, Land & Forestry, Women & Children and so on will be involved.

The process used for providing and/or improving basic municipal infrastructure and services will include: 1) planning and design by local consultants to functional, least cost standards; 2) construction by local contractors; and 3) funding by central government with some assistance from the local administration.

The Town and Country Planning Department, located in the Ministry of Environment and Science also has an interest in slum upgrading as it is concerned with the built environment. Due to the decentralization policy, however, Local Assemblies find they are required to deal with directives from both the Department of Local Government and Rural Development and the Town and Country Planning Department, which can often result in conflicting communications between the two.

UN-Habitat: Slum Upgrading Facility (SUF)

A Slum Upgrading Facility was established in UN-Habitat in 2004 to coordinate initiatives aimed at supporting and raising seed capital for slum upgrading, affordable housing for low-income households and improving urban infrastructure in developing world cities. A central objective for the SUF is to mobilize domestic capital for these activities, bringing together the relevant local actors from central and local government, civil society and the private sector. The initiatives are expected to take into account the financial, technical and political elements of a project.

Sodom and Gomorrah – one of the settlements selected under the UN-Habitat Slum Upgrading Facility. (Photo Steve Akuffo)

Ghana is one of four countries that UN-Habitat is supporting under its Slum Upgrading Facility, because Ghana satisfies many of the criteria required in assessing the financial viability of slum upgrading projects. These include well established local government, which is recognized by the central government, a vibrant private capital market base and functioning community organisations.

Potential stakeholders are the Ministry of Local Government and Rural Development, the Ministry of Housing and Works, the Accra Metropolitan Assembly, the Tema Municipal Assembly and representatives of slum dwellers. The General Manager of the Stock Exchange, has promised to lobby for a local financial bond to fund slum upgrading. The HFC Bank and the People's Dialogue of Ghana, which has seen the formation of 55 savings groups in four regions of Ghana since its establishment two years ago are also involved, as is the Ashaiman Homeless Federation, which has raised daily savings of about US$5 000 from 1,005 members.

4.5 Summary

At the risk of over-simplification, the table provides an overview and summary of the situation.

Table 4.1: Summary of the key housing policy areas in Swaziland, South Africa, Tanzania and Ghana

	Informal settlements	Serviced land/self help housing	Housing built by public sector for sale	Subsidy policy	Rented public housing	Private sector involvement
Swaziland	All urban informal settlements to be upgraded. Programme started in 1996, and is continuing	Swaziland National Housing Board develops land for sale	Swaziland National Housing Board has small programme	No subsidies	Modest quantity of housing owned by Swaziland National Housing Board	A policy exists to involve the private sector in low income, but little interest has been shown.
South Africa	In situ upgrading is official policy, but is not practiced widely	Under the “People’s Housing Process” communities can access grants for management of self help housing projects and funds up to the limit of the capital subsidy	This is the most common housing delivery mechanism in South Africa and over 1.5 million houses have been built.	The government offers a capital subsidy (currently about $7,500) to all low income earners, and for may beneficiaries the house is free.	A small programme which is mainly applied in high density developments in inner city areas	Banks and other financial institutions have pledged to provide mortgage finance to lower and middle income groups.
Tanzania	The majority of informal settlements are included in a national upgrading and regularisation programme	Serviced plots are to be developed under the national housing development programme	No	Residents of informal settlements have to pay 10% of the cost of infrastructure improvements as an up-front deposit, the remainder is funded by the state	Following nationalisation of rented housing in the 1970s, a large supply of publicly owned housing still exists, though some sales have taken place. No new housing is being built for rent.	A pilot project to involve cooperatives as housing developers is being developed.
Ghana	Substantial upgrading programmes have been undertaken in the major cities of Ghana	No	The Social Security National Insurance Trust (SSNIT), is engaged in development of this nature, as well as the State Housing Company	Infrastructure improvements in informal settlements are not recovered fully from the residents	SSNIT and the State Housing Corporation both own houses for rent, but are no longer building for this purpose	SSNIT is involved in a large pilot project of this nature.

5. Land issues

Access to land is fundamental, as without it there can be no housing. The four countries illustrate widely different situations.

5.1 Swaziland

Land in Swaziland is basically owned by the whole community, through the tribe and the Chiefs. Such land is called Swazi National Land (SNL). Chiefs are responsible for giving the right to occupy land, and there are virtually no squatters in Swaziland for this reason.

Urban areas are typically surrounded by Swazi Nation Land and the nature of control and settlement on this land presents problems for managing urban growth. There is considerable demand for land, driven by the prospect of employment opportunities and urban services, and as a result informal settlements on this peri-urban SNL land immediately outside urban boundaries are growing rapidly.

Peri-urban densification presents a range of planning, health and safety problems. Firstly, planning and building guidelines and regulations, the Rating Act, and other regulations governing urban living cannot be enforced in these areas since they fall outside the jurisdiction of the local authorities. Secondly, land use, planning and control systems traditionally enforced by the chiefs are no longer applied, having become overwhelmed by the rapid pace of growth and competing factions. The result is sprawling informal development making future upgrading and planning difficult, and affecting a burgeoning population.

Peri-urban densification taking place around Mbabane, Swaziland

Within the urban areas, SNL is converted to leasehold. Leasehold over any SNL requires the signed consent of the King, and although it is uncommon there are several precedents.

Under the World Bank project a 99-year lease was pioneered as the primary vehicle for providing individual security of tenure that can be used as collateral for housing improvement loans. Sensitively applied, the leasehold system offers one solution to balancing the needs of both traditional controls and the needs for access to land and services for infrastructure development and growth in the urban and peri-urban areas. The lease is granted on plots which have to be surveyed and registered. The lease can be used as security for a loan.

5.2 South Africa

Urbanisation in South Africa is highly regulated through a variety of town planning and land registration instruments. Nearly all low income housing provided by the state is built on freehold land which the occupant can use as security for a loan, although there are restrictions on selling a subsidised house for the first five years after occupation.

In parallel with this system a parallel land system exists. On the one hand there have been many land invasions, and substantial squatter settlements have developed. On the other, informal “backyard shack” housing has developed. This, while built on legally registered plots is illegal in the sense that it does not comply with building and/or town planning regulations.

Different conditions apply in the rural areas, most of which fall under customary land law. In these cases, permission to occupy is given by the Chief, but no mortgageable interest exists in the land.

5.3 Tanzania

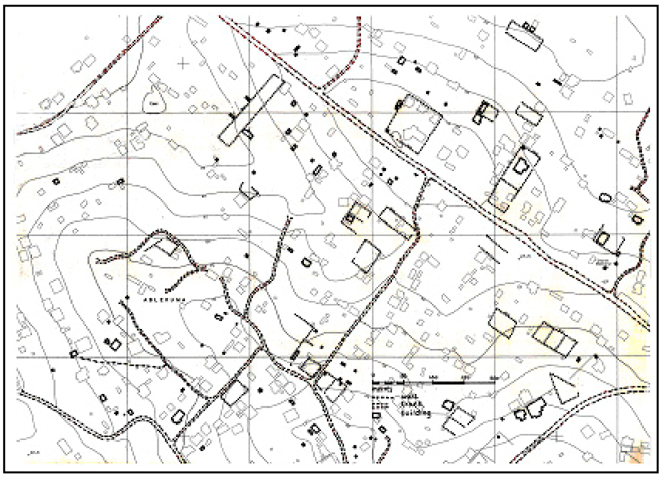
In the urban areas of Tanzania, the majority of land has been in private hands for many decades. The settlements which are commonly regarded as squatters are in fact the result of informal subdivisions by the landowners. However, there has been no control over land use or plot boundaries, resulting in a very informal appearance.

The government has embarked upon an ambitions regularisation programme, under which each property in all informal settlements in Tanzania will be identified from a satellite photograph, and approximate plot boundaries are mapped. Thereafter each owner is entitled to apply for a licence to occupy the land. Initially these licences were for two years, but this period has since been extended to three years. The licence includes a photograph of the owner, and details of the family.

In principle the licence can be used as security for a loan, but in practice this is rarely done. However, in the absence of any national identity system in Tanzania, is gives the lender some comfort as to the identity and address of the borrower.

5.4 Ghana

Stools and Skins[15]



Peri-urban land near Accra – land allocated by the stool (Ablekuma)

As noted earlier, most land in Ghana is vested in the Stools and Skins, and in practice in sub-stools and families. In such areas, the proper persons entitled to administer and deal with the stool lands are the village chiefs or families but they are required to keep the occupant of the paramount stool informed of any major dealings with such lands.

There are a number of traditional groups in Ghana which do not recognize a stool or skin as symbolizing communal land ownership. In such places, the allodial title may be vested in a clan or family. This form of land ownership is common in the Volta region and in some areas in the Eastern, Greater Accra, Central, Northern, Upper East and Upper West Regions.

Under the traditional regime, a person's membership of a community made him a part owner of the community's land. He had an inherent right to any part of the community's land. This gave the impression of a fair distribution of land. With time, however, this community ownership has become only notional. There are no more virgin lands to be cultivated by a member of the community, as all the land has become the usufructuary estate of one family or the other within the community.

In the urban areas, owing to the economic value of land, the traditional authorities have practically ceased to be the administrators of the land on behalf of the communities. They have virtually become the owners as they take all decisions in connection with land ownership ands keep the benefits as well. In many cases, individual community members, and sometimes family members, have had to compete with strangers for the community's land, paying as much as the strangers in order to obtain access to land.

The customary system in Ghana is very strong, and to trade land outside the family or customary group is viewed by many as a sale of birthright or inheritance. . . Land is an asset that also provides a sense of belonging to a place and for many it is the only means of making a living. Land is therefore not a freely tradable

[15] The term "Stool" and "Skin" refers to the office of the Chief responsible for the area concerned. Whether the term Stool or Skin is used is a matter of geography.

commodity, but viewed more basically as a life-giving asset. Customary rights and practices therefore dictate very strongly the use and value of land. An owner or occupier of land is not free to seek the highest and bet use of land, and hence its economic value or potential can seldom be realized.

While urban land offers the opportunity for capital accumulation, capital gains are seldom realized because of the culture of holding and bequeathing rather than selling it. The situation arises where many urban land and house owners are asset rich and cash poor.

One major characteristic of the land economy in Ghana is the duality of land ownership and management between the customary (informal) system and the state (formal) system. Traditional concepts of land ownership and rights in land have persisted amidst the demands of modernisation. One effect has been the development of a dual land market in the country.

State land

There are basically three types of state land: land acquired by compulsory purchase, in the “public interest”; land which has been vested in the state and managed by the state though the absolute interest essentially rests in the original owners, usually the customary owners; and the occupation and use of any land if such occupation and use is deemed to be in the interest of the State. Compensation is to be paid for such land though it is to be reduced by whatever benefits the community is expected to derive from the proposed use of the land.

Private land

By definition, all lands not classified as state land are private land. These are principally stool land though there are different variants in the various cities. This stool land exists even within the urban areas.

Unlike the situation in Tanzania, South Africa and Swaziland, stool land – land owned by the tribe – can be alienated and titles issued. There is therefore no difficulty in principle to using land as security for a loan. In practice, however, there are many difficulties due to boundary disputes, the lack of consistent land registries in the offices of the stools, uncertain ownership claims etc. As a result, the only titles which can be accepted on their face value are those issued by the State on the sale of state land.

5.5 Summary

At the risk of over-simplification, the table provides an overview and summary of the situation.

Table 5.1 Summary of land issues in Swaziland, South Africa, Tanzania and Ghana

	Role of Traditional leadership	Existence of squatting/land invasions	Informal subdivision by owners	Intermediate land rights	Formal title
Swaziland	Traditional leadership allocates land for informal settlements outside city boundaries, and still retains effective control in some urban areas	All residents have consent to occupy either from traditional leadership or regional administration	This does not occur	"Permission to Occupy" given by Government in certain cases. PTO typically valid for 1-3 years, but system currently out of use	Formal land registration and titling system used in informal areas. Occupants receive fully transferable/ mortgageable lease of 99 years.
South Africa	None	There have been many land invasions, typically either in land already allocated for housing projects, or well located public sector land	Does not occur	None	Formal land registration and titling system used for all housing, including government subsidized housing for sale, and upgraded informal settlements
Tanzania	Does not apply in the urban areas	Very rare	This is a common practice where the owners of peri-urban land, originally used as smallholdings, subdivide their land and sell to individuals	Government has introduced an Occupancy Licence, which is valid for three years. In theory, this period gives the occupant sufficient time to have his plot surveyed, and raise funds to pay for infrastructure prior to issuance of formal title	Formal title issued to properties which meet requirements of surveyed plot and access to urban infrastructure. Lease period is 33 years.
Ghana	Traditional leadership plays a major role in urban land allocation	An increasing problem, especially in publicly owned land in urban areas. It manifests itself in the form of gradual encroachment rather than invasions	The traditional family-owned compound is subdivided between members of the family – subdivision of land by private owners not common	None	Formal tile is given by traditional leaders, but abuse of the system and bad administration mean that the titles cannot be relied upon. Titles issued by Government are accepted by banks. Residential property gets 99 year lease, with ground rent payable.

6. Life in the selected settlements

As noted above, qualitative and quantitative surveys were undertaken. A total of 8,356 household surveys were taken, supplemented by almost 100 in-depth household interviews. From this rich material, it is possible to sketch a picture of conditions within the settlements concerned.

The surveys revealed a wide diversity in the size and conditions of houses in informal settlements. There is a wide variety of housing in the settlements surveyed. Most of them, while small and overcrowded, are permanent. There are many indications that the owners take pride in the houses, even though they are so small. The same is seldom true of tenants who neither wish to invest in the property, for obvious reasons, nor take the time and trouble to beautify it.

To bring out the full flavour each country is treated separately.

6.1 Swaziland: physical conditions

The informal settlements in Mbabane are characterised by low densities, steep falls in the topography and plentiful vegetation.

Plots are relatively large – the average is approximately 500 square metres. Most plots have access to a road or footpath.

In Swaziland there is an interesting mixture of the traditional mud and stick construction, and modern. Over fifteen years ago a ban was imposed on building permanent houses in the informal settlements, so as to reduce compensation claims should houses have to be demolished to make way for roads etc if the settlements were to be upgraded. As a result, houses have usually been built using soil cement blocks. The building ban has, however, been circumvented by very many people and quite substantial houses have been built.

Renting is common, and typically rented rooms are built as separate units within the compound, which is called a homestead. Many properties have one or two rooms for rent, but some have large numbers, typically built in rows.

The houses are typically small, with half (51%) having only one room for sleeping, but 15% have three rooms and 9% have four or more rooms for sleeping.

Cooking is done indoors by 93% of the households.

Piped water is widely available. This is typically provided through a standpipe which is metered. The person responsible for payment for the water then sells it to others. However, in some settlements people collect water from springs.

Pit latrines are the method of sanitation used: typically each homestead has its own latrine, which is typically shared between all households living on the plot (65% do so).

About one quarter of the homesteads have electricity, usually in the main home only.

Top: There is a variety of different standards of construction in the informal settlements around Mbabane.

Bottom: Houses built for rent (Mbabane)

Below: a "shack" in Ekurhuleni, South Africa

6.2 South Africa: physical conditions

The South African situation is very different: the houses (usually called "shacks") in the settlements selected for study are all built out of temporary materials – mainly second-hand corrugated iron. Timber and plastic sheeting are also used. This may be in response to the government's capital subsidy housing programme – because the residents have the expectation of a free house from the government they are reluctant to invest in what they see as a temporary solution. In contrast to the ramshackle appearance of the exteriors, the interiors are often well furnished and decorated with pride.

The topography is relatively flat, and the houses occupy plots of between 200 and 400 square metres. One site was developed through an organised land invasion, as the aerial photo shows.

The houses, although externally so uninviting, are often relatively well furnished and attractive inside. However they are small, and 75% of the families use only one room for sleeping, though they have separate rooms for cooking. Because access to land has not been a major problem, renting is relatively unimportant.

Water is supplied by the municipality through standpipes, although in one settlement the water is taken from local borehole which suffers from reliability problems. Pit latrines provide sanitation. Less than 1% have electricity. Cooking is largely done by paraffin (93%), and lighting with candles (82%), followed y paraffin (17%).

The layout of a settlement in Ekurhuleni, South Africa, shows the carefully laid out nature of the settlement which was the result of a planned land invasion

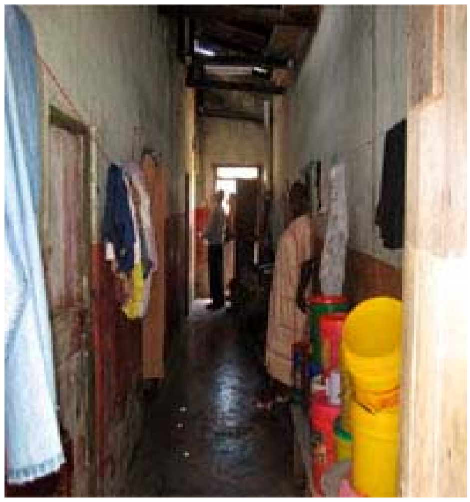
6.3 Tanzania: physical conditions

The sample in Dar es Salaam included relatively high density and well-established settlements, as well as newer, lower density areas which are currently still under development. The most common type of house in the settlements is the Swahili house which consists of four or six rooms entered from a central corridor. Typically two of the rooms are occupied by the owner, and the remainder are let to tenants. The corridor leads to a courtyard at the rear where the bathroom and toilet are located. The rear courtyard is also typically used for cooking, and about half the respondents said that they cooked in such a communal area. Most of the remainder cook inside.

The settlements are all built on comparatively flat terrain. One is located next to a small river, and is subject to flooding during heavy rains. The houses vary considerably in size, the mean size being 34m^2, and almost all are built with concrete blocks.

73% of the households in the survey obtained their water from a river, 11% from a vendor, and 7% had their own standpipe. 70% of the respondents shared their bathroom with others.

60% of the households surveyed had an electrical connection: just over half of these were official metered connections, and the rest were unofficial connections.



The central corridor in a typical Swahili house, Dar es Salaam

6.4 Ghana: physical conditions

Some of the settlements studied were well established, with houses of over 60 years old. The majority were built in the traditional form of a compound in which the majority of the rooms are rented out. Houses in the established settlements are usually built of concrete blocks or mud bricks. Other settlements were newer, and one was a comparatively recent settlement in which the houses are wooden, and obviously built as relatively temporary construction.

Most settlements included in the survey are comparatively well served with roads, but one, Sodom and Gomorrah is built on marshy soil at the edge of a stagnant and very polluted lagoon. The water table is high and during rains it is subject to flooding.

About three quarters of the respondents cook in the compound, and only 10% said that they have their own cooking room.

69% of the respondents obtained their water from a shared standpipe, and 18% from a water vendor. 8% had their own supply.

In the settlements surveyed, 40% used pit latrines, 32% used bucket latrines, and 19% used public toilets. One of the matters for concern in Accra is the amount of money spent by families on paying for water from vendors, or paying to use public toilets. These are, in fact, privately owned in the majority of cases, and a

This pile of jerry-cans with which to collect water indicates one of the defining characteristics of housing in Accra: lack of access to water and sanitation matter for concern is the amount of money that some households have to spend on water and sanitation.

Electricity is virtually universal in Accra – 91% of the households surveyed were connected. Ghana has a special tariff for poor people, which applies if a small amount is used monthly. The power is therefore used for lighting, and cooking is mainly done with charcoal (84%).

6.5 The Residents

In general, in all countries, about two thirds of the household heads are male, though in Dar es Salaam, the percentage is 79%.

The percentage of the population with secondary education and above was 33% in South Africa, 20% in Ghana and 15% in Tanzania. The data was not collected for Swaziland.

Those in full-time formal employment were 51% in Mbabane, 33% in Dar es Salaam, 35% in Ekurhuleni, South Africa, and 19% in Accra.

What is very striking however, is that in Mbabane 20%, and 31% in Ekurhuleni, considered themselves unemployed, whereas none of the household heads in Dar es Salaam or Accra did so. In Accra 93% of all household members said they had worked for pay or profit in the previous 12 months. Two thirds of the household members in Dar es Salaam were engaged in informal employment.

Ali Harub and his family from Dar es Salaam

6.6 Employment

In Dar es Salaam, the informal sector activities listed were private employment (casual labour, craftsmen, technicians, masons, driver, bus conductor) and business (hair cutting saloon, beauty saloon, hawkers, street vendors, bar maids, tailoring, shops, *genge etc*). Formal sector activities were Government employment (driver, secretary, nurse, teacher, police), private company employment (security guard, house girl, waiter, waitress, driver, conductor, sales men), and business (small or large).

In Accra, employment was dominated by retail trade and service industries. 6% were in manufacturing and 8% in construction. In Ekurhuleni, 71% said that they had no skills. Those who had skills were mainly in the manufacturing sector, such as machinery operation and driving.

Informal sector trade and services dominate employment in Accra

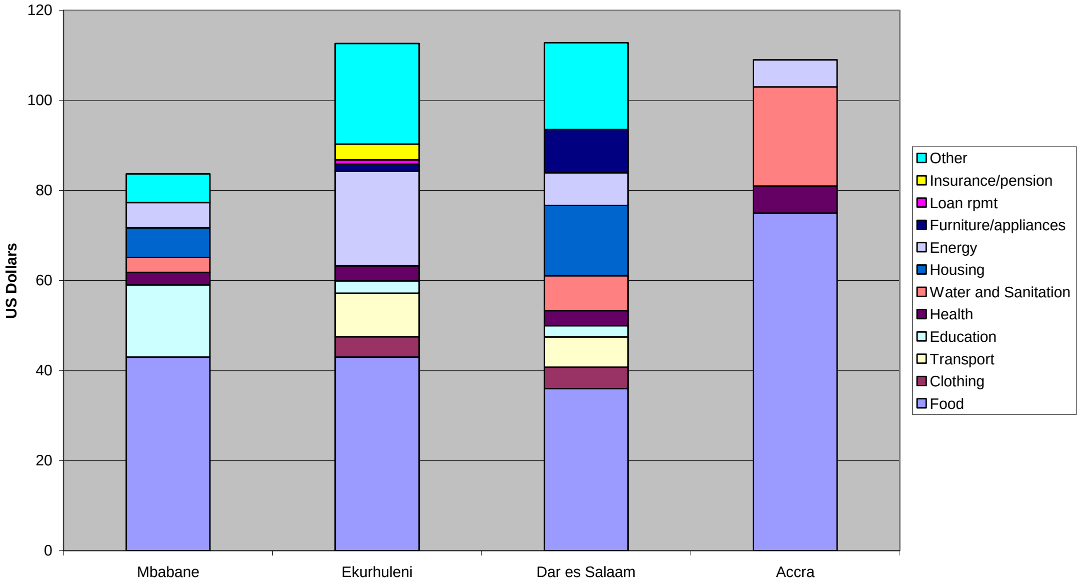
6.7 Incomes and expenditure

Accurate data on incomes are notoriously difficult to obtain. Commonly, incomes are undeclared, and it is only when expenditures are discussed that the discrepancy becomes evident. However, it is of great importance to note that income levels were shown to be higher than expenditure in three cases, even if only by a small margin.

One of the facts that the survey revealed was that in all cases family remittances are quite common. These remittances are usually from the urban to the rural areas, but this is not always the case. The residents of informal settlements in Ghana also commonly receive remittances from relatives working abroad.

These remittances are especially important in the case of emergencies, or where family members might have to raise a substantial sum, for example when building or improving their houses.

Figure 6.1 Median monthly expenditure (US$), all settlements



6.8 Borrowing and lending

6.8.1 Swaziland

Savings and Credit Schemes

Not all the settlements have savings groups, but the ones that do, have several operating in stiff competition with each other. Not all these groups are licensed and/or registered. The registered ones tend to have larger membership (50-100 members), offer more competitive interest rates (averaging about 12 percent per year), and have less stringent requirements, particularly with respect to the joining fees (averaging about $10), compulsory minimum monthly contributions (averaging $10). The unlicensed ones are typically smaller (20-30 members), and have higher interest rates (averaging about 20 percent per year), and require higher joining fees (averaging $30) and monthly contributions (averaging $30).

It is difficult to say which ones work better, but from the discussions with some of the householders who are members of these associations, it seemed as though the larger the association, the lesser the control, and correspondingly a higher potential for corruption. A lady in Mangwaneni, for example, told us about a savings association in Malkerns of which she is a member. One, she has very little idea regarding the terms of her loans, or the benefits associated with her savings program. Two, she had heard rumours a few months ago that the company had gone bankrupt due to corruption, and due to the disconnect between the administration of the program and the members, there was nothing she could do to find out more, or recover her money. Here, we are talking about years of savings of an old woman who has no income source.

"A lady told us about a savings association of which she is a member. She had heard rumours a few months ago that the company had gone bankrupt due to corruption, and due to the disconnect between the administration of the program and the members, there was nothing she could do to find out more, or recover her money. Here, we are talking about years of savings of an old woman who has no income source."
(Resident of Mangwaneni, Mbabane)

The quantitative survey strongly suggested a demand for improved housing and services. Income levels, and the presence of an economic cadre with surplus income for investment support this supposition. However, most residents lack access to the formal banking sector. The majority of respondents indicated they would upgrade rather than seek new plots.

Many households have saving accounts, yet few secure loans for housing investments. Residents of the project area are aware of the operations of commercial banking institutions, including commercial banks, the building society, and credit and savings societies. Also, they are familiar with a number of informal savings schemes. Very few borrow from the formal credit system and most indicate an unwillingness to do so. This speaks to the need for considerable improvements in commercial lending outreach.

The existence of community-based savings and finance schemes suggest that these may be a viable means to provide access to finance for low income groups, particularly female-headed households. The findings suggest that there is scope for linking formal and informal savings schemes, perhaps through such mechanisms as community mortgages.

While urban households can draw upon rural household resources when needed, and while urban households have a fall-back home in times of economic stress, female-headed households are not as well linked to rural areas. While this lessens urban-to-rural outflows, it also undermines the household's 'social security' and makes female-headed households more vulnerable to the impacts of a declining job market. This may make them more conservative than their counterparts in male-headed households in terms of housing and upgrading investments, and less likely to benefit from the project.

Small scale trading in Ekurhuleni

6.8.2 South Africa (Ekurhuleni)

30.8% of the population state that they are saving on a regular basis. Many save through the rotating savings groups, known as stokvels. Just over 20% have one or more bank accounts. Also of interest is that about 30% of the families in Ekurhuleni are members of burial insurance schemes, and about 2% contribute to private pension schemes.

Table 6.1 Where Savings are held

		INFORMAL SETTLEMENT						Total	
		John Dube		Bapsfontein		Payneville (Gugulethu/Everest)			
		Count	%	Count	%	Count	%	Count	%
How is the household saving money?	Stokvel/ gooi-gooi, etc.	6	2.5	16	3.0	29	2.8	51	2.8
	Post Office, SACCO (savings account, savings book, etc.)	39	16.2	39	7.4	130	12.6	208	11.5
	Bank (savings account/fixed deposit, etc.)	188	78.0	419	79.1	797	77.2	1404	77.9
	Other (keeping in house, etc.)	10	4.1	57	10.8	92	8.9	159	8.8
	Not answered			1	.2	2	.2	3	.2
Total		241	100.0	530	100.0	1032	100.0	1803	100.0

Bank Saving Accounts

Of the 31% of the households which save regularly, 78% of the households save their money with banks. Besides having a saving account 3% of the households have a Current/Cheque account.

An "Mzansi" account is South Africa's low-cost national bank account. Mzansi was launched in 2004 and extends banking to low-income earners and those living beyond the reach of banking services. South Africa's four major retail banks, (Absa, First National Bank, Nedbank and Standard Bank), as well as Postbank offer the Mzansi account. Mzansi is an initiative by the country's banks to put full-service banking within at most 15 kilometres of all South Africans, and an automatic teller machine (ATM) within at most 10km of their homes.

The Mzansi account is a basic, standardized, debit card-based transactional and savings account. All that is required to open the account is a valid ID document. To keep costs as low as possible and to ensure that the account is easy to use, transactions are limited to deposits, withdrawals and debit card payments. The account includes a debit card that can be used at retail outlets.

Transfers are one of the most basic financial intermediary needs in South Africa, where there is a historical flow of money from urban to rural areas. Mzansi Money Transfer provides a means of sending money anywhere in the country, to and from over 5,000 bank and Post Office outlets. Transfers are limited to a maximum of R5,000 per day, and users not need to have a bank account.

Besides having a savings account 20% of the households interviewed also have an Mzansi bank account, however, such accounts do not provide access to credit.

Post office/SACCO

Of all the households interviewed 11.5% save their money with the post office or through SACCO (Savings and Credit Co-operative). There is no difference between a credit union and a SACCO. The members of a SACCO agree to save their money together in the SACCO and to make loans to each other at reasonable rates of interest. Interest is charged on loans, to cover the interest paid on savings and the cost of administration. There is no payment or profit to outside interest or internal owners. The members are the owners and the members decide how their money will be used for the benefit of each other.[16]

Stokvels/Gooi-gooi

The interviews conducted showed that 8.8% of households save their money in their houses and 2.8% participate in stokvels/gooi-goois (rotating savings and credit associations). It would be interesting to know whether this low level of participation is due to a lack of awareness or previous participant's dissatisfaction.

Table 6.2 Where savings are held, and purpose of saving

Percentage saving	Where savings are held				Purpose	Amount	
	Bank a/c	SACCO	Gooi-gooi/stokvel	House	Saving for housing	Mean	Median
31.4%	77.8%	11.5%	2.8%	8.8%	5.9%	$165	$145

6.8.3 Dar es Salaam

A total of 380 household surveys were undertaken. Households' behaviour in making financial savings was studied in detail in the Dar es Salaam study. Respondents, especially landlords, were asked questions regarding how they raised funds to build their houses. The study was also keen to find out the amount, which a household was/is able to save, and the number of years, which might be needed for one to be able to accomplish construction. Data on the amount of saving by individuals was also generated

[16] http://www.saccol.org.za/saccos.htm

from the interviews. The following section describes the saving habits of the sample households.

Method of saving
Respondents were requested to indicate whether they save money. The data shows that 54% keep savings at home. 43% have an account in a formal bank and 8% are members of a SACCOS. What is important to note is that urban residents in informal settlements do save in banks, SACCOS and at home.

Reasons for financial savings
The study was also keen to find out reasons for households to save money. These are summarized on the table below.

Table 6.3 Reasons for household saving

	Reasons for saving	Average (%)
1	Emergency	42.0
2	To start income generating project	17.0
3	School fees for children	6.0
4	To build a house including purchase of plot	14
5	Others	12
6	Combination of 1, 2, 4	6.0

Saving for household emergencies seems to dominate in the three settlements. Slightly more than one third of households save money for emergency purposes. For Makangarawe the figure is about one in every two. In Mwananyamala and Makangarawe house construction is the second most important reason for saving.

Volume of savings
Few respondents were willing to declare the amount of savings they have made. The amount in the bank accounts varies from $30 – $500 for all the households in the three settlements, but the majority have slightly less than $100. However by examining the pattern of income and expenditure it should be possible to explain the low rate of response to this question, as the amount of money a household is able to save is obviously low. On the other hand, the response to the question seeking data on willingness and readiness to take a loan and the corresponding amount one is ready to pay in servicing the loan can shed more light on the saving habits among the sampled households. The data is summarized below.

Amount that heads of households are willing to pay monthly to service a housing loan
In general heads of households are ready to obtain a loan, which can be serviced through a monthly payment ranging from $5 – $15. When they were asked as to the size or amount of loan they were ready to apply for, the results were as shown in the table to the right.

Table 6.4 Loan repayments households are willing to pay monthly (Tanzania)

Amount ($)	Percentage
1 – 5	.5
5 – 10	54
10 – 15	30
15 – 20	10
20 and above	6

Size of loan required
The majority of households are ready to take up loans of up to $10,000 – as shown in the middle table on the right – which was also the most frequently mentioned value of respondents' houses.

Table 6.5 Size of the loan required (Tanzania)

Size of loan ($)	%
1,000 – 5,000	47
5,000 – 10,000	27
10,000 – 15,000	9
15,000 – 20,000	8
20,000 – 25,000	0
25,000 and above	9

Households' ability to repay loans
Those respondents who indicated readiness to take up loans, also indicated the amount they are ready to pay upfront and

the monthly contribution, which they can make. For instance in Makangarawe the minimum amount to be paid upfront was about $10 while the maximum was about $2,000. About five respondents claimed not to be able to raise funds to pay in advance but could raise monthly repayments.

Relationship between desired loan size, repayment and income

However, a closer look at the table on the right raises a number of questions regarding housing finance capacity at household level. First, it may be difficult for households to service the anticipated loan volumes based on the declared income.

Secondly if the proposed average monthly payment for servicing a house loan is added to the average household expenditure, then the household head might be required to do away with some items on the expenditure list which are equally important in sustaining the life of the household and its members.

It should also be noted that, the duration within which individual households raised funds for housing construction varies. In Buguruni a*bout 78* per cent *of the house owners were able to save money and finalize house construction within 1 to 5 years, while* only 63.7 per cent were able to do so in Mwananyamala. 14.7% of the house owners who took 10 years or more to complete their houses.

Table 6.6 Desired loan size, repayment and income (Tanzania)

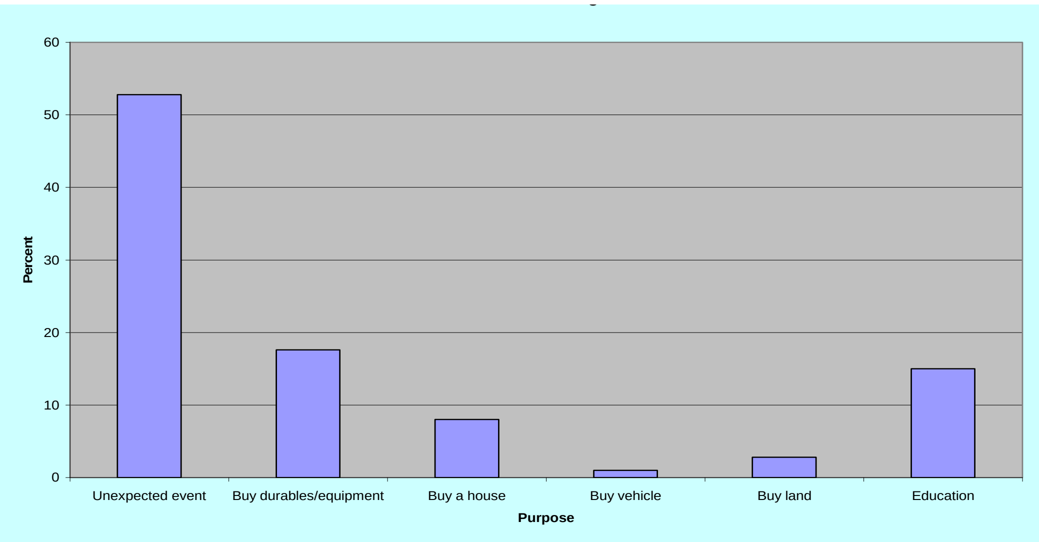
Category	Amount
Average upfront payment	$385
Average monthly payment	$41
Average size of loan per household	$11,470
Average household income	$137

6.8.4 Accra

Savings

Out of the 299 respondents 30.4% reported having savings accounts and 42.4% reported engaging in susu savings (revolving savings club). When asked the reason why they saved 50% reported saving for unexpected incidents. On the whole 41.6% reported saving daily. Of the savers, 12% reported weekly savings and only 5% reported saving monthly. 12% of all households reported saving for educational purposes, but only 8% out of the 300 reported saving for housing related issues.

Figure 6.2 Reasons for saving (Ghana)



85.5% of respondents who saved have been saving within the past 10 years, with 67% within the last 5 years. 13.7% reported having saved for more than ten years. Out of those who had saved 8.3% reported not withdrawing money. 90% withdraw their savings from time to time. They reported earning interest on their savings and 11 others confirmed various bank charges on their savings.

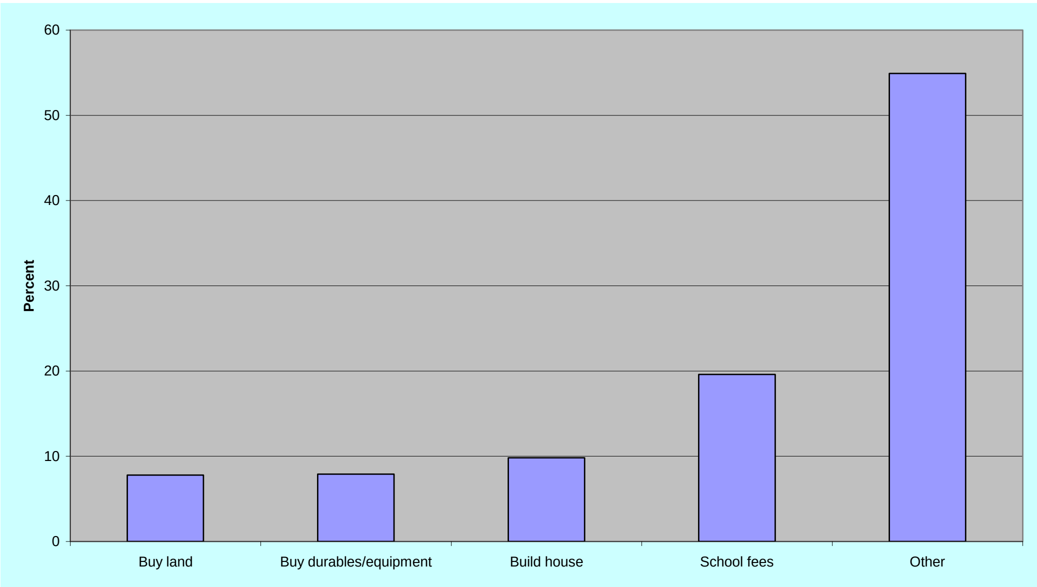
Table 6.7 Level of savings (Ghana)

Household savings per month		Per capita savings per month	
Mean	Median	Mean	Median
$57	$30	$16.5	$8.5

Borrowing

The survey data revealed that 83% of respondents had never taken a loan. Of the 51 who had taken loans 18 took them from banks, 1 from a susu vendor, 15 from friends, 5 from family sources and 8 from employers.

Figure 6.3 Purpose of loan (Ghana)



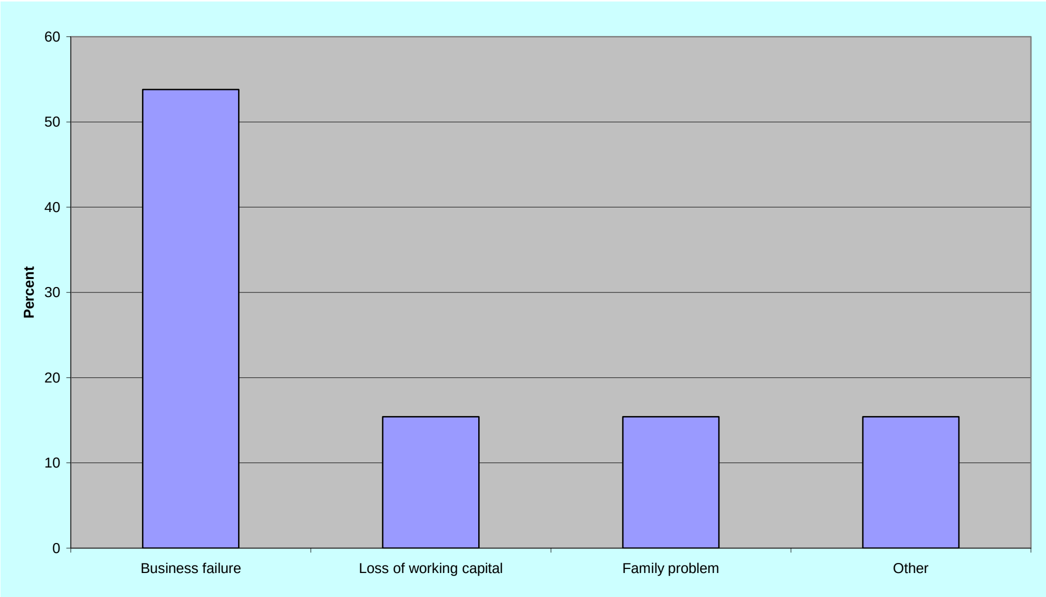
Respondents who took loans borrowed between $50 and $1,500 with the majority borrowing between $100 and $500. The borrowing pattern of respondents did not seem to follow any regular pattern.

In addition borrowing was not regular or often. 6% said they borrowed about twice a year, and 14% about once a year. Otherwise there was no regular pattern.

The conditions and terms of repaying loans seemed to be liberal. Out of the 51 respondents 37% had to bring guarantors, and only 12% were asked for collateral. Loans were given mainly on trust. Further only 41% had to pay interest on their loans.

66% of respondents paid back loans on a monthly basis, 72.5% of the 51 who had taken loans, had paid them off. Of those who had not paid off the loans, 27.8% had about three quarters left and 33.4% others had between a half and a quarter of what they borrowed left. 27% said they had had difficulties in repaying the loans.

Figure 6.4 Difficulties experienced when repaying loan (Ghana)



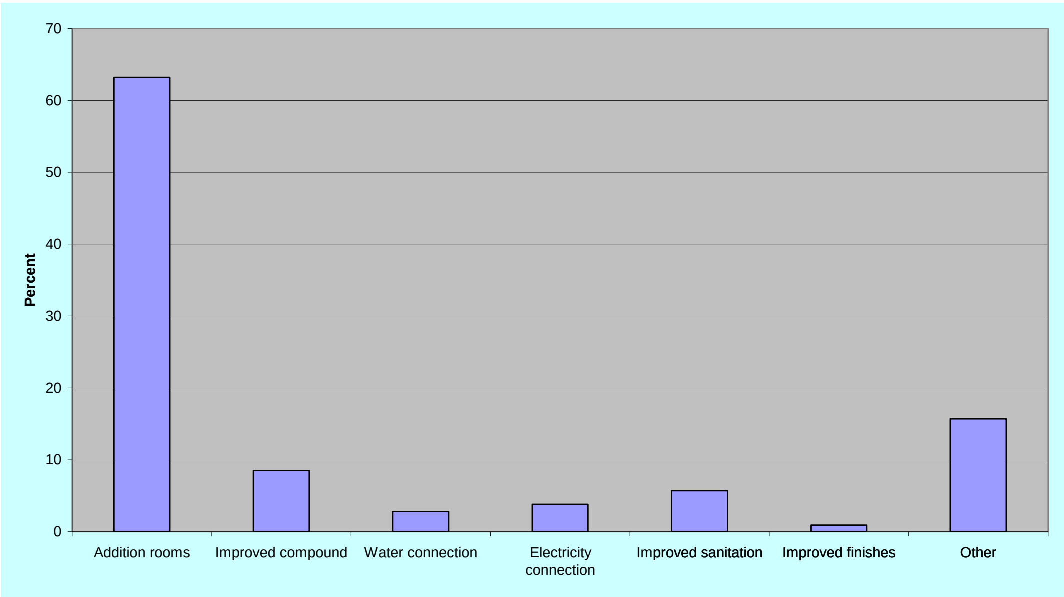
Current Sources of Funds for Building

These included personal savings which topped the list with 54% of landlords using their savings. Respondents reported the cost of acquiring their houses to be between 6000 Cedis (this is equivalent today to less than a dollar, but when the purchase was made was worth possibly $6000) and 85,000,000 Cedis ($8,500). They felt the current market values could range between $25 and $80,000.

Interest in Home Improvement Loans

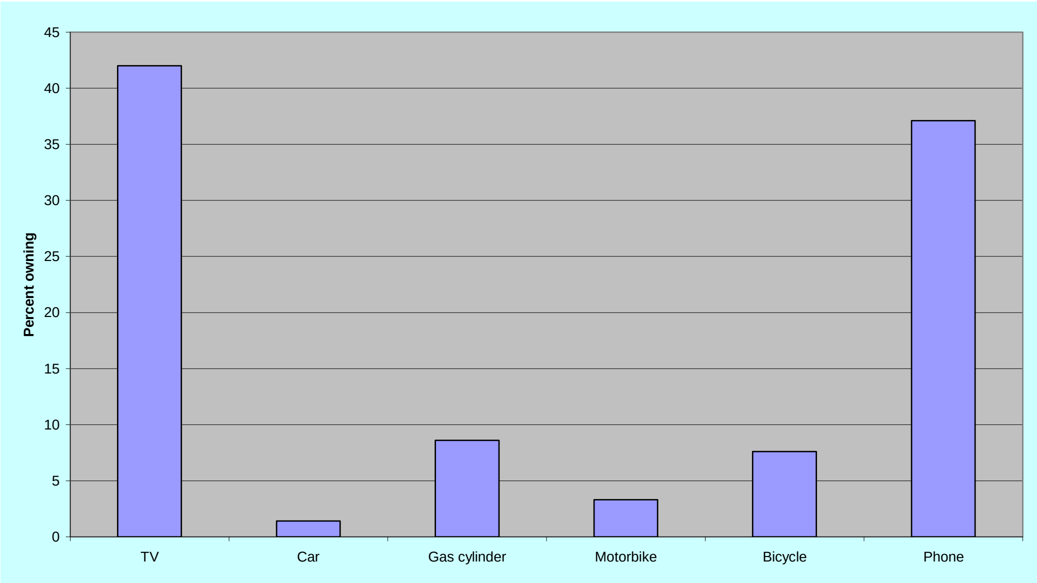
In trying to find out if the respondents would take loans for home improvements, about 82% of them reported they would, if they were made available. They were prepared to access loans ranging from $100 to $50,000. They were willing to repay from $5 to $700 per month. The majority would pay a maximum of $50 per month. The improvements home owners wish to make are shown here.

Figure 6.6 Priorities for home improvement



The survey listed capital goods owned by the households. A total of 210 households had one or more such asset. These are an indication of the asset base of the family in addition to the house.

Figure 6.6 Household equipment (Ghana)



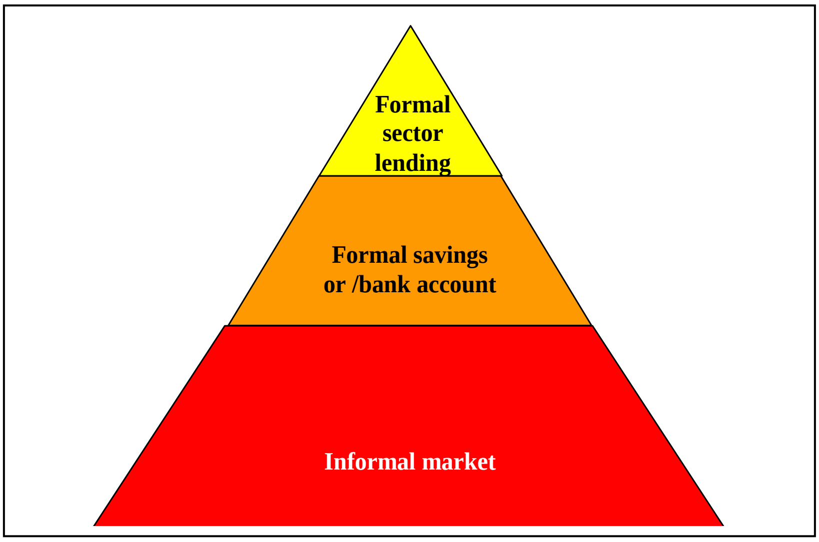
Length of Time taken to Construct Building
Of the few who had built their houses, the following table shows the time taken.

Table 6.8 Length of time taken to construct building

N	1 month	2-3 months	4-6 months	8-12 months	24 months +
54	37%	22.2%	20.4%	5.6%	14.8%

7. The housing finance landscape

Figure 7.1 The market pyramid



This section documents the housing finance situation in the four countries concerned.

This diagram illustrates the market – the bottom end of the pyramid contains far more people than the top, but receives no services. Indeed, one fact which emerges strongly is that housing finance represents a very small portion of the portfolio of most financial institutions outside South Africa, and that the poor are hardly served at all.

In the mind of many bankers, housing finance represents large sums, lent over long periods. It therefore has to be secured against a substantial asset – hence, of course, the concept of the mortgage by which the interests of the lender are secured by a right over the property concerned.

In Africa, the supply of housing in this high-end sector is comparatively small. In addition there are difficulties in many countries in either obtaining clear title (Ghana) or in foreclosing on the loan in the event of default (Tanzania).

In spite of this, however, new models for housing finance are rare. Some banks have been lending without land security, as if the "housing loan" were a "personal loan" (Tanzania). Others have started to link up with micro-finance lenders, or form their own subsidiaries (Ghana and Tanzania).

One thing is clear – the demand for finance is far greater than supply. This project's primary objective was to address this need.

7.1 Swaziland

Housing finance scene in Swaziland is dominated by the Swaziland Building Society (SBS). It is a mutual society which operates under the Building Societies Act. In addition to the SBS two of the commercial banks have offered a few housing loans.

In spite of its conservative beginnings, the Swaziland Building Society took the bold step of offering loans to participants in the World Bank's Swaziland Urban Development Project (UDP), which was designed in the 1990s. The following describes the situation[17].

One of the aims of the UDP was to bring the local banking sector into the low income land and housing market; an area where they had previously been noticeably absent. It was envisaged that financial institutions, in particular the Swaziland Building Society, would be prepared to offer loans for plot purchases and house improvements on the security of the 99-year lease. The World Bank's Staff Appraisal Report in 1994 states that "Financing of about E43 million … would be provided by the private sector for plot purchase, home improvements and construction of new housing in low-income settlements. SBS will provide both traditional mortgage financing … as well as smaller non-conventional loans for existing households … who would not normally qualify under traditional banking standards due mainly to the informal nature of their income."

[17] The introductory portion of this chapter relies heavily on: Lowesby, John: A brief history of Urban Development and Upgrading in Swaziland, Cities Alliance, Washington DC, 2007, pp 42-43.

After protracted negotiations resulted in a government guarantee to cover a portion of possible repayment defaults, SBS duly introduced a special low-value loan scheme for low-income plot lessees that had less onerous requirements for the borrower's income. The expected rush for formal financing never materialised, however, and by January 2006 only fifteen formal bank loans had been granted. There are several reason for this:

- Insufficient targeted marketing of available loan finance products was undertaken by the banks and building society.
- Risk Aversion: the cost recovery/revolving fund framework involved a potential financial risk if construction costs exceeded the estimate used to fix the plot price. SNHB was reluctant to commit to a plot price before a construction contract had been signed.
- Plot Pricing Mechanism: a conflict existed between SNHB's need for a return on investment, and the UDP plot pricing mechanism limiting the developer's overheads. SNHB was keen to include a project management fee over and above its direct overheads and financing costs, but MHUD wanted to keep plot prices to affordable limits;
- The retail banks continued to regard the low income sector as high risk for low returns;
- By the time the plot sale process had got underway in 1999/2000, the country had suffered an economic downturn, and HIV/AIDS had begun to take a serious toll on the breadwinners
- Commitment Fees: as stated, a risk control measure was for the developer to collect commitment fees from 80% of the primary householders before embarking on the procurement of construction works. However, the commitment fee payment process was dependent on allocations, and the allocations process was slow and cumbersome;
- There is a strong reluctance in Swazi society, particularly among lower income groups where security of long-term employment is not high, to commit to a formal loan requiring regular repayment instalments and using the property as collateral, since the prospect of default and ultimately the consequential forfeiture of the property are perceived as very real risks.

There are many Savings and Credit organisations in Swaziland, but, as noted above, household interviews suggested that many people were sceptical about them due to many examples of misappropriation of funds by the leadership, or favouritism in granting loans. The successful ones are those operated by formal working groups such as teachers, or company employees. None of these offer housing loans per se, although there can be little doubt that funds from loans are used for housing.

The major advantage of these programs is providing people access to loans which they otherwise would not be able to get. They are also able to reap the profits from the system eventually, although it is difficult to quantify this without having more specific data.

While there was praise about the associations from the managers of the programmes, there were also several complaints from people who were not members of these associations. One of the main reasons cited for not joining these associations was the inability to withdraw money from their savings. The savings serve as a sort-of collateral, and are only there to determine the size of the loan one is eligible for. In other words, if one is in need of money, one must borrow, and pay the interest for the loan. The fact that this interest rolls back into the system as profit that is ultimately shared by the members is not understood by most. As a result, they see this as locking in their savings without any interest while having to pay interest on any money they borrow against their savings.

Another reason is the inability of people to make regular contributions, particularly the older citizens and the unemployed. Also, membership in these associations is mutually exclusive – one can only be a member of one association at a time. So, even if one discovers a better plan in another association while being a member of one, it is not so easy to switch.

That said, these associations offer several benefits. Most importantly, they are existing institutions, established by the communities which can be further built upon to increase people's ability to access financing. Their potential to serve as conduits for channelling funds to a larger section of society at a relatively low administrative cost should not be underestimated. By starting out with a few good examples of these associations, more members of the community can be organized to establish more such organisations, which will increase the reach to the poorest. There may be a need to assist these organisations to associate with banks, so as to allow people to use their savings more effectively – to earn interest on them, or be able to access them as and when required. Several managers of these schemes expressed need for better linkages between lending programs and livelihood development exercises, which make a very good case for the government issuing matching grants for such activities that promote social and economic development.

In working with these institutions, however, we must bear in mind the key features that contribute to their success. One, these institutions serve as a semi-formal and more approachable means of accessing finance, particularly for the poor communities. Many people hesitate from going to banks either because of the formality and cost of transactions, or because the information required by formal lending institutions from the client is either not available or easily understood. A major advantage of these small groups is the one-to-one face time with seemingly like-minded people who belong in the same social segment that allows a sense of comfort, owing largely to their small size. Two, since the loans are small and the collateral consists essentially of the savings in one's account, there is no evident threat of losing one's property or suffering a huge loss in case of a default.

Burial Schemes

These are common in many of these informal communities. While they seem to work rather well to offset the high costs of a funeral, the fact remains that, in large part, these burial schemes are associated with a monopolistic national insurance agency, which makes them less competitive, and the people more susceptible to fluctuations in fees.

Local Moneylenders

The local moneylenders, or "shylocks" as they are commonly referred to, provide small loans at extremely high interest rates, ranging from 20-50 percent per month. While many of the interviewees expressed wariness in borrowing from shylocks, they also acknowledged that shylocks provide access to finances without much hassle, and at very short notice.

"Local moneylenders provide small loans at extremely high interest rates, ranging from 20-50 percent per month."
Resident of Mangwaneni, Mbabane

Compare the loan terms of a shylock with the short term loan offered by one cooperative/ savings organisation in Mangwaneni with an interest rate of 10 percent. This cooperative requires 6 months of savings record before one can even apply for a loan, and even then the loan is not guaranteed. From the lender's perspective, the borrower in this case presents a very low risk. The shylocks, on the other hand, have to absorb the full risk, since they lend without any credit checks etc. Hence the high interest rate. Even though it is extremely difficult to justify such a high interest rate, the fact that people still borrow from the shylocks implies that their services fill a gap in the existing financial market.

We tried to interview some shylocks, but people would decline from pointing us in the right direction, for fear that their lender—the shylock—would be victimized, and that they would lose their source of emergency financing. In other cases, people whom we identified as shylocks refused to admit that they engaged in any lending practices. In our attempt to get around this problem, we requested one our community leaders to interview a shylock who was his personal friend, to get a sense of how their business runs and what segment of the population they cater to. The following are some of the responses to the questions we listed:

- Total amount in current loans: $1,700
- Number of current customers/ borrowers: 18
- Total amount loaned out last year: $2,600
- Range of loan amount: $15 - $150
- Typical loan term: 1 month repayment period, 30 percent interest (per month)
- Most common reason for loan: school fees
- Income range of borrowers: both rich and poor (income not specified)
- Profit last month from money lending: $85

The last statement about the profit seems understated, and must not be taken at its face value. This is understandable in light of the fact that many of these shylocks are not licensed, and are therefore “illegal”, and choose not to disclose their incomes for fear of victimization.

7.2 South Africa

The housing policy is based on capital subsidies, but for those with higher incomes (above approximately $700 per month) the private sector has committed itself under a financial charter to providing mortgage funding. A lack of housing supply in this market has reduced the value and impact of these commitments, but it is expected that over the next three to five years this constraint will be reduced and an increasing proportion of the bank lending will go to these income groups, and for houses costing between $15,000 and $25,000.

Meanwhile, a very active micro-finance market has developed in South Africa. Loan shops are now commonplace in the streets of South Africa. Some of these micro-finance institutions (MFIs) were very unscrupulous, as a result of which the industry is now more strictly regulated, with maximum interest rates of about 45% per year, and prohibitions on undeclared administrative fees and the like.

Housing has not been a major factor in micro finance, but there are several examples of interest. A well-known example is the Kuyasa Fund – a NGO which lends for housing. The loans are around $700 each, with an interest rate of 32%, repayable over 30 months. The loans are secured by a 30% cash deposit created by a six month savings programme. Borrowing is also secured by savings groups.

Kuyasa explicitly relies on donor financing – mainly SIDA – and does not expect to become self sustaining due to the economics of its operations and borrowers.

There are other lenders in the micro-finance market. Some receive wholesale finance from the National Housing Finance Corporation – a body established by the government to leverage housing finance for the poor. Another source of wholesale funding is the Rural Housing Loan Fund.

One example of this type of micro-finance institution is *African Dawn*, which receives R1 million per month from the NHFC, and operates all over the country. They have a variety of products, among which the main ones are:

Wendy Houses. These are wooden houses built in the back yards of township houses for R8,000. The householder has to be in regular employment or show a steady flow of funds through his bank account. The structure is erected in half a day, and provides accommodation to let for the householder, and pays for itself in two years.

The company works through agents which it has used when it was in the normal micro-lending business. Agents received 5% commission on the first payment, and 5% on the third.

House improvement/construction loans. The loans are granted in the form of building materials which are supplied by a recognised supplier such as Cashbuild. Once the materials are delivered, then the supplier is reimbursed by the company. Clients can opt to include a cash allowance for labour, up to 25% of the value of the materials. In that case, payments are made directly to the contractor, so the client does not touch the cash at any stage.

An example of a one-time public sector house which has been improved by the owner (Soweto, Johannesburg)

Clients are subjected to credit and affordability checks. They should have an income of between $700 and $1000 per month. They can be self employed, and should produce bank statements for the last three months (six months for self-employed) to demonstrate their income and money management skills. The loan repayment should be no more than 25% of the income (up to 33% in certain very limited cases), and the repayment term is 36 months maximum, but most clients prefer to make it 24 months and often repay early, so that the average period for loans to be outstanding is only 15 months.

The company operates a cell-phone banking system, in conjunction with the Standard Bank.

Another example is *Blue Dot Housing*. Their premise is that payroll deductions are the key to success, and when the company was started it solicited a 45% shareholding from interested Trade Unions (representing about 600,000 workers), who then used their bargaining power to get their companies to agree to make payroll deductions. Previously the vast majority of the customers in this sector had been in the public sector, but government decided to clamp down on that.

They get their funds from the NHFC and the Rural Housing Loan Fund, and work with about 3000 companies all over the country.

They have developed three products of relevance to the project:

Incremental housing development loans were granted on the basis of a quotation prepared by the client. Once the loan was approved, funds were paid into the client's account. Repayment was by payroll deduction. They had problems with certain types of employer, e.g. furniture, security and construction. They made checks on the companies in terms of their credit history, the reputation of the directors, ITC credit history, and insisted that they would only deal with registered Proprietary Limited companies who had been trading for five years or more. Due to the problems with employers the scheme was discontinued, but is now being reinstated in a refined form.

Home improvement loan product is approved on the basis of affordability and the funds are loaded onto a card which the client can produce at any one of the five major building materials suppliers. The funds are paid directly to a Building Materials supplier, on presentation of the delivery note.

Clients are identified by Agents who are paid on a commission basis, and who are responsible for ensuring that the clients keep up their repayments. Agents whose accounts were more than 5% in arrears were prohibited from getting more business, and therefore left – with the debt unrecovered. Due to the problems with agents this scheme has also been discontinued.

The Real Estate Loan is based on the concept of building housing for rent in the backyards of existing township houses, and is being piloted in Soweto. To date 16 units have been built. Due to the fact that properly built, well serviced rooms attract much higher rents than shacks, the projects pay for themselves within five years.

Blue dot provides a full turnkey service (including design and construction). Loans are for five years, and a four room unit will attract rents of almost double the loan repayments, thus making the risk minimal. A four room unit would cost about R70,000, and before the loan is granted a bond is secured over the property. Loan officers are community based, as are the contractors. Clients receive extensive financial counselling from trained community members, and are responsible for making their own cash payments to the bank on a monthly basis, and the deposit slips are collected by the loan officers who meet each client twice monthly. In this way any early signs of financial difficulty can be dealt with.

Back yard shack in need of capital for completion (South Africa)

Lastly, *Blue* offers similar products. It is represented in all provinces of South Africa and has 80 branches. It also operates in Malawi, Lesotho, Tanzania, Uganda, Botswana and Zambia. Their funds come from NHFC, among others, and IFC is an equity partner.

They operate similarly to the others in that they rely on payroll deductions or debit orders from bank accounts for repayments, and pay against delivery of building materials. Labour costs can be included if required. They have inspectors who undertake spot checks to ensure that materials have been delivered and the housing for which loans have been taken is being satisfactorily constructed.

Their loans are for up to R15,000, over a maximum period of 36 months, with a maximum interest rate of 40%.

Their operations outside South Africa are run similarly, though it is not always easy to find building materials suppliers such as Cashbuild which have the automated systems used in South Africa. But the principle remains the same – materials are supplied and the supplier paid direct. They insist that loans are repaid by payroll deductions and normally restrict their lending to civil servants.

7.3 Tanzania

At the start of the project, it appeared that many aspects of economic and financial activity in Tanzania would support developing an active mortgage finance sector: macroeconomic progress, banking sector restructuring and regulation, and wide agreement among would-be lenders that effective demand exists for both high and moderate income households. Neither the banking sector nor the capital market were especially liquidity constrained, with the exception of the only two banks which were active in housing lending.

Despite this, there was very little activity in the housing market, and most of the few housing loans that were outstanding, did not even qualify as formal, collateralized mortgage loans. Rather, they were consumer loans, some specifically dedicated to housing. The housing-specific loans tend to have longer terms (up to 10 years for Azania Bank); the other housing-related consumer loans are generally one to three years, and thus are of more use in rehabilitation than in assisting affordability in the long-term.

The Housing Finance Forum identified the major barrier to development of the mortgage market as an inadequate legal and administrative infrastructure. Despite reforms undertaken by the Ministry of Lands and Housing, the bankers, as well as many housing experts, insist that the reforms have not gone far enough in reducing various risks to support a more active market. Mortgage clauses are buried in the land law, land titling faces many barriers, and a history of poor payment culture continues to be cited. Foreclosure and enforcement are very problematic, in part because of failures in the judicial system, and several bankers said they would do most anything to stay out of court. Finally, the two current mortgage lenders are both small and need access to long-term funds.

Financial Sector Reform and the Capital Market

Financial sector reform has been in progress since 1991, with the passage of the new Banking Act, and adoption of the first generation Financial Sector Adjustment Programme. The Bank of Tanzania and its regulatory policies have been strengthened and the banking sector has been restructured and privatized. The two large state commercial banks – CRDB (Co-operative and Rural Development Bank) and NBC (National Bank of Commerce), – were restructured and recapitalized; CRDB was fully privatized in 1996. NBC was further split into NBC and NMB (National Microfinance Bank) in 1997, and both were recapitalized. The Banking and Financial Institutions Regulations, 1997, set conditions of entry or exit into the banking industry. Finally, NMB has just recently been privatized by a consortium of Dutch and Tanzanian investors and is in the process of restructuring its operations.

Tanzania is now undertaking the second generation of the World Bank's Financial Sector Adjustment Programme, which is addressing the judiciary, pensions, insurance, rural lending, and regulation of micro-lenders. Legislation is presently being developed to allow banks to foreclose on mortgaged property in the event of default, which is expected to make a substantial impact on housing lending. Liquidity in the capital market is not presently a constraint, as long-term funds are available from pension funds. Many banks potentially interested in housing finance are also not liquidity constrained.

"Liquidity in the capital market is not presently a constraint, as long-term funds are available from pension funds. Many banks potentially interested in housing finance are also not liquidity constrained."

The Banking Sector and Mortgage Lending in Tanzania

As of the end of 2005, there were 27 licensed commercial banks in Tanzania. However, at that time Azania and IBC were the only two undertaking housing lending. However, the magnitude was so small and the legal impediments so dominant in their thinking, that it is difficult to state that Tanzania presently has any formal – i.e. collateralized – mortgage lending at all. In fact, as discussed below, Azania's loans for housing are not really mortgage loans, as they are not collateralized by the property.

Azania Bank. With regard to housing, the bank focuses on modest income housing borrowers; the maximum housing loan is $50,000, but the bank thinks it is feasible to finance a good home for roughly $25,000. Their total housing loan book is approximately $1 million, representing about 200 loans. Azania makes it clear, however, that this is "relationship" banking, not collateralized mortgage lending, as the bank feels that the legal framework still has too many problems. These issues, include avoidance of court action on foreclosure, land title problems, spousal consent issues, the inability to use a condominium as security, and lack of a national identify document.

The housing loans, which are for a maximum of 10 years at 15 percent, include requirements for a savings account with the bank, with a minimum balance of 20 percent of the loan plus a deposit of three instalment payments. The maximum loan is six times annual net income. A title deed is required that indicates a remaining leasehold of not less that 12 years. The bank finances existing dwellings rather than new construction. In addition to its concerns about the legal framework for mortgage lending, Azania is liquidity constrained and is negotiating with the pension funds for additional moneys. Azania is not willing to lend long from its deposits, noting that the structure of the deposit base is not adequate for such lending. We must assume that Azania is also constrained by its choice of relationship lending: the loan officers feel they must know their customers well, which is a different approach from mortgage lending which relies on the value of the collateral as well as underwriting policies.

ICB. The Malaysian-based International Bank of Commerce (formerly the International Bank of Malaysia) began mortgage lending in 2002 in Dar es Salaam. However, ICB was forced to undertake a major restructuring of its balance sheet in 2004 due to non-performing loans.

Housing lending began only in 2005, and at the time of the project study there were fewer than 30 loans. Unlike Azania's approach, however, these are actual mortgage loans, as the collateral is the mortgage on the house. ICB notes that these loans are considered very risky, as the legal framework is not yet adequate. They cited delays in registering the mortgage at the Registry (6 months), the inability to register vacant land (there must be a house on it), and therefore the inability provide a housing loan to anyone who cannot offer a separate property as collateral. Because of these problems, ICB is now targeting customers who are improving their houses, and is not expected to greatly increase its mortgage book in the near future.

Two banks are of interest in relation to the potential of micro-finance in the housing market.

The **NMB (previously known as the National Micro-finance Bank**) has been partly privatised through the sale of 49% of its shares to a consortium headed by Rabobank in the Netherlands. This bank has the potential for micro-finance for housing due to its history of microfinance in the rural areas. It is already wholesaling funds to micro-finance lenders.

CRDB is a privately owned commercial bank with the Danish International Development Agency (DANIDA) as one of its major shareholders. CRDB began as the Tanzania Rural Development Bank, becoming the Cooperative and Rural Development Bank in 1995 and then CRDB (1996) Ltd. CRDB went bankrupt during this period, but was essentially turned around by DANIDA. With 50 branches and numerous types of loans, the bank is now profitable and growing.

CRDB had introduced a housing loan in 2000 that was intended to be used as build-to-rent, but the response was poor. CRDB offers a salary-based loan of up to 6 years at 15-16 percent, some of which they presume is used for housing. The total number of housing loans was not available from the overall total of $10 million in personal loans, but it was thought to be about 190 – again, not a large number relative to expert opinion on effective demand for these loans. Lack of long-term funds was cited as the key barrier to increasing longer-term housing loans, as well as the usual barriers noted by all the banks interviewed regarding land and titling.

Meanwhile, however, the bank has become increasingly active in the micro-finance market. In working with rural communities it has sponsored savings and credit societies, (SACCOS), which involves giving them financial management training and access to banking services.

Relationship between banks and micro-lenders

One of the clear advantages for the micro-lending sector in Tanzania is the high degree of co-operation and on-lending between the banks and the smaller micro-lenders. There are numerous examples.

First, NMB, one of the largest banks, is a key player in this area: more importantly, the CEO believes there is a good case to be made for wholesaling to microfinance lenders. Small micro loans carry higher service costs and staff costs; in addition, recent regulation has made the micro-lenders better financial partners. NMB's Microfinance Institutions Loan - the MFI loan - is a means through which the Bank intends to increase its outreach to the low-income target group using MFIs as intermediaries. To be eligible, these institutions must first show evidence of focus on the low income and a track record of successful lending in the sector. NMB wholesales significant funds to PRIDE, now at about $1 million. The bank is also considering on-lending to FINCA and the SACCOS. As discussed above, NMB may initiate microfinance for housing. However, the bank may also do it via the SACCOS; the SACCOS are capital constrained and their lines of credit, coming from both commercial banks and NSSF are at relatively high rates.

"The CEO believes there is a good case to be made for wholesaling to microfinance lenders. Small micro loans carry higher service costs and staff costs; in addition, recent regulation has made the micro-lenders better financial partners."

CRDB and Akiba both on-lend to SACCOS. CRDB has established a Guarantee Fund; with Bank of Tanzania permission, this has been established as a separate subsidiary to lend to the SACCOS, which CRDB feels gives them an appropriate framework for providing for these types of loans. Also, currently there is discussion of a joint venture between a large international bank (Barclays) and Tanzania's largest micro-lender – PRIDE.

Azania is facilitating a UN-Habitat project to develop lower income housing in Dar es Salaam. In order to implement this project, the Tanzanian Women Land Access Trust (TWLAT) was established by Habitat to assist low-income women to purchase their own home.

Azania has agreed to make a $400,000 loan available to TWLAT, which is secured through a USD$100,000 cash guarantee from Habitat. The fact that there is a guarantee is being kept secret from the participants so they don't get lax about repayment. In fact, there are three other guarantees involved in the project: the title deed, the women's savings and the group member's guarantee.

Micro-finance

The national microfinance policy freely allows banks and NBFIs, including SACCOS and financial NGOs to develop their micro-finance business on the basis of their own objectives, which can be for profit, poverty alleviation, and so on. From its side, Government expects institutions providing microfinance services to employ best practices and to apply sound financial principles, including proper reporting, information management, appropriate products and governance.

Capital requirements for micro-lenders are now in place, at lower levels than those for the banking sector and more consistent with the size of the micro sector. This has presented an opportunity for any (registered and regulated) SACCOS or (registered but unregulated) financial NGO to be transformed into a prudentially regulated microfinance institution. The reason for this move is so these institutions are able to diversify their lending products and mobilize savings through term (not demand) deposits, which they can then use to leverage additional funding to increase their scale of lending. It is expected that PRIDE and FINCA will now be taking savings deposits, which will hopefully be a boost to their liquidity.

Microfinance for Housing*.* Microfinance institutions (MFIs), which have traditionally provided small loans to finance small and medium micro-enterprise, have recently started to engage in providing finance for low-income households (e.g. Asia and Latin America) to acquire and build shelter. Microfinance for housing has not yet come to Tanzania, but as discussed below, there is interest on the part of several micro-lenders to introduce such loan products. Low-income households are generally unable to meet the underwriting conditions demanded by formal financial institutions in accessing mortgage credit. Furthermore, the incremental style of building is common among these groups may be better facilitated by a number of smaller loans.

A candidate for housing finance? – an unfinished house in Dar es Salaam

SACCOS

Both the SACCOS (and the financial NGOs) were in business long before the commercial banks entered the field of microfinance and are still the principal providers of micro-credit in the country even though they operate with limited access to external funds and with a relative lack of financial competence. The Cooperative Societies Act of 1991 defines a SACCOS as a registered cooperative society whose major function is to promote savings amongst its members and to create sources of credit at a fair and reasonable rate of interest. SACCOS must be registered with the Minister of Cooperatives and Marketing. The Ministry's Cooperative Development Department supervises cooperatives through mandatory reporting requirements, however, due to its weak capacity not very much happens. Moreover, the underlying principle of the 1991 law is autonomy from government (interference) and self-regulation. In the case of SACCOS, their main sources of funding are in the form of share capital and deposits in the case of financial NGOs, their source of funding is from 'voluntary deposits' and overseas donors. In both cases, these organisations take deposits from the same target population that they lend to (i.e. use member's money).

SACCOS are owned by their members and use a 'common-bond' approach to group formation, with the vast majority being employer-based. Each SACCOS sets its own rules, including its own borrowing and lending terms. The main sources of funds for the SACCOS are member's shares and savings. In some cases a SACCOS will borrow from the apex or one of the banks, which will lend to them, e.g. CRBD and NMB. Borrowing from outside the SACCOS apex means that they will have to pay (and charge) higher interest rates than if they borrowed internally.

Borrowers may typically take out a loan for 2 ½ times what they have saved. Security for the loans includes peer pressure from the collective, title (if there is one available) and an account with a financial institution.

Housing loans are seen as an additional product, requiring the borrower to take out at least a $4,000 loan, which is much higher than the maximum loan as specified above. The only way the SACCOS could make housing loans available is if they had access to lending windows through which they could access medium and longer-term funding. In addition, they would need to be clear that their members could afford these larger loans.

Women Advancement Trust (WAT) Savings & Credit Societies (SACCOS). Founded in 1989, the Women Advancement Trust (WAT) was established to carry out advocacy work around human settlement development in Tanzania. WAT's particular focus has been to: 1) act as an advocate for women's equal rights to land and property ownership; 2) promote housing cooperatives; 3) train youth in construction skills; and 4) establish savings and credit societies.

In 1997, the Women Advancement Trust Savings and Credit Co-operative Societies (WAT-SACCOS), were established and then registered in 1998 with the Registrar of Cooperatives, with the objectives of: 1) promoting a sustainable self-help financial solution for members, that effectively improves their living conditions; and 2) linking savings and credit for income generation and housing. WAT's SACCOS are structured using a social, rather than business, approach to savings and credit.

WAT has 3 sub-units: housing cooperatives, informal settlements and housing finance.

- *Housing cooperative sub-unit.* WAT works with housing groups in the following areas: 1) technical support and training; 2) savings and credit; 3) local linkages and collaboration with local government authorities; and 4) design, planning and construction. In 2003 it had 4 groups (3 in Dar es Salaam and 1 in Dodoma) and 212 members, which it helped with, e.g. planning workshops, carrying out socio-economic surveys, carrying out house designs and assisting group members with savings through the UPATU model. The WAT Annual Report, 2003 states that the incomes of the members of the housing cooperatives incomes are so small and irregular that they are unable to plan and save sufficiently to make the groups viable
- *Housing sub-unit.* This unit encourages members of housing cooperatives to join the WAT SACCOS and use them as a vehicle to save for loans to build houses. WAT has established 3 SACCOS (in Dar es Salaam, Dodoma and Mbeya). Membership in the SACCOS is voluntary but requires the purchase of 1 share, the payment of an entry fee of $2. Members are expected to save at least $0.2 per month. The lending model is based on the following characteristics: a member must save for 3 months; may borrow 25% of the amount saved; and the loan requires 2 guarantors (who must be SACCO members). The repayment period is 18 months, and the monthly interest rate is 1.5%.
- WAT has set up a Shelter Loan Revolving Fund, with $39,000 from its international funding partner NBBL, Rooftops Canada, which is used to assist its housing groups that have set up SACCOS.

WAT has found it difficult to work with the very low-income groups, as borrowers often view the loans as “donor” funds, making repayment a problem. In future WAT intends to review the indivi-

“The housing sub-unit encourages members of housing cooperatives to join the WAT SACCOS and use them as a vehicle to save for loans to build houses.”

dual member's loan eligibility more thoroughly before it lends to the group. WAT is keen to increase its number of SACCOS and the number of individual members; however, it is stymied by a lack of capacity (both human and financial). It would like to make larger loans, which individual members could use for larger housing loans. To reach either of these goals WAT will require more donor funding.

Financial NGOs
Prior to the recent regulatory initiatives, the financial NGOs were both unregulated and unsupervised. They were registered as legal entities, either as companies limited by guarantee (i.e. non-stock companies) under the Companies Act or as Societies, under the provisions of the Societies Ordinance or as Trusts under the provisions of the Trustees Incorporation Ordinance. Two of the largest financial NGOs are PRIDE and FINCA. As noted, they have begun moving towards transforming themselves into prudentially regulated microfinance institutions.

The financial NGOs take 'voluntary' savings and use two approaches to lending: 1) individual lending; and 2) solidarity or group-based lending. Until recently all of the Tanzanian financial NGOs have been partially dependent on donor support for both resources and technical assistance. They are generally located in particular regions of the country, often selected by the organisation providing support.

"Until recently all of the Tanzanian financial NGOs have been partially dependent on donor support for both resources and technical assistance."

PRIDE: The Promotion of Rural Initiative and Development Enterprises (PRIDE). It operates nationwide (except for 4 regions), with a network of 24 branches at the regional level and 4 at the district level (28 in total). Even though it has the word rural in its name, it mainly operates in urban areas where infrastructure is available. PRIDE has 69,000 clients and is the largest microfinance institution in Tanzania, having disbursed 611,500 loans worth a total value of $12 million as of July 2005. Initial and subsequent capital for PRIDE was provided by the Norwegian Development Agency (NORAD) in order to cover operational and credit funding requirements. PRIDE's other source of funding is its members' 'voluntary' savings.

PRIDE uses the following criteria to select locations for its branches:

- a population of at minimum 100,000;
- a certain volume of micro-enterprise activity;
- a supportive infrastructure with respect to ease of communication and accessibility; and
- the availability of essential services, e.g. banks, post offices

Loan products. PRIDE makes loans to economically active people and its main loan product is a group loans for micro-enterprise. PRIDE uses a Grameen Bank-type micro-lending model based on solidarity groups made up of self-selecting members that can apply peer pressure to the repayment of loans. In addition, since PRIDE has been coming under recent pressure to provide individual loans with longer terms, it has established two pilot schemes, an employee loan and an education loan. The lending model is based on the following characteristics:

- a client must save $1.5 every week for 6 weeks ($9), as part of a loan insurance scheme (so-called 'vol-

Table 7.1 Loan sizes and interest rates, PRIDE, Tanzania

Amount (US$)	Maximum Term (months)	Interest rate
50	6	30
150	12	30
300	12	30
500	12	28
1000	12	28
2000	36	24
3000	36	24
5000	60	22

untary savings');
- access to a loan is subject to a minimum loan insurance balance amounting to 25% of loan amount;
- the loans carry a 6-month to 2-year maturity;
- repeat loans are available through several cycles;
- group members, mainly women, meet weekly; and

Terms of the loans are typically as shown in the table on the right.

PRIDE has an outstanding loan portfolio of $10 million and has a 98% repayment record.

Although the loans are not specifically for housing, since money is fungible and that some of it ends up in housing. Nevertheless PRIDE is examining the potential for making housing loans available.

Future plans. PRIDE has been steadily moving towards commercial viability and is now at the point where it no longer relies on external assistance. It therefore intends transforming into a licensed, prudentially regulated, microfinance institution, the Tanzania Microfinance Company Ltd., operating as a company limited by shareholders. With this move it hopes to attract investors, both inside and outside the country, and to mobilize additional resources through savings (not demand) deposits, as well as being able to provide new and larger loan products.

FINCA The Foundation for International Community Assistance (FINCA) was established in 1998. FINCA was started with a capital injection of USD$1 million from USAID and has had a variety of donors over the years, including DFID. In addition to raising funds from donors its other source of funding is its members 'voluntary savings' disguised as 'loan insurance', which is then used as collateral for loans.

As of September 2005 FINCA had organized 1,536 groups made up of 45,608 clients. Its total outstanding loan portfolio is $7 million, with an average loan size of USD$477.

"Finca uses a 'village banking method' . . . which places a significant degree of responsibility and autonomy on members in running their group banks. It also places a great deal of emphasis on the community as well as the individual."

FINCA initially started with a rural focus but now operates in Tanzania's peri-urban and urban areas, using a 'village banking method' that was developed by its founder. This method places a significant degree of responsibility and autonomy on members in running their group banks. It also places a great deal of emphasis on the community as well as the individual.

Loan products. FINCA lends to groups of people who come together to guarantee each other's loans for micro-enterprise. The group members (98% women) work together to ensure that their bank runs smoothly. Most of the individuals that take out loans operate a licensed business, however, FINCA also lends to individuals with informal incomes. Borrowers must save $1 per week for 5 weeks. FINCA's repayment rate is 98% on time. Loan products include individual micro-enterprise loans, for example a loan of $100 at 30% per annum for 12 – 24 months, and group micro-enterprise loans, such as a loan of $100 at 40% per annum over 24 months. They also have developed a micro-leasing option and can provide working capital in larger amounts than the micro-enterprise loans.

Housing. FINCA is considering providing larger, than normal, individual loans to people residing within group schemes that want to build a house over time. The loan would be underwritten based on an income stream rather than the property being used as the collateral. While considering this product, FINCA also acknowledges that it is already unable to meet its current demand for loans and therefore at this point in time does not have the necessary funds required to fund bigger loan products. FINCA's average loan size is currently $150, while a housing loan would require $2,000. Moreover, FINCA does not intend forgoing making the smaller loans, required by the poor, to ensure funds are available for the larger loans required by better off individuals wanting to build a house.

Future Plans. Similar to PRIDE, FINCA is steadily working towards commercial viability and is moving away from relying on donor assistance. Similar to PRIDE, it intends transforming into a licensed, prudentially regulated, microfinance institution, operating as a company limited by shareholders. With this move it hopes to attract investors and to mobilize additional resources through savings (not demand) deposits, as well as being able to provide larger loan products.

7.4 Ghana

Overview

Typical of centrally-managed economies with extensive state-ownership of both banks and housing developers, Ghana has had a variety of state banks that lent for housing. Most of these are now liquidated or partially or wholly privatized; almost none are now involved in mortgage finance.

Ghana's housing finance system has some unique features. The most important is HFC Bank, since the 1990s the "poster child" of mortgage banking institutions in Africa. HFC was assisted by both Government institutions and a number of donors, including USAID and the World Bank.

The Banking Sector and Background to Mortgage Lending in Ghana.

The banking system is well capitalized and credit to the private sector has increased as a percentage of GDP, while that to the public sector has declined.

Ghana currently has 18 universal banks, the largest being Ghana Commercial Bank, which is still state owned, holding about 20 percent of banking sector assets. As noted, very few of the banks have been involved in mortgage lending, but HFC now counts Barclays, Standard Chartered and SG-SSB (Societé Générale - Social Security Bank) among its competitors.

Ghana also has 117 rural banks, largely involved in agricultural lending, and a number of non-bank financial institutions, including finance and leasing houses, credit unions and the Savings and Loan companies. The latter two types of lenders are may have an important potential role in supporting microfinance for housing.

Like similar countries the majority of households have little or no access to the formal banking sector (it is estimated that only 5% of households deal directly with the formal banking sector).

HFC Bank

HFC was born in 1993 out of the banking sector turmoil described above, with the Government, SSNIT (Social Security and National Insurance Trust), and Merchant Bank of Ghana as initial shareholders. As noted above, HFC was originally formed not only to lend in the primary mortgage market but also to function as an "apex" housing institution which would act as a liquidity fund for other lenders who dealt directly with the borrowers and thereby provide the necessary incentive to "pull" more primary mortgage lenders into the market. HFC was to have bought mortgages from the list of "former" lenders noted above, as well as from Barclay's and Standard Chartered of Ghana. Facing both adverse economic conditions and legal infrastructure problems, including land titling, mortgage registration, and foreclosure problems, this apex/ secondary market approach never materialized. Thus, HFC became the sole commercially-based primary market lender.

In the next stage of its evolution, HFC became a full fledged universal bank in 2003. Its mortgage business has remained relatively small, due in part to the lack of demand due to high interest rates, and the lack of sound housing stock with secure title.

Always a source of innovative policies, and responsive to continued assistance from donors, HFC has developed both innovative mortgage products and a capital market funding capacity. In addition, as discussed below and further in section 5.0, HFC has become active in micro lending, although so far this represents only about 1%of its portfolio.

HFC Mortgage Products. HFC currently offers home purchase mortgages, and home completion, home improvement, and home equity loans. In comparison with many other emerging markets, loan terms are relatively generous. Its Home Purchase Mortgage Scheme has a term of up to 20 years, which is rare in struggling systems with little access to long-term funds. Although loan terms differ somewhat for resident and non-resident Ghanaians, the maximum LTV is 80 percent and the maximum loan is $80,000 (or the equivalent in cedis).

As a solution to the high inflation environment, HFC introduced the Graduated Payment Mortgage (as compared with the more usual declining balance loan). This is a variant of the family of dual indexed mortgages, designed to enhance affordability. HFC admits borrowers have found these loans difficult to understand, but on the other hand, they are among the very few options for dealing with a mortgage lending in a high inflation environment.

Either the graduated payment scheme or the more normal reducing balance approach may now be used; interest rates are the HFC base rate plus 3% for the former and the base rate plus 6 percent for the later (the base rate is basically determined from HFC's cost of funds, as there is no benchmark interest rate.

HFC Funding HFC also has the stature to float bonds in the capital market, and is thereby far less liquidity constrained than many other lenders in emerging markets.

HFC and Low Income Housing and Micro Lending HFC currently lends for both microfinance purposes and for low income housing. The low income housing loans have a maximum value of $12,000 and an LTV of 70%. The recipients are underwritten in a different manner than HFC's larger mortgage loans, using other collateral (a 50 percent deposit) and other criteria (a savings record of one year).

HFC has developed a microfinance arm for housing. This consists of a wholesale lending program for micro-lenders and a service company for microfinance for housing established in conjunction with CHF (the Cooperative Housing Foundation), a U.S. based institution active in low income housing in many countries. MFH loans are expected to range up to $2000.

Staff of HFC Bank's savings and micro- lending operations

HFC also provides microfinance loans to traders, for example $500 for a maximum of one year. HFC now has 3000 micro-clients in Accra, Kumasi, and Tema. This line of business is still small, however, perhaps 1% of the HFC portfolio.

Other Mortgage Lenders

Barclays and Standard Chartered both offer mortgage loans in small quantities. Barclays has also developed an arrangement with Enterprise Insurance, whereby Enterprise will purchase mortgages made for a low income prototype house costing about $15,000 (without the land). A new entrant is Ghana Home Loans Limited.

Formal Mortgage Market Institutions and Microfinance for Housing.

Ghana now has the potential both to expand formal sector mortgage finance, and to introduce microfinance for housing. A healthier, more active formal mortgage sector should ultimately have spillover effects in the ability to introduce microfinance for housing. One key link is the potential for greater lines of credit from the banking sector, and particularly housing lenders, to micro lenders, which will help bring medium and long-term funds into the micro lending sector.

Microfinance Lending

Structure of the MFI System

Ghana's MFI system is made up of 3 categories of institutions: formal, semi-formal and informal.

Formal Financial Institutions Formal financial institutions are incorporated under the Companies Code 1963 (Act 179), giving them legal identity and limited liability. These companies are then licensed by the Bank of Ghana (BOG) under either the Banking Law 1989 (PNDCL 225) or the Financial Institutions (Non-Banking) Law 1993 (PNDCL 328), and then regulated by the BOG.

All institutions that operate under the Financial Institutions (Non-Banking) Law require not less than approximately $10 million as minimum capital for starting a non-deposit-taking business and $15 million for a deposit-taking business.

There are 10 types of Non-bank Financial Institutions (NBFIs) (e.g. finance houses, leasing companies and so on), licensed by the BOG.

Among the different types, the Savings and Loan Companies (S&Ls) are the most active in microfinance. Credit Unions (CU) are also formally registered and licensed. They are registered by the Department of Cooperatives as cooperative thrift societies that can mobilize savings from and then lend to their members. CUs are also licensed by the Bank of Ghana.

Semi-formal Financial Institutions Non-governmental organisations (NGOs) make up the semi-formal system. These institutions are formally registered as not-for-profit companies under the Companies Code, but *are not* licensed by the Bank of Ghana. Their microfinance methodologies are able to go fairly deep, but they are unable to address the need for credit at scale.

Informal Financial System The informal system is known as *susu*. The *susu* covers a range of activities, including savings collections, rotating savings and credit associations and savings and credit 'clubs'. This system also covers moneylenders, trade creditors and self-help groups.

The *susu* system has a long tradition in Ghana, with numerous *susu* collectors operating in the informal sector, providing collection and safekeeping services for mainly women market vendors. The collectors, each with approximately 150 – 200 clients, deposit the women's savings with banks. The women are able to access loans in the form of overdraft facilities against the total amount of savings they have contracted to deposit weekly over a set period. *Susu* collectors are neither registered nor licensed, but some have become members of associations, such as the National Association of Susu Collectors.

Ghana Micro-finance Institutions Network (GHAMFIN)

Developing the microfinance sector increasingly focuses on the creation of second tier institutions, e.g. apex banks, training centres and Micro-Finance Associations (MFAs), which can provide services to the first tier institutions such as information/ dissemination, monitoring/benchmarking, political lobbying, training and refinancing.

The Ghana Micro-finance Institutions Network (GHAMFIN), established in the 1990s, has over 150 rural and community banks, savings and loans and Financial NGOs as members, that together serve over 431 000 clients. It is therefore one of the largest MFAs on the continent.

GHAMFIN has previously received funding through collaboration with donor organisations that see the Network as central to the development of microfinance in Ghana, including: the Government of Ghana, Care International, DANIDA, IFAD, AFDB, GTZ, Technoserve, ILO, USAID, Women's World Banking International, The World Bank and UNDP.

Key Constraints

The major constraint to the development of microfinance for housing is the same as that for the mortgage market, a lack of long-term funding sources. The ability to supply larger than normal microfinance 'housing' loans depends on the ability of non-bank financial institutions to raise funds, as without them they suffer from a maturity mismatch.

"The major constraint to the development of microfinance for housing is the same as that for the mortgage market, a lack of long-term funding sources. The ability to supply larger than normal microfinance 'housing' loans depends on the ability of non-bank financial institutions to raise funds, as without them they suffer from a maturity mismatch."

Non-bank Financial Institutions: S&Ls, CUs, NGOs and CBOs.

As previously mentioned there were 16 S&Ls by the 11th November 2004. The required minimum capital initially posed a hurdle to their establishment, but due to inflation the value eroded over time. An examination of one of the largest S&Ls is presented below:

ProCredit

ProCredit, set up in 2002, as an S&L serves both formal (salaried) and informally employed individuals and has 32,000 clients. Savings is not mandatory to access a loan, and loans *are not* collateralised with cash.

Savings Products: there are two savings products: the ProSave Account, an interest-bearing account and the TreasuryPlus Account, a time deposit for excess funds, both at attractive interest rates.

Loan Products: there are 3 loan products: the ProExpress Loan, which provides access up to $1000; and 2 business loans for salary receivers, the ProBusiness 1 Loan, which provides access from $1000 - $10,000; and the ProBusiness 2 Loan, which provides access over $10,000. Business loans are always collateralised, either with business assets or property.

Long-Term Housing Loans: ProCredit does not grant housing loans[18], however, it is keen to set up a shelter loan product, but is limited by the unavailability of long-term funding.

[18] ProCredit in Mozambique grants housing loans.

Scale: ProCredit has deposits of $4.2 million and an outstanding loan book of $60 million. ProCredit views the market as vast and does not see itself facing any strong competition.

Location: ProCredit currently only operates in Accra, but it has plans to extend to Kumasi.

Credit Unions. Credit Unions are thrift societies offering savings and loan facilities exclusively to members. They have suffered from weak performance, in large part because they maintained a welfare focus, including a policy of low interest rates (1% per month) on loans and paid a correspondingly low return on savings, discouraging the mobilization of resources.

In 1968 legislation brought credit unions together under the Ghana Co-operative Credit Union Association (CUA) Ltd established as an apex body, which operates as a private association, independent of the government, and is responsible for the promotion and development of credit unions in Ghana. CUA maintains a head office in Accra and regional offices in all ten regions of the country.

The CUA has 261 registered affiliates with 162,204 members. Each Credit Union has on average about 400-500 members. Prior to becoming a fully-fledged member, a group of people must form themselves into a study group and go through a training period. Currently CUA is nurturing 100 potential credit unions.

In 2001, using CUA's own criteria, 60% of the member credit unions were in an unsatisfactory position. In recent years a more commercial approach has been applied and interest rates have been raised to 3% on the outstanding balance of a loan. Today 95% of its members are self-sufficient.

Savings Products: the amount saved is not linked to income but rather purpose. All borrowers *must save* for six months prior to taking out a loan. In addition, the borrower continues saving while paying off the loan.

Loan Products: there are a variety of loan products. Loans are progressively scaled up as follows:

1. no more than what has been saved after six months;
2. 1.5 times what has been saved, provided no instalments were missed; and
3. 2 times what has been saved, provided no instalments were missed.

In addition to being in good standing with their savings record, most credit unions require borrowers to provide collateral if they want to borrow more than they have saved. This usually takes the form of guarantees from 2 other member of the credit union who maintain sufficient uncommitted savings to cover 50 percent of the loan.

CUA also provides loan insurance, which will pay off the outstanding loan balance in case of the death of a borrower.

Terms: the minimum level is 3 percent per month on the outstanding balance. Loans are for a maximum of 3 years, with the member deciding on a term of 3, 6, 9 months, 1year and so on.

Housing Loans - members are encouraged to build a house rather than rent by explaining to them that 3 years rent will purchase a starter two-room (courtyard) house, costing $3000. CUA has therefore developed a 'housing product', which it feels suits the low-income housing process used by many households in Ghana. More specifically, a loan is broken down into phases/years: 1 year/purchase land; 2 year/purchase cement and make bricks; 3rd year/purchase roof sheeting; 4th year/lay foundation; 5th year/build walls; 6th and 7th years/raise roof and add fittings. Such a house will cost approximately $15,000. If, however, the borrower wants to

"Credit Union members are encouraged to build a house rather than rent by explaining to them that 3 years rent will purchase a starter two-room (courtyard) house, costing $3000. CUA has therefore developed a 'housing product', which it feels suits the low-income housing process used by many households in Ghana."

borrow the entire amount for the purchase of a house up-front, then he/she must provide collateral, e.g. land, something, which rarely occurs.

Long-term funding: CUA members do not access any wholesale funding from the commercial banks, as they are all self-funding. CUA would, however, consider accessing outside funding provided the cost is not so high as to dampen borrowing.

Scale: CUA has deposits on its books of $42.5 million on an outstanding loan portfolio of $26.2 million. Every member credit union is required to maintain 5% of their total assets in the APEX Central Finance Facility and transfer 25% of their net surplus to the APEX Statutory Reserve. There are credit unions all over Ghana. The demand for the establishment of credit unions is so high that the capacity of CUA to serve them is being stretched.

Non-governmental and community-based organisations. NGOs have fostered the development of microfinance practices in Ghana by introducing internationally tested methodologies, often based on group solidarity methods. These methodologies are adopted by CBOs that have already come together based on some reason such as, e.g. location, occupation, friendship, etc.

These groups are generally multi-purpose or welfare-oriented with microfinance as one of the services they offer. Because of their welfare orientation and the poverty of the area they are operating in, they tend to be dependent on donor funds.

The general model used is often introduced by an NGO in collaboration with a rural community bank. It mobilizes savings deposits and share capital from members (often with a one third match from donor agencies). Loans are made to groups of 10 members, but only half are benefited at a time, with the other half receiving their loans when the initial loan is repaid. Loans are limited to the combined savings of the individual member and guarantor, plus the one third supplement. The interest rate charged in 2003 was 40% per annum.

Generally the NGOs client base and outreach is limited, except for the Sinapi Aba Trust (SAT), which was established in 1994, and has evolved into the Ol-Sinapi Aba Savings and Loan Co. Ltd. It operates all over Ghana and presently has 51,200 clients, having disbursed approximately $11,280,000. Becoming an S&L means that it is now able to take and intermediate savings, freeing it from its reliance on rural community banks to handle clients' funds.

Susu Collectors As previously described, *susu* collectors fall into the category of informal finance. This system primarily offers savings products to help clients accumulate their own savings. The *susu* takes a variety of forms including:

- *Susu* collectors – individuals who collect daily amounts set by each of their clients and return the accumulated amount at the end of the month, minus one day's amount as commission; and
- *Susu* associations – includes two types of groups: 1) rotating savings and credit associations (ROSCA), whose members regularly (e.g. weekly or monthly) meet and contribute a fixed amount that is allocated to each member in turn (according to some system); 2) accumulating, whose members make regular contributions and whose funds may be lent to members or paid out under certain circumstances (e.g. death).

Summary: A rapid assessment of a handful of micro-lenders in Accra has demonstrated that a wide-range of Non-bank Financial Institutions have emerged in Ghana, but for a variety of reasons these institutions have generally struggled to achieve strong financial performance, with only a handful reaching mid-scale scale.

NGO lenders have two draw-backs, that is they are not able to take deposits and they are not large enough to be a conduit for wholesale funding. This means that the project will probably need to look at the next tier up, the S&Ls, which are regulated, can take deposits and are of sufficient scale to be a conduit for outside funding.

Some of the lenders have been able to formalize and scale themselves up into S&Ls. ProCredit is viewed as the most efficient and has expressed an interest in doing housing finance, provided it has access to long-term credit.

Linkages between the Formal and Informal Financial Sector
Ghana's multi-tiered system has fostered a number of linkages between different segments, including:

- Licensed S&Ls using informal agents, groups or CBOs to mobilize or to on-lend funds;
- NGOs using S&Ls to handle the funds for their micro-finance programs; and
- *Susu* collectors and clubs using commercial banks, and S&Ls to deposit funds

Several rural community banks and S&Ls have tried to capital-ize on the *susu* collectors knowledge of their clients by providing them with funds to on-lend to their clients. Even though *susu*s mobilize savings, the Bank of Ghana has left them to regulate themselves.

7.5 Summary

At the risk of over-simplification, the table provides an overview and summary of the situation.

Table 7.2 Summary of housing finance products in Swaziland, South Africa, Tanzania and Ghana

	Non-profit micro-lenders	Commercial micro-finance	Banks/Building Societies	Interest rates		
				Savings	Micro-lending	Formal Lending
Swaziland	There are many Savings and Credit Cooperatives, mostly employer-based but some location-based	Very small penetration by formal micro-finance lenders, but active informal micro-lender sector	The Building Society is active and has lent to informal sector residents who have secured title, but main business is upper and middle income housing	7%	12% SACCOS	14%
South Africa	Donor-linked NGOs have been active, but overall contribution is relatively small	A very strong sector, but with limited role in housing	Under government pressure banks are increasingly lending in low income market	7%	38%	14%
Tanzania	A very strong sector especially in the field of group lending for enterprise development. Currently not explicitly lending for housing	Some of the banks have micro-finance arms which are very active especially in the rural areas	Banks have very limited involvement in housing finance, but are increasingly entering the market at the top end	3%	25% - 50%	20%
Ghana	A very strong sector with a variety of lenders, mainly in the field of group lending for enterprise purposes,	HFC Bank has started a formal micro-lender which offers housing finance	Banks concentrate on top end of the market	2%	35% - 60%	18%

PART 3: THE FINDINGS

8. Understanding the market

In this part of the report, we look at the findings of the study over the period. In large part these are distillations of the many interactions we have had with the lenders throughout the continent – those in the study countries and others.

8.1 Savings

It has been the experience in a wide variety of different circumstances that a savings habit is crucial in determining both the capacity to pay, and in instilling a relationship with the lender – as discussed below.

But how savings are managed and supported is as crucial in determining success as the amount of the cash itself. On the one hand few people have the strength of character to willingly forgo consumption today in order to save for tomorrow. To meet this natural weakness, people willingly submit themselves to social pressure. The best example of this is the mutual savings groups which exist in all the countries concerned. The typical pattern of these groups is for the amount saved monthly to be equivalent to, say, 10% of the person's monthly income. Thus if there are twelve people in the group, each person will receive a lump sum of 120% of the monthly income once a year.

Another form of social pressure widely used is the savings group which is linked to a loan. In this model the group commits itself to a saving pattern *as a group* which is then used as a criterion by the lender in deciding how much the group will be entitled to borrow.

For higher income groups, the typical model is for monthly deductions from the salary or a bank account. While such arrangements can be terminated at any time, the fact that another party takes the money acts as a break on the natural tendency to spend the money.

One of the strong motivations for saving is to develop or expand a business (Ekurhuleni, South Africa)

The surveys showed that savings are typically for an emergency such as a health crisis or burial, or the loss of a job. A common motive is simply to put aside money for predictable expenses such as school fees, which, if not in a form of savings, would be spent.

For business people there is often a need to save to buy machinery or stock.

The other motive for saving is to save for a purchase, for example a car or a house. The disadvantage, however, is that the majority of savings accounts in the commercial banks today give interest which is substantially lower than inflation. Thus, while the money itself is protected from consumption spending, its value is not, and the real value of the savings is eroded by inflation.

Case Study

Savings are typically done monthly, but in Ghana there has been a strong tradition of saving daily. Susu collectors, for example, often collect daily, thus making the saving habit comparatively painless.

It is well known that the market women in West Africa have strong personalities and are typically successful traders. The HFC Bank decided to ask them whether there was any role for a bank in their lives. It emerged that they needed to save on a regular (preferably daily) basis, but could not spare the time to queue to deposit their money in a bank. Moreover, they did not feel

comfortable in banks, which typically project such as arrogant attitude. Lastly, they said, if they were to deal with a bank they would insist that all the staff were women.

From this interaction, the bank formulated a model whereby it would open a simple one-room office at the market as a base. It employed young women, graduates from a technical high school at a salary of about $100 per month who would collect the savings of the market women on a daily basis. Each customer was known to the collector, and committed herself to a minimum daily level of saving. If, for any reason, the saver could not make the payment, the collector would sit with her and discuss her finances, and together they would decide what to do. In this way the collectors established close bonds with the savers. The money collected daily would then be deposited at their office.

Savers are eligible for loans, and the history shows that the loans taken by the savers have been used to great effect to buy stock, expand premises and other economic purposes. In some cases the loans were used for housing.

Two aspects of this system are surprising. The first is that the operations are financially self sustaining – indeed very profitable – mainly because there is a huge spread between the saving (2%) and lending (35%) interest rate.

Three case studies illustrate the way in which the programme has worked for the savers:

Vivian Kofigah is 28 years old, and has been trading for eight years. She started with the HFC's savings programme three years ago. Her initial deposit was $2. She has taken a loan of about $4,500. Although she operates a tiny shop only about one metre wide, (see the top photo) she has stock worth about $12,000. Her daily turnover is about $100.

Top: Vivian Kofigah's tiny shop.
Two middle photos: Joyce Finch
Bottom: Akua Konadu (Accra)

Joyce Finch started selling basic provisions from a street-side table eight years ago. About two years ago she switched to selling scarves from a table in front of a friend's shop, and now has a daily turnover of $160. Her sister is a wholesaler, and provides storage space for her. Her total stock is worth about $2,500. Talking about the HFC Bank, she says "They come every day, which makes it much easier to save. We have a good relationship with their staff. They advise us, and even on days when we can't contribute they sit and talk with us till we agree to contribute something to build up our credit record. They make it possible, and in such a pleasant and nice way."

Akua Konadu also started about eight years ago, and now has two shops. She pays $80 per month for the other shops. Her stock is worth $900, and she has a daily take of between $400 and $500. She saves between $5 and $10 daily, and has a savings balance of $1,200. She has taken a loan of $550 to buy stock. She has bought land with her own savings and is building a four room house incrementally. It is worth about $22,000.

8.2 Economic impact of loan, loan structuring and interest rates

The surveys demonstrated that poorer people have a natural fear of long-term debt. The most obvious reason for this fear is a sense of job insecurity. They argue that they cannot commit themselves to repayments for many years ahead if they cannot be reasonably sure that they will have an income to meet that debt. The typical small business loan provided by micro-finance institutions is 6 or 12 months. The returns from a small business loan are fairly easy to calculate. For example, if a person borrows to buy a woodworking machine, and thereby increase my productivity it is fairly easy to calculate the increased income I shall obtain from buying a machine. Similarly, if a person has a certain rate of return on my stock, and uses a loan to buy additional stock, it is possible to calculate the additional income to be generated. In both of these examples, since the loan will yield increased income, the person should be able to repay the debt from that increased income and should only have a moderate impact on household income in order to repay the loan. It should be at a moderate level and for a comparatively short time. There are three principles to be followed, where possible, as described below.

Principle 1: Lending for income generating purposes

Housing is generally regarded as a social good and not an economic good. However, in all the settlements we surveyed, the rental market is alive and well. In Accra it is especially profitable, and tenants will typically be expected to pay rent for three years in advance. The existence of a strong rental market provides an opportunity for borrowers to build rooms to rent, and thereby obtain an income to repay the loan with which they built it. The number of years required to obtain the income to pay off the loan obviously varies according to rent levels, but it is estimated that in the worst case example, the cost will be fully repaid within seven years.

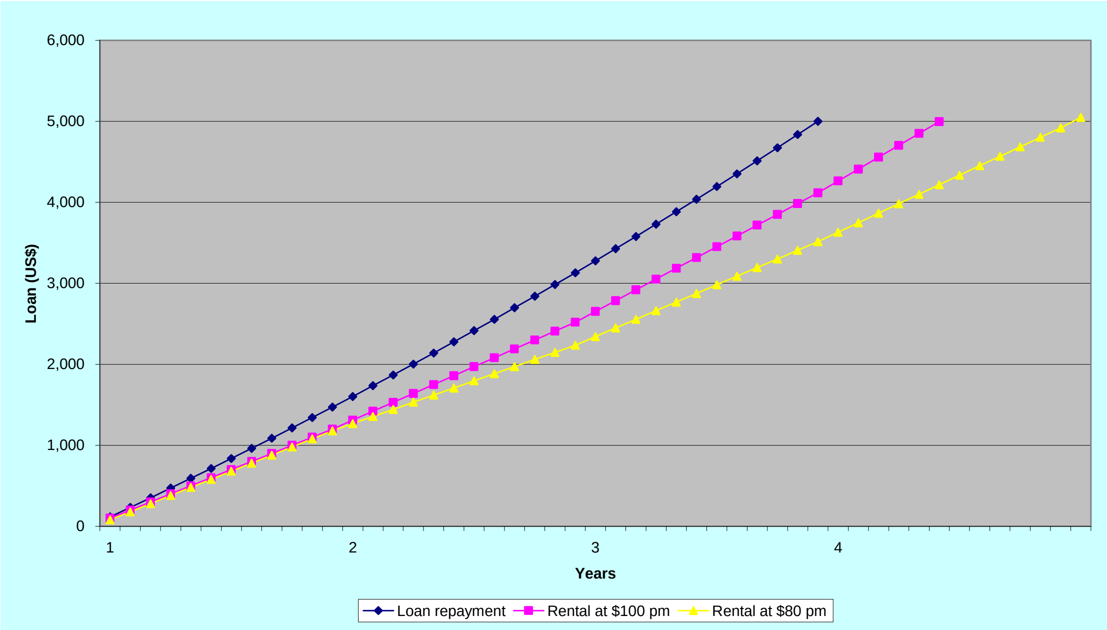
More typically, if a person borrows to build a rented room costing $5,000, then, with a repayment period of three years, and an interest rate of 12%, the monthly instalment will be $116. As shown in the Figure 8.1, with a rent of $100, increasing by 10% per annum, the debt can be paid off in 42 months. Even with a rental income of only $80 per month, increasing by 10% per year, the loan can be repaid in 49 months. The calculations show that even if the income is only 70% of the loan repayment, the total loan can be repaid within a manageable period, and the monthly cash gap of $36 per month is comparatively affordable.

Thus the first principle is to have income from which all or most of the loan can be repaid.

Housing for profit – a house in Accra with 14 rooms, each of which is rented to a separate family

The typical Swahili house of the East African coast: commonly used as an income earning enterprise. Top - the street frontage has a shop, while the house itself has six rooms of which four are rented out. At the rear (bottom) is a communal courtyard for cooking and ablutions (Dar es Salaam)

Figure 8.1 Loan repayment and rental income



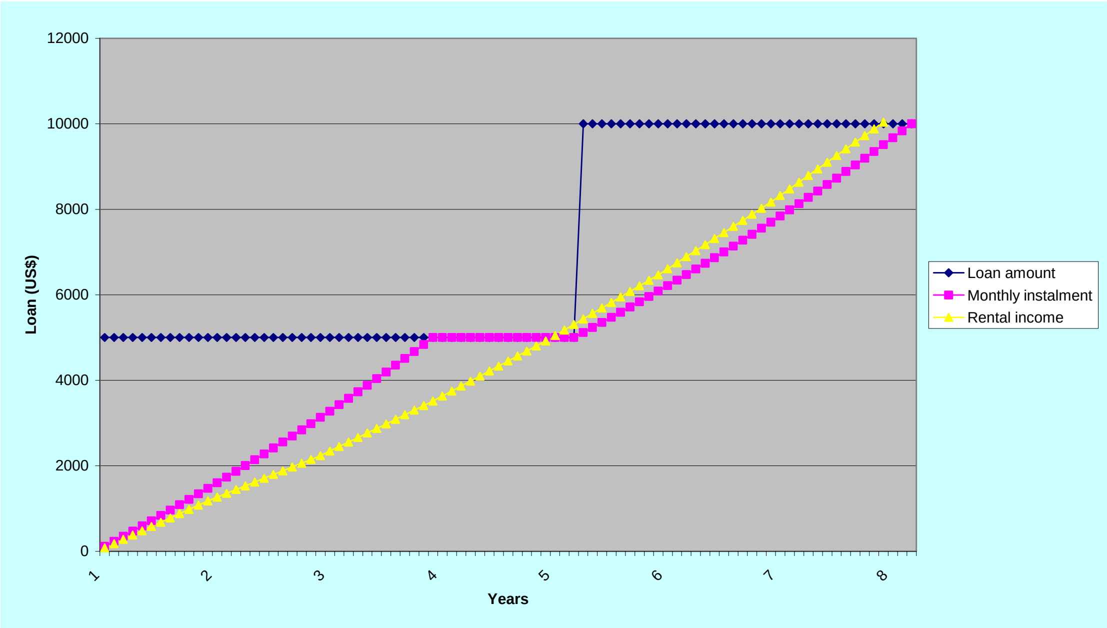
Although the concept of lending to construct a room for rental is a common one, another common need is to lend to complete a house. Especially in Ghana and Tanzania many people have been building houses over years, but cannot make the structure habitable due to income constraints. For example, many houses would be habitable if a roof were constructed. However, if they were to borrow to complete their house then they could vacate their present (rented) premises. Thus, if the loan repayment is roughly equivalent to the rent which they will save, the loan will effectively cost them nothing. Clearly there are many different combinations of such income generating or expenditure saving arrangements which can be balanced against loan expenditure.

Principle 2: Small sums at a time

In view of the reluctance of most borrowers to make long-term commitments there is a strong preference for short term borrowing. Affordability and potential income from the investment will limit the amount that can be borrowed, but the other constraint is that a habitable product must be created. Technical assistance may be required to ensure this – as discussed below – but assuming that it is achieved, then the model will work roughly as follows.

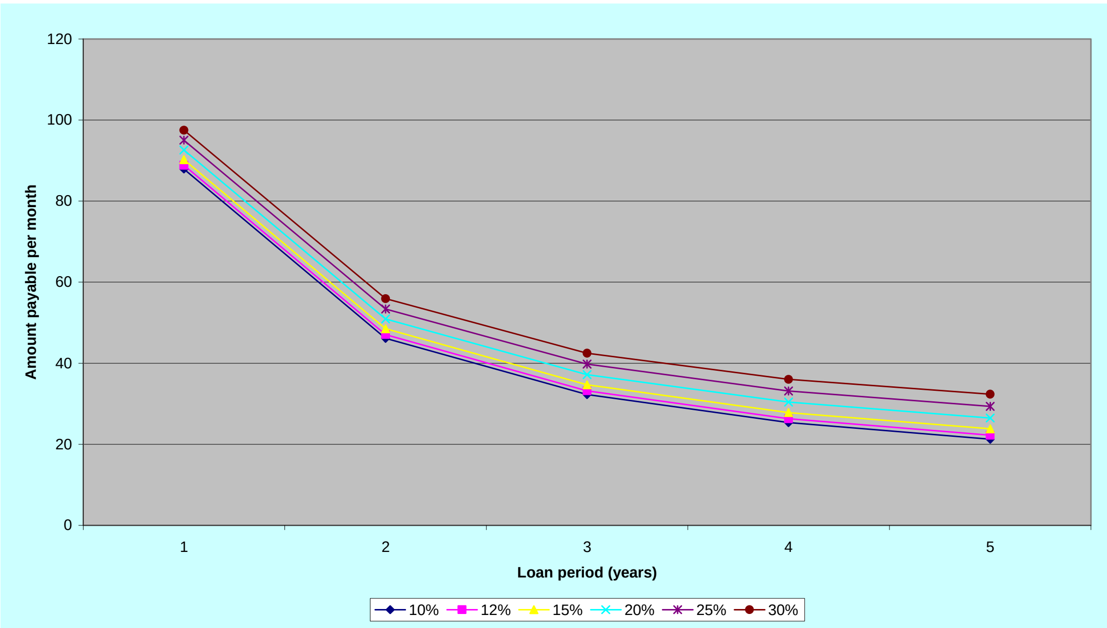
Figure 8.2 below uses the same rental income of $80 per month, escalated at 10% per year. It shows that due to this, by the end of the second loan period, the rental income is greater than the monthly loan repayments.

Figure 8.2 Incremental loan and rental income



Principle 3: Interest rate is less important than access to funds
For the majority of people in lower income groups, interest rate is less important than having access to the funds. This is particularly true if the loan period is short. The following chart shows the cash difference per month between interest rates over a period of one, two, three, four and five years.

Figure 8.3 Monthly repayment for the sum of 1000, at various interest rates



The table below, on which the chart is based, shows that even over a five year period the difference between a 10% and a 25% loan is only $11 monthly in a loan of $1000.

Table 8.1 Monthly repayment for the sum of 1000, at various interest rates

Interest rate	Repayment period 1	2	3	4	5
10%	87.92	46.14	32.27	25.36	21.24
12%	88.85	47.07	33.21	26.33	22.24
15%	90.26	48.49	34.66	27.83	23.79
20%	92.63	50.9	37.16	30.43	26.49
25%	95.04	53.37	39.76	33.16	29.35
30%	97.48	55.91	42.45	36.00	32.35

8.3 Risk management

The essence of success in the field of housing finance for low income groups is effective risk management. Formal sector banks have been reluctant to enter this market due to level of perceived risk. Indeed, in some markets the experiences have not been good. For example in Tanzania the National Housing Bank went into liquidation due to the volume of bad debts; while in South Africa there have been many serious defaults. In both countries there is said to be a culture of non-payment. In Tanzania this is ascribed to perceptions that “it is the government’s job” to provide funds, and there is no moral duty on citizens to repay loans which are funded directly or indirectly by government. In South Africa politics has played a significant role – before the end of apartheid non-payment of rents, service charges and mortgage bonds was seen as an effective weapon to resist the political regime and make the country ungovernable.

Analysis of the experiences of banks and micro-finance institutions in the countries under study, and Morocco, has shown that, given a good understanding of the market and appropriate structuring of relationships, the risk in this market is, if anything, lower than in the conventional one. However, if it is to be served successfully, lenders must use the correct methods. Below, the most important methods of mitigating risk are summarised.

“Analysis of the experiences of banks and micro-finance institutions in the countries under study, and Morocco, has shown that, given a good understanding of the market and appropriate structuring of relationships, the risk in this market is, if anything, lower than in the conventional one.”

8.3.1 Risk Management: Relationships

Forming a relationship with the borrower is probably the most importance method of reducing risk in loans which are not secured against assets. In Tanzania, for example, the housing loans given by Azania Bank are not secured against the land due to the difficulties of obtaining judgement against defaulters in the courts. The difficulties are compounded by other administrative and regulatory hurdles and costs.

The HFC banks method of operating is a good example of building a relationship, as a result of which they have no defaults. In addition to the fact that the bank deals with the savers on a daily basis, and the savings collectors have an intimate knowledge of the personal details of the savers, the bank also adds value by providing training to its clients in the field of financial management, health and other matters which its clients ask for.

It is the personal relationship, of course, which is the basis for credit and loans organisations, especially where they are community based. In such a situation, if the borrower defaults, it is not a so-to-speak faceless bank supported by rich shareholders (to whom many borrowers feel little moral obligation), but instead the community members who are as poor as they, the borrowers, are.

There are many methods of building relationships, but it is clear that two factors stand out.

The first is that the customers (savers and borrowers alike) should be made to feel special. This is best done by having community members to explain the system, help them complete any forms, and being available to help them at any time. In such a situation, if the borrowers are in trouble, the community members should be available to support him or her.

The second principle is that the lender should provide the service as such a way as to make it as easy as possible for the customer to make payments, whether savings or loan repayments. The features of such a system are operating outside normal working hours, having paying offices near the homes of the payers, or using intermediaries as collectors. New technology is allowing ordinary shops to be used as pay points, as a measure to reduce transaction costs.

The third way in which relationships can be developed is for the financial institution to address the needs of its borrowers. We have cited the example of the HFC Bank in Ghana above, which provides seminars on financial management, health and other matters of concern to its savers. These seminars are conducted on Sundays, when the markets are closed, and give the opportunity to the Bank an opportunity to provide a service to its customers which yields significant returns in terms of loyalty and referrals by its customers to potential new customers. It is thus a form of advertising. But it is more than that, because by improving, for example, the financial performance of its clients, the same clients are more likely to perform well as both borrowers and traders. Thus while aspects of such activities are altruistic, they also have a real return in terms of the commercial performance of the banks operations.

Relationships can also be used to great effect in debt recovery. For example, when someone defaults, if the loan officer has a close relationship with the borrower he can use it to great effect – for example by phoning his cell phone early in the morning, or embarrassing him or her in front of the spouse.

8.3.2 Risk Management: Savings

Behaviour is an extremely important indicator of the ability of a person to repay a loan. For this reason many micro-finance institutions will look at savings behaviour (either with themselves if they are allowed to take deposits, or a bank if they are not) as a way of determining ability to pay.

"Many micro-finance institutions will look at savings behaviour (either with themselves if they are allowed to take deposits, or a bank if they are not) as a way of determining ability to pay."

Savings are also commonly used as form of security. The borrower must provide a cash deposit against the loan which the lender can use to meet his first loss. The risk of loosing the cash acts as an incentive to the borrower to maintain his/her obligations.

8.3.3 Group guarantees

The most successful, and widely used, form of guarantee is the group guarantee, whereby if one member of a group defaults the others have to pay on behalf of him or her. They will therefore try to bring social pressure to bear on the defaulter. This was the basis for the Grameen bank system which has been widely copied, and is the basis for the majority of small business loans offered by micro-finance institutions.

Two problems have emerged regarding the group system.

The first is that in many group systems, there is a requirement for members to meet regularly. These meetings are used to receive regular payments, and to educate the members. Our qualitative surveys and focus groups revealed resentment by some people regarding the time that these meetings take, especially when they are held in working hours (which is the norm).

The second is that the system relies on group cohesion. If the group was convened only for the purpose of accessing loans, there may be insufficient incentive for people to sacrifice their own funds for the sake of someone else.

One of the methods used to build up group cohesion and inter-dependency is for the first loan to be very small and affordable. Good loan behaviour is then rewarded by a bigger loan, and so on, until the group becomes eligible for quite substantial loans.

Personal guarantees from people with a regular income are a common form of security

8.3.4 Risk Management: Personal guarantees

One of the most common methods of reducing risk is to ask for personal guarantees. This operates on the principle that a person – usually a friend or relative of the borrower – stands guarantee for the loan. If the borrower defaults the lender can then obtain repayment from the guarantor.

To be successful this method requires relatively stringent financial checks on the guarantor. Sometimes the guarantor may be required to provide assets as a guarantee, or at least sign legally enforceable agreements regarding his liability in the event of a default. In other cases the guarantee is more informal, and simply done on trust.

A modest exterior . . .

hides surprisingly substantial furniture. . .

and a brand new refrigerator – all of which can be used as security (Mbabane)

8.3.5 Risk Management: Payroll deductions/employer guarantees

As noted above, a system whereby employer remits employee's loan repayments direct to the lender, reduces risk very substantially. This method is very popular in South Africa.

There are several problems with this method.

1. The most important one is that it imposes an extra administrative load on the employer, and many are very reluctant to take this responsibility. Where Trades Unions are strong, they can bring pressure to bear on employers to collaborate. Alternatively, the employer might be persuaded that helping his staff in this way will contribute to higher productivity, as they will be better housed, or in improved financial circumstances as a result of the loan.
2. There is no guarantee that the employee will retain, or not change, his job. In practice this has not been a huge problem, but it is a matter to note.

The alternative to employer deductions is for them to provide a guarantee. However, in practice this is the worst of both worlds, as employers will not guarantee a loan unless the employee is employed with them, so that in the event he loses his job or leaves the company, the guarantee is worthless. Sometimes, employers will drag their feet in paying a guarantee because they do not see any chance of recovering the money from the employee.

Lastly, there is no guarantee that the company itself will be in existence for the duration of the loan. In South Africa, for example, the market has been flooded by imports from the east resulting in huge job losses in the furniture and textile industries.

8.3.6 Risk Management: Securities

Many micro-finance institutions require their borrowers to use their household appliances or vehicles as security for the loan. This is called a chattel mortgage in some countries.

Typically the cash value of these is small compared to the loans, but the fear of loosing such appliances acts as a major incentive for payment. For example, we heard many examples of television sets being taken when a loan was in arrears. When this happens the family pressure on the borrower to reinstate the TV is such that he typically finds the money within hours.

8.3.7 Risk Management: Social pressure

Shame is used by some lenders as a powerful tool. Being in debt is considered shameful in most societies, and the appearance of a debt collector – advertised, for example by sign writing on the car – can be a powerful incentive to pay.

This is not always the case. In certain circles in South Africa, for example, non-payment of debt is considered acceptable.

8.3.8 Risk Management: Insurance and pensions as collateral

Insurance and pension funds can be used in many countries as collateral. For example, in South Africa, the borrower can cede his interests in a pension fund to the bank, so that in the event of default they have the right to recover their funds from the pension.

In some countries, there is a state pension system. Ghana is such a case, where all employees have to contribute to the national pension fund, The Social Security and National Insurance Trust (SSNIT). The financial performance of SSNIT, however, has not been strong, and the returns which contributors receive compare badly to those which they might have received if they had invested in the equity market or government bonds. However, SSNIT is prohibited by law from allowing personal savings to be ceded as security for a loan, nor are contributors allowed to withdraw their savings before retirement age.

When the Zambia National Provident Fund was established in the 1970s contributors were allowed to withdraw up to two years of their savings for housing purposes. If they chose to do so, these funds were channelled through the Local Authority in the form of building materials, or through a Building Society. This was used to great effect by the lower income groups in the Lusaka Squatter Upgrading and Sites and Services Project. Unfortunately, no such cases were sued in the countries under study.

"Normally it is very difficult, however, for a bank to operate at the community level unless it is affiliated with, or operates through, a community based organisation."

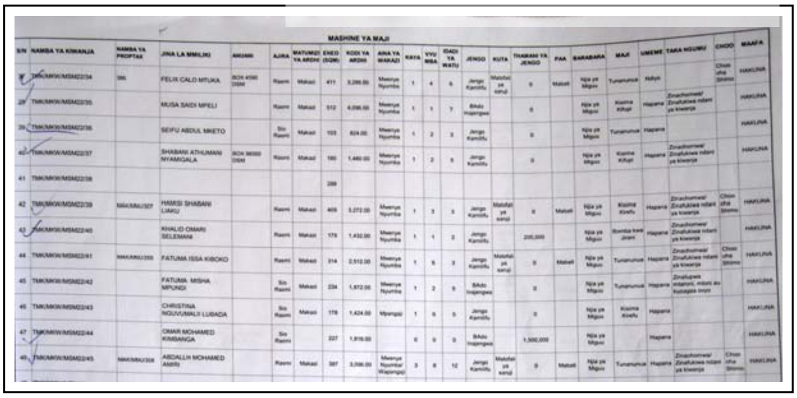
8.3.9 Risk Management: Community linkages

It is usually very advantageous for formal sector financial institutions to operate in specific communities. This gives them the great advantage of reducing costs, as well as improved information regarding the identity and financial reliability of potential borrowers.

Normally it is very difficult, however, for a bank to operate at the community level unless it is affiliated with, or operates through, a community based organisation. This may be a savings group or simply a social group (such as a youth, church or trade organisation). In so doing it uses the social information and social capital of the group to identify suitable borrowers, as well as to use the cohesion of the group to support the borrowers in their efforts to repay loans on a reliable basis.

Opinions vary substantially about what role the community group can play, and how sustainable the relationship can be. On the one hand there is a view that such initiative will never be financially self-sustaining, and that donor and similar funds will be required to maintain their viability. On the other there is the view that voluntary societies are the backbone of community, and if they cannot sustain themselves, then no injection of funds from external sources will fill that gap. This is

Illustration of community knowledge: Photograph of a page from the property registry in the Ward Office in Makangarawe, Dar es Salaam. The columns are as follows: House number; property tax number, name, Address, Employment, Use of land; Size of plot, Land tax, Type of residence, Households, Rooms, Number of people, Building, Walls, Value, Roof, Access, Water, Electricity, Solid waste, Toilet, Disasters. The ticks in the left hand column refer to owners who have applied for a licence.



what social capital is all about.

There is also a view that community based organisation should not let themselves be used as an agent of financial gain – i.e. by acting as agents or facilitators of the banks. The best way of dealing with this concern is for communities to select the banks, and by being in the driving seat negotiate the terms of their engagement. There can be nothing wrong with banks paying for services rendered in a contractual arrangement freely entered into.

Other issues

8.4 Technical assistance

Housing is unique in many respects. There is a certain minimum expenditure required if the product is to be useable – one of the most common features of housing is that the owner-builder underestimates the cost. As a result the house stands incomplete for years, while funds are raised for its completion.

For this reason, it is important to make sure that the funds being borrowed will be enough to complete the project as planned, and counter the typical optimism by providing some objective reality.

This can be done by the lender insisting that the plans are costed by a reputable technical advisor, often a person appointed by or employed by the lender. Alternatively, the borrower can be required to have a firm-price quotation from a building contractor.

In South Africa, if a customer has a building plan (even if it is home made) many building materials suppliers will prepare a list, and prices for the materials required. This provides an estimate of the total cost required for the project.

Houses stand uncompleted for many years. If prices could have been estimated more accurately, the owner could have completed a modest, but habitable house. As it is, completing the house is beyond his means. (Makangarawe, Dar es Salaam

8.5 Value added by lender

8.5.1 Building materials delivery and supply

CEMEX is the largest cement seller in Mexico, the second largest in the United States, and the third largest in the world.

In Mexico it realised that while many of its customers were building their own houses, they experienced many problems in so doing. They typically bought materials when they had the means and stored them on their plot until they had enough to build them into the house; however houses took many years to complete. Furthermore, they had to pay very high prices to get small quantities of materials delivered to their site.

CEMEX then started to offer a facility whereby its customers could purchase materials, but would not have to take delivery of them. Once the customer had saved enough to build, then the company would then deliver them, at the price at which the customer had bought them, even if that was many months later. Linked to this was a credit programme, so that customers who had demonstrated a regular saving ability could borrow money to buy enough materials to finish his or her project.

While this had a commercial objective – selling more cement and cement-related products, it also generated a very positive social profile for the company[19].

The service offered by CEMEX solves this problem – savings, in the form of concrete blocks, deteriorate due to poor storage

8.5.2 Training

As a way of building a relationship, lenders can add value to their borrower's lives by, for example, providing training in financial management, or training in construction methods and skills.

[19] This case is very fully described in C K Pralahad's *The Fortune at the Bottom of the Pyramid*. Wharton School Publishing Paperbacks, 2006.

This is not, as was discussed under the section dealing with relationships in section 8.3.1, necessarily a purely altruistic act. It can act as both a marketing tool, and a way of building loyalty and support from the customers.

8.6 Corporate Social Responsibility

In many countries in Africa, there is pressure on the formal corporate sector, and especially banks, to serve the poor. Therefore any method which can be found for doing so are attractive. If in so doing, banks can also establish a profitable line of business, then all the better.

The housing finance model which is emerging from this study meets both of these objectives.

8.7 Transaction costs

Many bankers express concern regarding the transaction costs of micro-finance. These include, for example, the cost of loan appraisal, the infrastructure to receive many small payments, to cost of dealing with default and the reputational danger of taking strong action against defaulters.

8.7.1 Deposits

Among the most common way of dealing with this is for borrowers to appoint a representative who will maintain their individual accounts, but who makes deposits on behalf of all of them, thus reducing the volume of depositors by a factor of between ten and fifty, or even more.

One of the most interesting developments, which is in a trial stage in South Africa uses cell-phones as a tool for banking in relation to local shops, thus reducing transactional costs for both deposits and withdrawals to about R0.50 (approximately $0.07).

The system works as follows:

> Account holders, who are signed up by sales agents in their own neighbourhood, receive a debit card and a cell-phone Sim card, either of which could be used to perform core banking transactions. A local shop takes on the role of an agent for the bank, where clients withdraw money, deposit money, or make a cashless purchase. Unlike the usual banking transaction, which goes through the national payment system and requires overnight settlement, these transactions are settled by MobileMoney's own infrastructure, which site on the cell-phone company MTN's network. The transaction happens in the time it takes to send a text message and get a reply. For instance as soon as a client deposits money at the shop, an SMS arrives updating his or her balance. The same goes for purchases, cash withdrawals, balance inquiries, or the purchase of pre-paid electricity or airtime. Retailers use their own takings to make cash payouts, although the size of a withdrawal is limited by the amount of money the shop has in the till. The retailer is backed up by the Standard Bank brand. The service is identified by the display of the Standard Bank logo on the shop wall.[20]

8.7.2 Loan appraisal

It is difficult for a formal sector financial institution to have either sufficient or accurate information regarding applicants from the informal sector. Therefore, lacking the type of information which

[20] Source: Financial Mail, Johannesburg, February 15, 2008.

could be acquired simply and cheaply in respect of someone in formal employment (salary slips, etc) they can neither assess the veracity of information that an applicant might supply about commitments and assets, nor the consistency of his or her income.

For this reason banks rely on relationships with community-based organisations, to appraise loans as agents, brokers or advisors. In Morocco this system appears to be gaining acceptance, whereby a micro-finance agency prepares loan applications on behalf of customers and makes the initial recommendation which the bank must then accept or reject.

One of the South African micro-lenders found that the agency principle did not work if the agent had a financial incentive to originate the loan, as there was no incentive to reject an application. The Moroccan system, whereby the agency receives a fee for appraisal, not for approval, therefore seems preferable. Alternatively a system which rewards agents on satisfactory repayment of the loan works better.

8.7.3 Wholesaling

Another widely accepted method is for the formal bank to wholesale funds to micro-lenders. The HFC Bank has done this through the creation of its own micro-lending arm. This allows it to structure the micro-lender to suit a community-based model, i.e. less expense on branch structures, more emphasis on relationship lending, a system of starting small, and a preference for lending secured by group guarantees.

Where banks wholesale funds to micro-lenders, they may make conditions, such as using their name in promotional material, or they may make the loans as a purely commercial product.

8.8 Summary

The four countries represent a wide variety of different situations and it is not easy to generalise. There are obvious similarities between Ghana and Tanzania in that they both have strong non-profit micro-lenders, and a culture of group lending is well established.

There are similarities between Swaziland and South Africa too: they share many elements of their economy. However, South Africa has a very active commercial micro-lending sector, and although the scale of housing micro-lending is small, the banks are actively participating in the lower income market. By contrast, Swaziland’s experience with micro-lenders and co-operatives has been at small scale, and many members of the communities are sceptical about their integrity. It is hoped that the current initiative with the support of Slum Dwellers International will start a new trend.

A thread which runs through all countries is the small number of people who are clients of the formal banking sector. This suggests that if they want to acquire more clients, banks should consider doing things differently. Housing finance might be an entry point for low income customers.

But it may be useful to bring out some key findings.

From the perspective of the borrowers

Demand: In all countries (with the possible exception of South Africa) there is a demand for housing finance, especially for incremental development, and has a term of 3 – 5 years. However, there is resistance to using the property – even where the borrower has title – as security for the loan.

Interest rates: Interest rates are less important to borrowers than the availability of the funds. Borrowers often assess rates in comparison with informal community-based money lenders, and whose rates are many times higher than any micro-finance lender. In general terms, borrowers are more concerned about the affordability of repayment than specific interest rate. The same holds true for all countries, and even those where there is a strong banking sector.

Availability of housing finance: In none of the countries, with the possible exception of South Africa, is housing finance readily available for the poor. However, in Tanzania and Ghana the strength of the micro-finance sector is such as to suggest that the methodologies currently used for enterprise loans could be adapted to housing.

Housing as an economic good: Low income people have a very good appreciation of the economic potential of housing.

Relationships: It is important for the borrower not to feel intimidated, and to feel respected, by the lender.

From the perspective of the lenders

Default rates: Formal sector lenders are beginning to appreciate that the risk of lending to this income group is far lower than they used to imagine. Study of the default rate of micro-lenders (especially the well developed ones in Tanzania and Ghana) shows that default is very low.

Savings: Savings are crucial indicators of both an ability to make payments on a regular basis (therefore a demonstration of whether the sum is affordable), and of reliability. A savings record is therefore the best starting point in appraising whether a customer is reliable.

Relationships with the customers: The basis for success in lending to this income group is for the lender to form a strong relationship with the borrower. This requires time and patience to develop. Traditional banking methods and operational operating systems must therefore be adapted to a people-centred way of working.

Relationships with micro-lenders: It sometimes makes better commercial sense for a formal sector financial institution to form a partnership with a micro-lender, or form a subsidiary for the purpose. For the micro-lender this addresses a typical problem of how to access funds in the quantities required. This is the route chose by the HFC Bank in Ghana.

For the bank, the micro-lender can operate more effectively in appraising loan applications due to its community connections, and can operate without the expense of a formal branch network.

Providing the typical banking products (such as electronic cards to operate a savings account), which the CRDB in Tanzania does, allows the bank to bring its micro-finance customers into the banking system, while giving the micro-lender the cachet of a relationship with a household name.

Enterprise and housing loans: Micro-lenders can make the transition from enterprise loans to housing loans with very modest risk. As it is, most lenders recognise that a proportion of many micro-loans goes to housing, and many micro-lenders are entering the housing market.

Corporate social responsibility: The world is increasingly aware of the importance of corporate image. Lending for low income housing can position financial institutions as being sympathetic to the poor, and thereby earn themselves political and commercial kudos. Their role can further be enhanced both commercially and reputationally by adding value to their services, for example by offering a service to their customers in cost estimating, selecting small contractors, or in the ordering and supply of building materials.

PART 4: PROJECT RESULTS

9. Developments as a result of the project

9.1 Swaziland

The Swaziland Building Society, the project's counterpart institution, identified three key components for development to strengthen its relations with lower income communities. The first was to establish savings groups which could be linked, at a later stage, to borrowing. The second was to establish champions within the communities for the concepts of savings and borrowing for housing. The third is to simplify procedures and help ordinary people to participate in the Society's services without experiencing the current sense of alienation experienced by poor people in the Society's premises.

Slum Dwellers International[21] (SDI) was approached to obtain assistance with the development of savings groups. They undertook to make exchange visits by affiliates of SDI to share ideas with Swaziland on how the poor can be organized to participate in savings schemes for the purposes of improving their conditions in the settlements, specifically to improve shelter. The first exchange visit from representatives from Zambia (Federation of the Rural and the Urban Poor; the Zambia Homeless and Poor People's Federation and the People's Process on Housing and Poverty in Zambia) took place in Mbabane in September 2007.

SDI exchange visits

SDI representatives during their visit to Mbabane

The main purpose of the visit was to mobilize Swazi informal settlement dwellers to form housing saving schemes with an aim of building strong solidarity amongst the informal settlement dwellers that can enable them to work in partnership with Mbabane City Council. The visit was also aimed at sharing experiences between slum dwellers in the SDI network with informal settlement dwellers in Mbabane in as far as slum upgrading is concerned: through demarcation and layout plans.

In Zambia, the federation had mobilized over 22 000 members to join the Zambia Homeless and Poor People's Federation and had mobilized about $25 000 towards their urban poor fund. The urban poor fund is the money they would use for their infrastructure and house development. Its main purpose is to use their urban poor fund to attract resources from government and other well wishers. An equivalent $30 000 had also been saved at national level towards income generation, emergencies and other immediate needs a saving member had.

Federations in the SDI network are composed of different groups of people, landlords, tenants and the landless who however share one common challenge, poverty. As the federation slogan goes, "we build people and build houses", members are mobilized to understand that it is important for poor people to set aside their differences and pursue a single agenda.

Community meetings were held with residents of four informal settlements, namely, Malagwane, Mangwaneni, Mahwalala Zone 6C and Sidwashini.

[21] SDI is a network of slum dweller federations involved in savings mobilization as a strategy to build strong solidarity amongst the poor that can enable them to address challenges the poor face in their daily lives. Key in the SDI strategy is that poor people come together through what is popularly known as daily savings groups as the backbone of the federations process. In each and country SDI is active, poor homeless people are encouraged to save money on daily basis as way of creating solidarity, trust and unity amongst the poor themselves.

The residents in all the four settlements welcomed the idea of a savings scheme and they were very eager to start as soon as possible.

The presentations were very positive but did not mention the challenges that may be faced by the members once they operate the schemes. Residents also expressed their lack of trust in the involvement of Mbabane City Council particularly because of the building ban and the absence of plot demarcations.

This visit was seen as an opportunity for the residents to improve their houses, engage in income generating activities etc. and improve their livelihoods.

Above: community meeting in progress (Mbabane)
Below: example of Member's housing contribution (Mbabane)

Zambia Visit

In November 2007, the exchange was reversed. A delegation including senior staff from Mbabane City Council and community representatives went to Zambia. The delegation from Swaziland had a chance to visit few communities with savings schemes and held some discussions on how savings scheme work and how they are started as well as the challenges and benefits associated with starting them. The delegation also visited Lusaka City Council and Kalulushi Municipal Council to share experiences and discussions held.

In Kalulushi, the delegation studied the experience of the Kalulushi People's Federation. The federation was formed after the people realized that they were underprivileged and needed to stand up for themselves to ensure that they have shelter above their heads. Their slogan is "W*e are poor but not hopeless*". They started their savings schemes in order to enable them to build houses. There is no individualism and they work together. A certain amount is contributed daily and this amount was agreed on by members of the federation. They also receive financial assistance from Zambia Peoples Process on Housing and Poverty with the support that this office gets from SDI.

The community members were given the Hydroform block making equipment by Peoples Process. The municipality provided land to build their houses. With their savings they bought the building materials to build houses for their entire membership (federation members). The level of unity and commitment is quite impressive. There was emphasis made to the Swaziland Delegation that it is important for the poor to stand up for themselves on issues of housing and decrease the dependence on both national and local government. That a good lesson learnt by the visiting team. The federation informed the delegation that they prioritized the allocation of houses, by considering the most disadvantaged members of the community first.

Role of financial institutions

The promotion of savings linked credit facilities needs to be undertaken. This will assist low income earners in not only obtaining credit, but also in demonstrating their ability to pay for such housing loans.

The Zambia office of the People's Process on Housing and Homelessness showed its commitment to helping Swaziland start the process, by printing 5000 savings booklets to kick start the process. These are being given to willing community members who are keen on starting their savings schemes.

Follow-up meetings were subsequently conducted with the four communities that showed willingness to participate in the formation of savings schemes.

The informal settlement dwellers who were part of the delegation have set out a programme to mobilize not only their peers from Mbabane but other towns like Manzini, the newly declared Mhobodleni as well as Siteki and Piggs Peak where the the lack of proper housing is acute.

The Mbabane City council subsequently undertook two one-day training sessions with the purpose of training 36 community members as Champions to pioneer savings schemes in their communities. They will, in turn, train the community members and members of the schemes. The 'Champions' were selected from the Committees that have either been elected or selected to pioneer the savings cooperatives under the Swaziland Low Income People's Federation.

9.2 South Africa

The original intention under the project was to link developments with another Cities Alliance project in South Africa – EMM Upgrading for Growth. The counterpart institution in South Africa, the National Housing Finance Corporation, supported the concept, and dialogue was undertaken with micro-lenders who received wholesale funding from the NHFC. They also expressed interest in such a relation-ship.

However, the Upgrading for Growth project took longer to develop than planned, and not only was the commencement delayed, but project implementation took longer than expected. Moreover the prospects for housing finance for low income groups in South Africa are influenced by two very important factors.

- The national housing policy makes provision for a free house to low income groups. Most households therefore prefer to wait to benefit from this policy rather than invest in the development of their own house.
- The income levels and lack of employment among the settlements surveyed suggest a lack of demand for housing finance at this stage.

Although these factors will make the settlements concerned unlikely locations for a successful pilot, there are nevertheless useful elements in South Africa which could be useful models for other countries.

The first is the development of private sector micro-finance institutions. The liberalisation of the 1990s resulted in abuses by this sector, but these have now been curbed by legislation such as the Usury Act which limits interest rates.

The second factor of interest is the linkage between lenders and building materials suppliers, which has been in operation for several years, as described in relation to the housing finance system in Chapter 7. In brief these permit lenders – micro-finance institutions and banks alike – to channel loans through these suppliers in the form of materials. Not only does this help the borrowers by providing a reliable source of materials which are delivered to the site, it also gives the lender comfort that the proceeds of the loan will be in immovable property.

One of the issues on which preliminary work has been undertaken is to look at the conditions which have to exist for these methods to be transferred to, for example, Ghana and Tanzania. The most important of these is to have a computerised system of invoicing and stock management which would allow building materials suppliers accurately and simply to manage customers' accounts which might be linked to credit facilities. A second aspect which can be developed further – in South Africa as well as in other countries – is to computerise the estimation of building materials.

One of the sites designated for upgrading under the sister project, Upgrading for Growth, in Ekurhuleni, South Africa

"The second factor of interest is the linkage between lenders and building materials suppliers, which has been in operation for several years, as described in relation to the housing finance system in Chapter 7. In brief these permit lenders – micro-finance institutions and banks alike – to channel loans through these suppliers in the form of materials."

9.3 Ghana

Unconnected with the project, but developing simultaneously has been an innovative concept of a **formal bank** forming a subsidiary to operate as a **micro-finance lender**, which might offer a useful example to other banks. This combines the specialized skills and market positioning typical of micro-finance lenders with access capital offered by a bank. In this case, the bank (HFC Bank, the project's counterpart institution in Ghana) teamed up with the Co-operative Housing Foundation, an American NGO which has specialized in the field of micro-finance for housing. CHF claims that it brings an understanding of international best practice in micro-finance operations coupled with experience in wealth creation for disadvantaged target groups.

9.3.1 Boafo Microfinance Services

The Concept

The concept is to develop a partnership that capitalizes on the operational and strategic competitive strengths of each organisation. The bank has injected equity into the associate company (Boafo Microfinance Services Ltd), making available working loan capital for the operation to on-lend, manage the savings and collateral accounts of borrowers and facilitate its access to payroll deductions from major employers, including government. The loan portfolio is on the balance sheet of the bank.

Boafo is managed by CHF, and is owned jointly between CHF and the bank as majority shareholder, for an undetermined period of time. One strategic benefit of Boafo is it requires significantly less capitalization both upfront and over time than a financial subsidiary. Mandatory reserves and costs associated with regulation are also absorbed within the overall normal business of the bank.

Initial estimates were that it would make an estimated 11,000 loans within the first five years. Although this sounds quite substantial, in fact it represents a market penetration rate of less than 1%. The primary target group is urban-based borrowers who can afford, but rarely obtain access to, small loans at a competitive price. The expectation is that many of the loans will eventually be longer-term incremental housing loans.

Customer service

What is of great interest is that Boafo aims to compete with other micro-finance institutions on the basis customer service, defined as:

- rapid turnover of loan applications;
- predictable fixed repayment schedules;
- straight-forward loan agreements;
- polite and efficient service from Boafo and bank staff;
- provision of regular borrower repayment statements, when requested;
- easy access to pay points and savings services at the bank's branches;
- innovative uses of cell phone technology to communicate with borrowers;
- visibility in target communities; and especially
- diverse and useful consumer education.

Customer empowerment

Consumers in Ghana appear to be generally unaware of how to manage credit, as well as maximize the impact of their credit, to attain their business, education or housing goals. With the rare exception of OI Sinapi Aba S&L, none of Boafo's potential competitors are differentiating themselves in the marketplace by offering consumers information on managing their credit. A few offer business advice. None offer any kind of information on building, improving or extending housing with small home improvement loans.

Boafo will build upon CHF's experience in other parts of the world and further differentiate itself in an increasingly competitive environment by providing approved borrowers, especially women, with special written consumer education on managing 1) credit and household budgets, 2) small business accounting, 3) building processes to avoid common construction problems, and 4) the prevention of HIV/AIDs.

Various support strategies will be developed, for instance: introduction of simple building contracts, preparation of technical assistance booklets, including prototype plans that describe the best way to build a house, add a room, or connect to a water network or water tank. These booklets will then be adjusted for local conditions in different parts of Ghana and take into account special problems facing women. At the time of granting a loan, Boafo's retail staff will hand out to the borrower copies of the relevant plans and information leaflets.

Households must also know their responsibilities for re-paying their loans and how to budget their repayments within their household expenditure. According to research on micro-finance in other parts of Africa, the risk of non-payment is greater when consumers are ill-informed about household credit or unaware of the most effective way to utilize credit for asset-building purposes as intended. These consumer education materials also offer a marketing and branding opportunity for the bank and CHF. Consumer education requires dedicated resources sustained over many years and should commence as soon as possible after implementation.

"According to research on micro-finance in other parts of Africa, the risk of non-payment is greater when consumers are ill-informed about household credit or unaware of the most effective way to utilize credit for asset-building purposes as intended. These consumer education materials also offer a marketing and branding opportunity for the bank."

Products

Home Improvement Loans: Most Ghanaians are engaged in some form of incremental housing. Homeowners building in informal ways often lack the access to appropriate finance and frequently technical know-how. The lack of appropriate finance leads to delays in construction that may take years and cause deterioration of incomplete houses, which is a common occurrence.

Boafo will exploit its position in the market as a joint venture of housing lenders and develop and aggressively promote non-mortgage housing loan products that support the informal processes of developing residential (and business) space, including the development of new rental units by informal and formal landlords.

Some purposes of the micro-loans for incremental housing will include:

- The construction, or extension or improvement of formal, informal or traditional housing structures (e.g. installing or replacing a roof);
- "Productive housing": fixed improvements or extensions related to a home-based enterprise (HBE) or on-site production;
- Developing or extending rooms for rent;
- Upgrading security (fencing or burglar bars);
- Connection to public utilities like water, sewerage, electricity. This might include individual contributions to shared infrastructure, such as communal water sources or septic tanks, within a development;

- Water harvesting with PolyTanks;
- The purchase/lease of land for residential or business purposes.
- Each of these asset-building uses of credit for home improvements points to avenues in which to market Boafo and its housing loan products. Third party businesses, in particular building materials suppliers, informal building contractors and water tank manufacturers, will be approached about the dissemination of Boafo's marketing materials and eligibility criteria to their customers.

Landlord/tenant loan products: The demand for rental housing is substantial. According to census data, 22% of Ghanaians rent their dwellings (37.5% in Accra). More than half (54%) of those renting households have their accommodation provided by a relative; about a third (33.1%) rent from private individuals. The practice has evolved of demanding two years rent in advance as a condition precedent for leasing rental property, particularly in Accra. These amounts often represent a full year's salary, or more for some informal workers and low-paid salaried workers, and have forced some households to build shelter or find rooms in informal settlements. Boafo intends to develop and market housing loan products specifically aimed at private individuals and landlords who want to expand the number of rooms they rent to tenants.

"Boafo intends to develop and market housing loan products specifically aimed at private individuals and landlords who want to expand the number of rooms they rent to tenants."

Credit enhancements and strategic alliances for housing loans: The 18-30 month home improvement loan product is crucial to the overall success of the retail operation. To deliver even longer term (3-5 years) home improvement loans may require "credit enhancements" and strategic alliances. Though CHF, as manager of Boafo, recommends avoiding the use of credit enhancements if at all possible, their use may reduce credit risks to more manageable levels, enhance the effective return to the investors, and possibly defray specific costs. For example, the CHF and the HFC Bank may want to participate in the UN-Habitat's Slum Upgrading Facility (SUF), which may offer such enhancements, to develop loan products for groups and individuals that want to build new houses or improve existing ones as part of a slum upgrading project.

Credit enhancements may take one of several forms, including guarantees (e.g. full, partial, principal and/or interest, time restricted, investor specific, or some combination thereof), cover for foreign exchange exposure, and stand-by credit facilities. In all cases, CHF and HFC Bank should anticipate that such credit enhancements would have to be highly targeted, and likely only for specific time periods. Moreover, they should be used as only a final critical element in structuring a financial package that will permit Boafo to make loans that it would not otherwise be able to make. Credit enhancements will necessarily appear in the financial assessment and future business plans of the subsidiary.

It is understood that market response to housing finance has, in fact, been quite limited, and the vast majority of Boafo's business has been for enterprise loans.

10. The Tanzanian Pilot Project

In March 2007 the Housing Finance Forum developed a concept for a pilot project. Three parties were to collaborate in developing a housing finance system suitable for the needs of the communities studied. It was decided to start with Makangarawe, a newer informal settlement which has a large number of unfinished houses in it, and incomes slightly above the minimum.

The project requires the support of three parties:

- Temeke Municipality (within which Makagarawe falls). The Municipality committed itself to supporting the project and facilitating the approval of building plans, for example. At the time Makangarawe was undergoing regularisation, and occupation licences were being issued.
- Azania bank
- The community, represented by the Women Advancement Trust (WAT) SACCOS, and supported by Dunduliza, an umbrella NGO which trains SACCOS in financial management and supports their management.

In developing the project it became clear that although Azania Bank and WAT had endorsed the concept of the project, there was no objection to other banks or other SACCOS being involved.

Once the concept had been adopted, it was agreed that it should not be restricted to Azania Bank and a business plan was prepared which could be adopted by any bank.

10.1 The principles

It is hoped that this pilot will serve as an example of a product which is a financially sound method for conventional banks and other financial institutions to lend to the poor for housing. It is based on conditions in Tanzania, but there may be certain aspects which are applicable to other situations.

"It is hoped that this pilot will serve as an example of a product which is a financially sound method for conventional banks and other financial institutions to lend to the poor for housing."

The proposed pilot project can only be successful if the requirements of all players can be addressed, and the entities proposed to provide support are committed to doing so.

Essentially there are two main players:

The Banking Sector

Financial institutions the world over will become involved in credit extension (investments and loans) if the risk and the reward are favourable and in balance. Risks for the banking sector and building societies in the traditional mortgage market are classically mitigated by the security of the asset as represented by the title deed and a deposit to protect them in periods of falling property prices. Further risk mitigation naturally occurs as a result of diversification and the spread of maturities. It is unlikely that all individuals will default at the same time: as a result risks are perceived to be low and funds are not only readily available but spreads above government yield curves reasonable. Often housing loans are also used as a natural hedge instrument by financial institutions.

In the informal housing sector in Makangarawe the current title legislation (licences) is of such a nature that instead of enhancing the security, it is perceived to actually debase it. It thereby is destroying one of the foundations of sustainable housing finance. The risks are further aggravated by a host of considerations that further negatively affect and increase the banks' normal credit risks namely;

- Potential spousal claims,
- The lack of proper individual identification,

- Borrowers are in the informal sector with irregular income.

Traditionally mortgages are also low in administrative costs due to the repetitive nature of the transactions. In this pilot costs will be higher due to the nature of the loans: big volumes of small and shorter duration.

Simultaneously, administrative costs are increased by a number of factors:

- Small loans,
- Asset and liability mismatches,
- Aggravated potential costs due to the lack of capacity in the judicial system, and
- The possibility of temporary defaults.

Any proposal must therefore have a structure where the above negative issues and perceptions can be mitigated or migrated to other parties to make the proposal attractive to the banking sector. The recent TAWLAT transaction provides some pointers:

- Credit risk is mitigated by a 25% guarantee, cession of the title, cession of the group deposits and cession of individual deposits,
- The SACCOS structure mitigates against the identification risk, and also the administrative costs,
- Peer pressure mitigates against default risk,
- The short duration mitigates against asset and liability mismatches,
- The irregular income patterns are mitigated by deposits.

"(Under the TAWLAT Project) credit risk is mitigated by a 25% guarantee. . . Unfortunately guarantees of this magnitude are not only difficult to obtain but are not readily sustainable at volume and it also does not get the private sector to commit to housing as an investment sector."

The TAWLAT programme therefore meets most of the bank's criteria, to the extent that they are prepared to take the remaining 75% risk. Unfortunately guarantees of this magnitude are not only difficult to obtain but are not readily sustainable at volume and it also does not get the private sector to commit to housing as an investment sector. To create a sustainable process it will be necessary to find a replicable form of credit enhancement. This first and obvious step in this process must be, through surveys and other research, to provide the banks with satisfactory evidence that their perceptions of housing as an investment area are too pessimistic. This action must be accompanied by real steps to supplement external guarantees by mechanisms to create additional "hard" financial security and collateral at a reasonable cost through savings and other financial engineering mechanisms.

The Individual

The requirements and preferences of the individual in general are clear:

- Access to reasonably priced funding,
- Repayments matched to income,
- The opportunity to earn additional income through sub-letting,
- To be treated with dignity and respect by the financial Institutions, and
- Reduction of idle capital incurred in incremental building as well as potential deterioration of building material.

The Housing Finance workshop added the following requirements:

- Should be individual and not group loans,
- Terms, conditions and documentation must be simple and explained,
- Interest should be based on reducing balance ,
- Assistance provided with access to land,
- Incentives for good payers

- Assistance with the provision of building plans and processing of building permit,
- Facilities to make payments easily should be provided.

10.2 The Proposal

Given the above principles and requirements it is clear that the requirements of the banks and the individuals in the community are not entirely compatible and that some compromises will have to be negotiated and more innovative and flexible approaches adopted. The basic financial structure proposed is therefore an attempt to create, through financial engineering, a proposal which can address the financial sector's risk concerns and meet as many of the community requirements as possible.

The financial components are based on the creation of three separate accounts:

1. The introduction of a community based guarantee fund
2. The introduction of a individual savings account
3. The introduction of a dedicated loan loss provision account, and
4. The introduction of mandatory life and property insurance

The product has a number of components, each of which has a different purpose, as described below:

10.2.1 Guarantee Fund: This will operate on the well known principle of utilising peer pressure as a credit enhancement mechanism. It is suggested that a levy of 5% be placed on all monthly instalments and credited to an interest-bearing savings account held in the name of the community, most likely through a local SACCOS. This fund will be 100% refundable to the participating individuals after losses have been absorbed to ensure the maximum peer pressure is exerted on delinquents and serve as a community based incentive. The requirement of this fund is that it must be totally transparent and all communities regularly informed of the delinquents. This fund also, like the previous fund, creates a source of longer-term interest free funding.

"The guarantee fund will be 100% refundable to the participating individuals after losses have been absorbed to ensure the maximum peer pressure is exerted on delinquents and serve as a community based incentive."

10.2.2 Individual Member's Savings Account: In order to build up a savings history and create protection for the bank, it is suggested that each individual member will be required to save the equivalent of six months instalments of the estimated loan amount before qualifying for an individual loan. This savings account will be ceded to the bank and accrue interest at the relevant long term fixed deposit rate. The deviation from normal mortgage approaches where such a deposit by an individual forms the individual equity stake in the property is that in this case it is **NOT used for the building process but is held in cash.** Although this account can be at SACCOS level it should preferably be an individual account with the financing bank. This approach will create an additional buffer for the bank.

An interesting aspect is that this creates a self funding component which from a term perspective is a very appropriate source of funding.

10.2.3 Loan Loss Provision Fund: It is proposed that over and above the normal and statutory provisioning for banks as stipulated by the Bank of Tanzania, a further loan loss provision as a non-interest bearing fund be created on the balance sheet of the bank. The size of this will be calculated on the anticipated probability of irrecoverable annual defaults in the whole portfolio and a appropriate levy placed on the individual monthly repayments. Based on the available history of defaults in the microfinance market, a 3% cover is suggested.

It is also suggested that a portion of this fund be repaid to the client on discharge the individual loan obligation. A figure of 60% after losses is suggested but this must be negotiated.

An alternative to refunding this fund would be to use it to cover the costs of group life insurance and not to include this in the monthly instalment. This fund can also be used as a way of refunding the bank the upfront instalment required for the insurance premium in which case the incentive refundable at the end will be marginal.

As in the case of the deposits a source of appropriate funding is created. The assumptions of potential losses must be verified through further surveys and actual current experience, and the percentage cover negotiated with the banks. Through this method banks will also build up an **interest free** source of funding matching, if the scheme is extensively rolled out, the loan terms, alleviating some of the concerns in respect of mismatching assets and liabilities.

10.2.4 Insurance: both life and property insurance form an integral part of the proposals to protect both the individual and the financier. Insurance companies have indicated that both term and property cover is freely available in Tanzania. It is this suggested that especially in the light of AIDS/HIV and Malaria that compulsory insurance on a group basis be built into the instalments with the bank as beneficiary of any remaining balance, after redeeming the bank exposure (after crediting the balances of the deposit and funds), accruing to the estate of the individual.

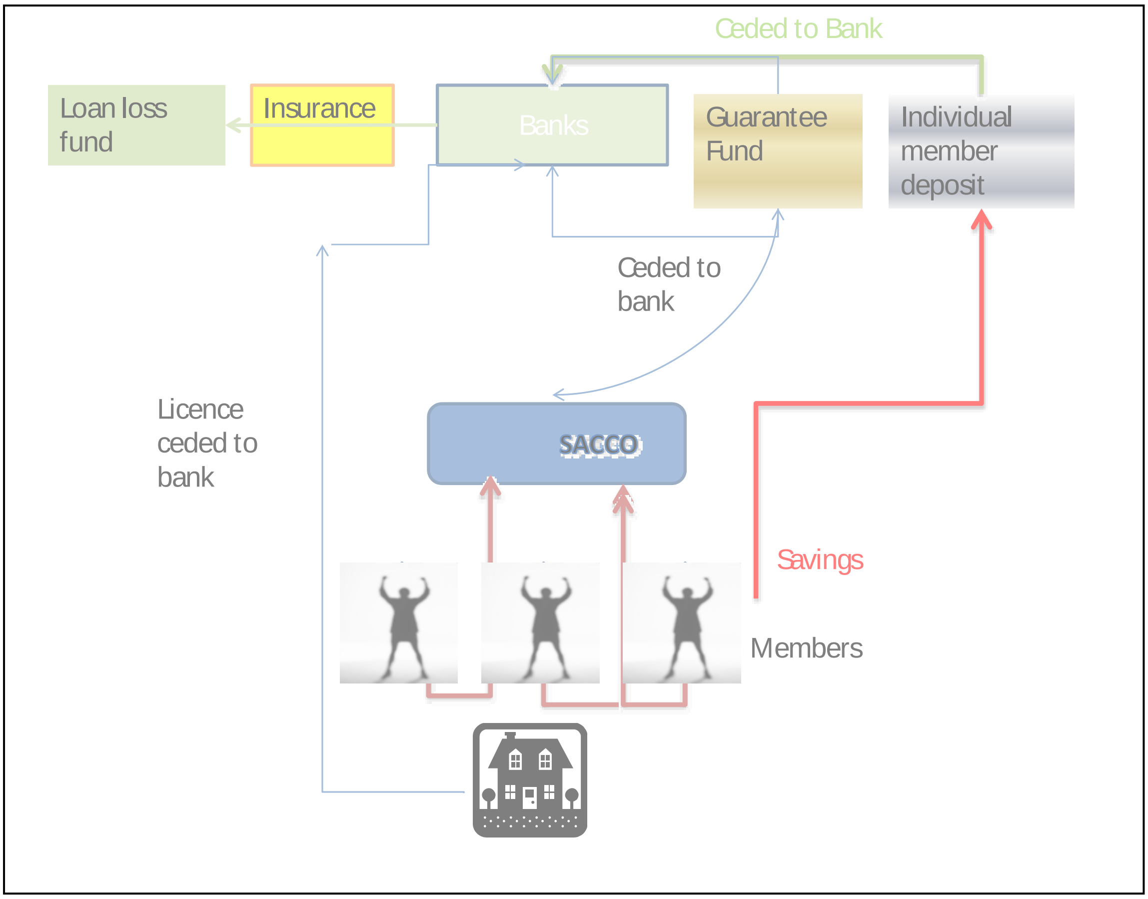
10.2.5 Additional security: In addition to the hard cash collateral that will be generated by the above proposals all contracts should also make provision to in the case of shortfalls take movable property and finally immovable property as security .The movable property may not be easy to liquidate and should be viewed more as a psychological aspect than real security that can be cashed.

10.2.6 Cumulative Security: Although many problems and issues remain in the informal and formal housing markets these four mechanisms provide security and collateral, **initially** virtually equivalent to the security arranged in the TAWLAT/Azania Bank transaction which proved acceptable to the bank at an interest rate of 12%. A further positive component is that should defaults be less than anticipated per year, security will continually be enhanced and at the end of four years the cumulative cover, should no defaults occur, will exceed the remaining outstanding balances. The proposed compulsory life cover will also serve as further protection. The security structure is shown below:

10.3 Collateral Structure

The diagram below shows the proposed collateral structure.

Figure 10.1 Collateral structure



10.3.1 Utilisation of collateral

The sequence in which collateral will be utilised is as follows

a) The community based guarantee fund
Although it would probably have been fairer to attach the individual's savings account first it is suggested that the community fund be attached first to ensure that peer pressure and support is mobilised as early as possible in the case of delinquency.

b) Individual savings account
This account is also intended to provide a bit of flexibility and participants should be encouraged to overpay slightly or continue to make a modest monthly deposit to as protection against future erratic payments.

c) Loan loss provision account
The bank will have to make sure that the definition of a default is clear and that it constitutes an irrevocable default before writing it off against this account.

d) Movable property
The use of movable property like TVs, furniture etc has proven very successful in the normal microfinance business and contracts should ensure this right is also vested in the bank

e) Immovable property

10.4 Institutional models for implementation

A number of different institutional arrangements are possible. The main distinguishing factor will be the roles at different levels that will be played by SACCOSs. Some of the banks have the capacity to use their previous experience in the microfinance industry to mobilise the community to form local SACCOSs through which they can manage the process and provide support advice training and oversight. Other banks which do not have this type of experience or are reluctant to develop this expertise can either form syndicates with those banks that have the expertise or make use of established NGOs or Apex-SACCOSs; to provide assistance with training, building plans, administration, access to land etc through local SACCOS. These local or Apex SACCOSs will essentially fulfil the following roles although the roles will vary depending on individual arrangements

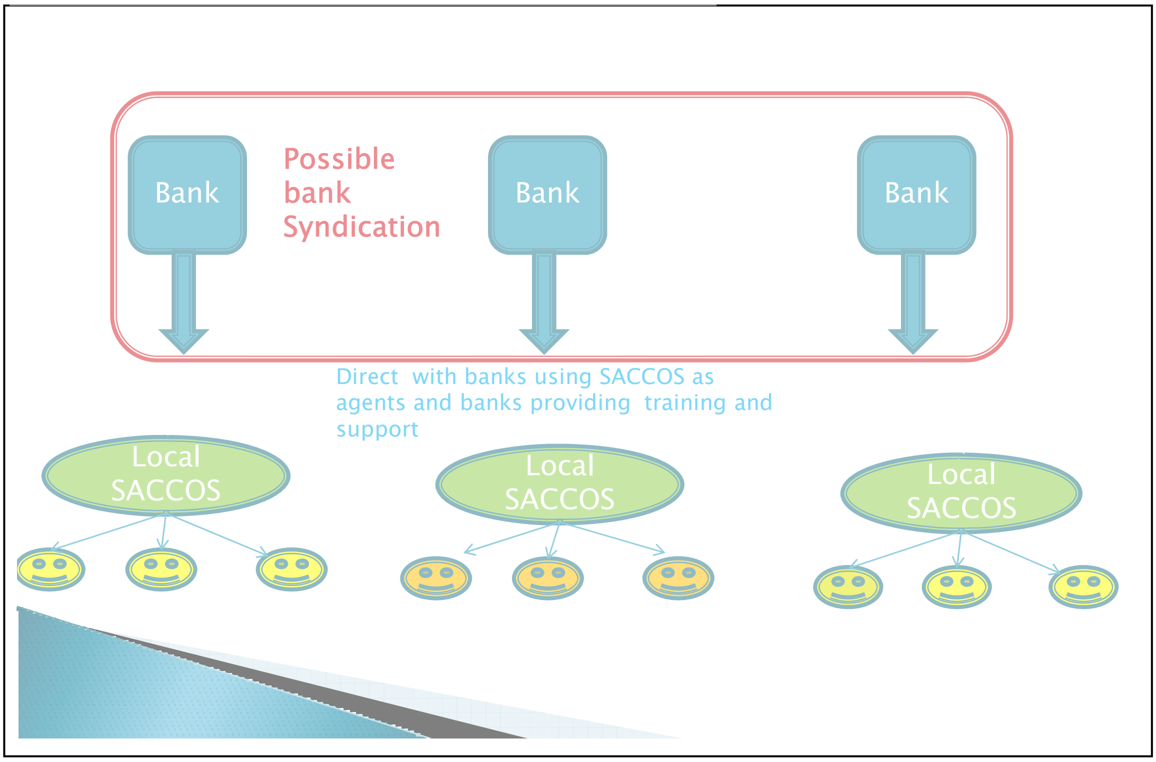
- To mobilise the community in their immediate vicinity
- To be the substantial interface between bank and client,
- To vouch for personal identity
- To certify progress
- To hold the communal savings accounts
- To assist individuals in temporary difficulty and if necessary apply peer pressure on delinquents
- To form a base for collection of instalments

The institutional arrangements will depend on the relevant bank's preferences and experience of dealing with SACCOS organisations. The availability of donor funding will also have an influence on the choice exercised. Although the options can be further refined the basic models are shown below. In exercising a choice between the different options cognisance must be taken that all additional levels in the structure has some costs associated with them, whether it is recovered from the beneficiaries, funded by the international donor community or carried as part of social responsibility or marketing by the banks.

The preferred structure is shown below. It is recommended for the following reasons

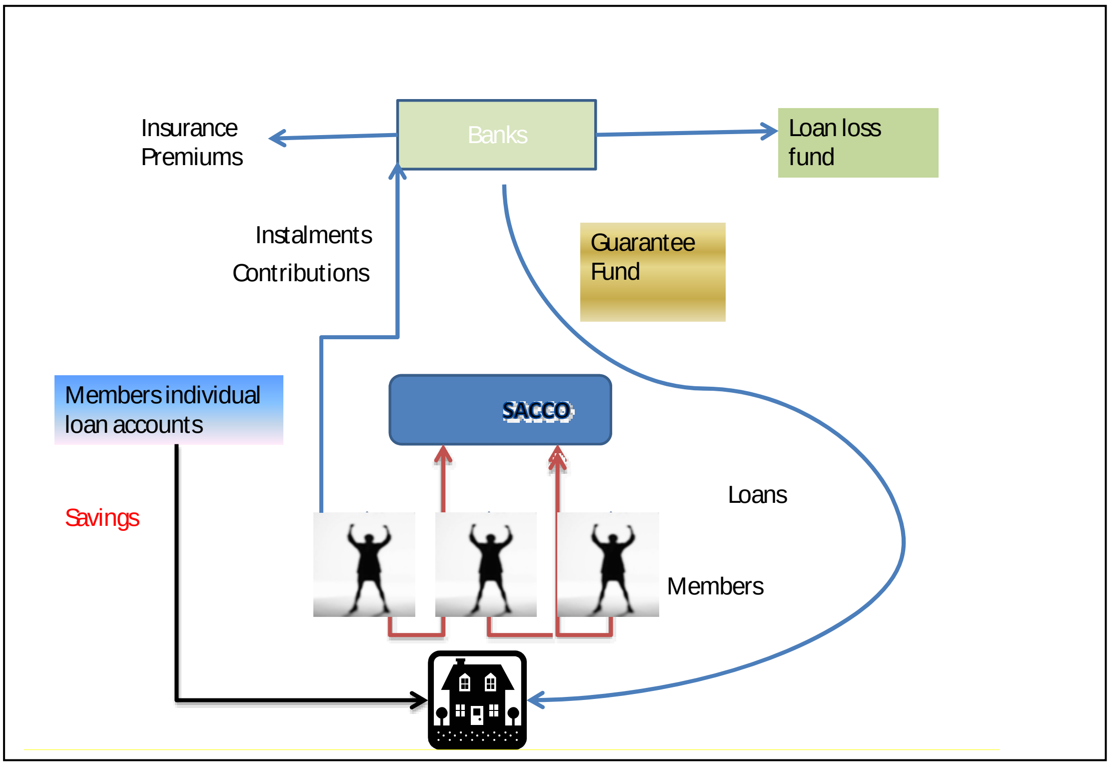
a) It is not dependant on donor funding
b) It normalises to a degree the relationship between bank and client decreasing the unbanked portion of the population
c) It allows the competitiveness of banks free reign but with the checks and balances resulting from multiple participation
d) Costs are likely to be lower with less parties involved
e) There is limited scope for 'Gatekeepers".

Figure 10.2 Recommended Structure 1



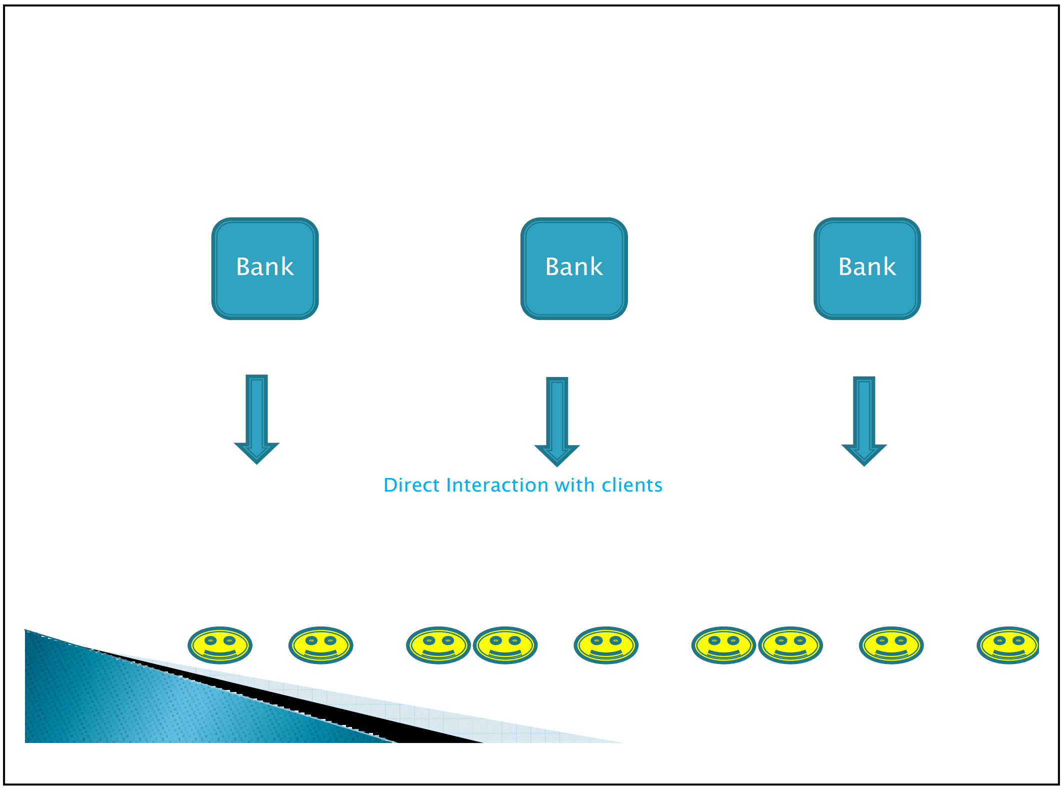
The cash flow for this structure will more or less be as illustrated below:

Figure 10.3 Cash flow



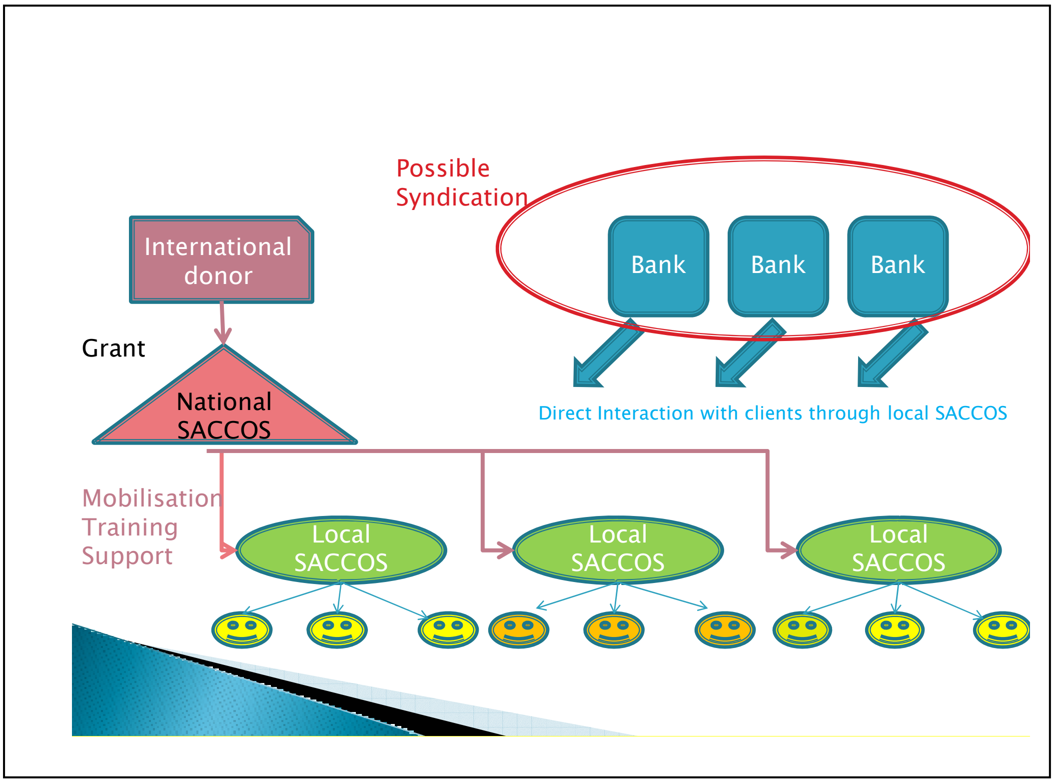
The logical evolution of this structure dispensing with SACCOS structures entirely as comfort and knowledge increases, is to a normalised bank client relationship as shown below, but the impression is that it is still some years away. This alternative should be the long term goal but the assessment is that neither the Tanzanian communities nor the banking sector is ripe for this approach

Figure 10.4 Possible future alternative structure



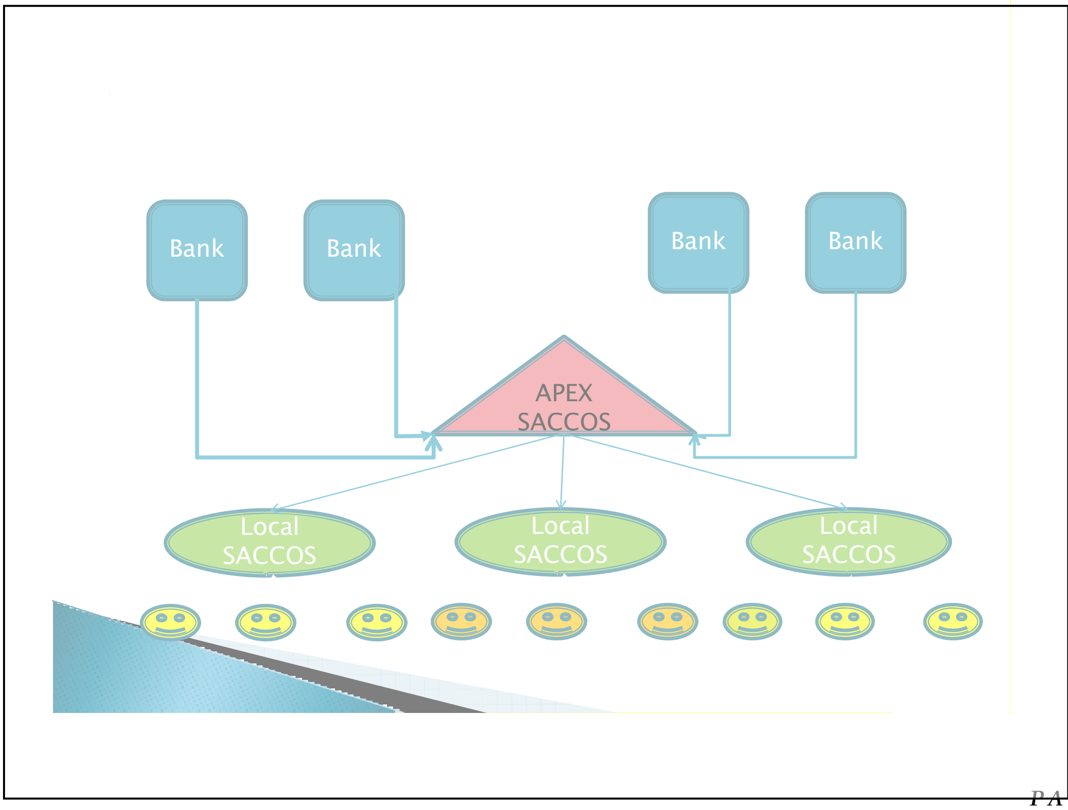
The alternative structure recommended for banks not having the necessary experience or confidence to deal directly with the SACCOS structure an alternative is to employ the services of an APEX SACCOS or NGO as shown below to support them in the creation and oversight of local SACCOSs without having direct line responsibility. This option may be is depended on the raising of grant funds to employ the services of NGOs like Dunduliza, WAT SACCOS, PRIDE, FINCA or even a new apex SACCOS. This is regarded as a less desirable option than the model where the bank creates and interacts directly with local SACCOS (recommended structure 1). The non-dependency on grants obviously enhances the replicability and sustainability very considerably.

Figure 10.5 Recommended Structure 2



A further alternative for banks, not at this stage, wishing to have direct local SACCOS or client interaction would be to use an APEX SACCOS or NGO to act for and on their behalf as shown below but this is considered as even less desirable as the banks are even further removed from the clients and could revive some distrust of apex SACCOS.

Figure 10.6 Alternative structure 2



10.5 Financial Model

Assumptions

An illustrative financial model was built and is available in Excel format. The model, to illustrate the impact and other aspects of the proposals was based on the following assumptions:

Table 10.1 Assumptions in the financial model

Variable	Value assumed	Unit
Number of housing loans	1000	no
Term of loan	5	years
Average size of loan	2000000	TSHs
Default % per year of portfolio	3	%
Repayment of loan loss provision fund	60	%
Contribution to Guarantee fund pa	5	%
Cost of Group life insurance once off	3.5	%
Cost of technical support	0	%
Cost of admin support	0	%
Base bank rate	12	%
Bank credit premium	2	%
Bank add admin premium	1	%
Deposit rate	6	%
Short term insurance pa	0.3	%
Capital Adequacy	10	%
Reserving	10	%
Capital cost	22	%

Some of the results and implications of these assumptions have already been discussed above but it is worthwhile to elaborate on a number of the assumptions and their effects.

Number of households: It was assumed that at least 1000 households would participate. This is based on the size and extent of other recent projects and represents approximately 20% of the uncompleted housing units. More participation would further mitigate the risk and should be encouraged to obtain as broad and diversified base as is possible.

Term of the loan: This has been fixed at five years in compliance with the wishes expressed in the survey and has not been programmed to be variable. In practice however there would be a large degree of flexibility in accordance with the wishes of the community and scattered terms would remove a component of repayment concentration risk.

The average loan: This was assumed to be $1600 based on a broad interpretation of the survey, making provision for instalments in the order of $56 monthly and an initial deposit equivalent to six months instalments (excluding the loan loss and guarantee provision). Six months is regarded as a reasonable time to initiate a credit record and to become accustomed to the discipline of regular payments. The bank should be prepared to allow existing savings to qualify. This deposit also forms an important collateral function while the other funds are built up.

The default rate: This was based on bank averages of 3 % for all defaults with specific reference to the microfinance sector, but this is one of the assumptions that will have to be monitored in the pilot scheme.

Good performance incentive: This incentive arbitrarily was set at 60% but as it is interest free it could be set at 100%.It would be feasible for every participating bank to set this in negotiation with its target community.

The contribution to the guarantee fund: This was set at 5% of monthly instalment with the view to establish the initial security as close to 25% as possible to correspond with a level previously accepted.

Cost of insurance: Insurance both life and property, is regarded as a crucial element. In a pilot project like this the eviction of a family due to the demise of a breadwinner could jeopardise the fragile trust that will have to be build up as many people, for the first time, interact with a formal financial institution. Fortunately group life insurance for a 5 year term is readily available at an upfront cost of approximately 4.5% of the initial exposure. Similarly fire and flood insurance is available at approximate cost of 0.3% per annum.

Costs of administrative and technical support: For the time being this has not been costed except for a 1% allowance for bank administration as the probability of grants being obtained to fund this appears to be high. Some banks have however indicated that this type of support is often built into their microfinance rates.

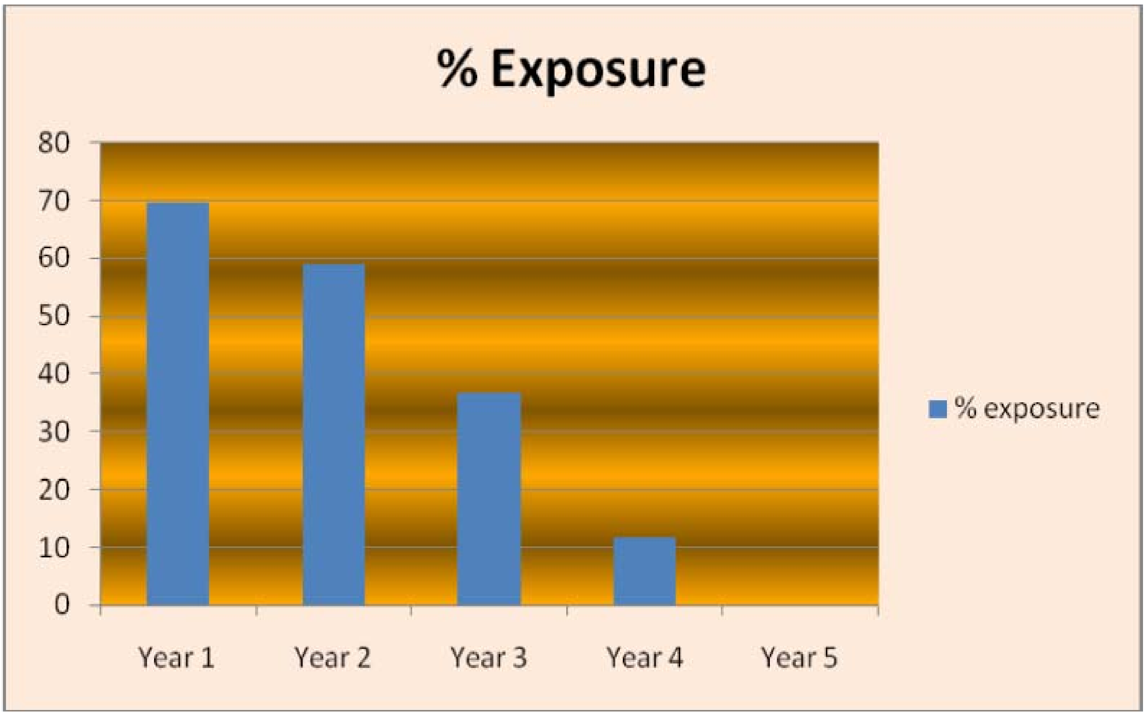
Bank costs: In the example and analysis bank costs were assumed to start with a prime rate of 12%, a risk premium of 2% and an administrative allowance of an additional 1% (to compensate for small loan size) of 1%. This is regarded as conservative compared to the TAWLAT project where bank costs in total amounted to 12%. The arrangement between the bank and the SACCO/NGO acting as partner could have a material influence on this. Based on the above assumptions and the financial model the interest rate will amount to 21% NACA which is regarded as quite competitive compared to the informal market and given the circumstances, even with the more formal mortgage markets in Tanzania. Indications are also that the banks when appraising the return of the project can consider offsetting the Bank of Tanzania capital adequacy requirement of 10% against the cash collateral. Whether this can also be applied to the liquidity deposits with the Bank of Tanzania is not clear and will have to be discussed with the BOT.

Interest rate on deposits Due to the fixed nature of the deposits a relatively generous rate, compared to current rates, has been assumed at 6%.

10.5.1 Results of Modelling

Risk: The risk exposure of the banks will have the following profile (end of year):

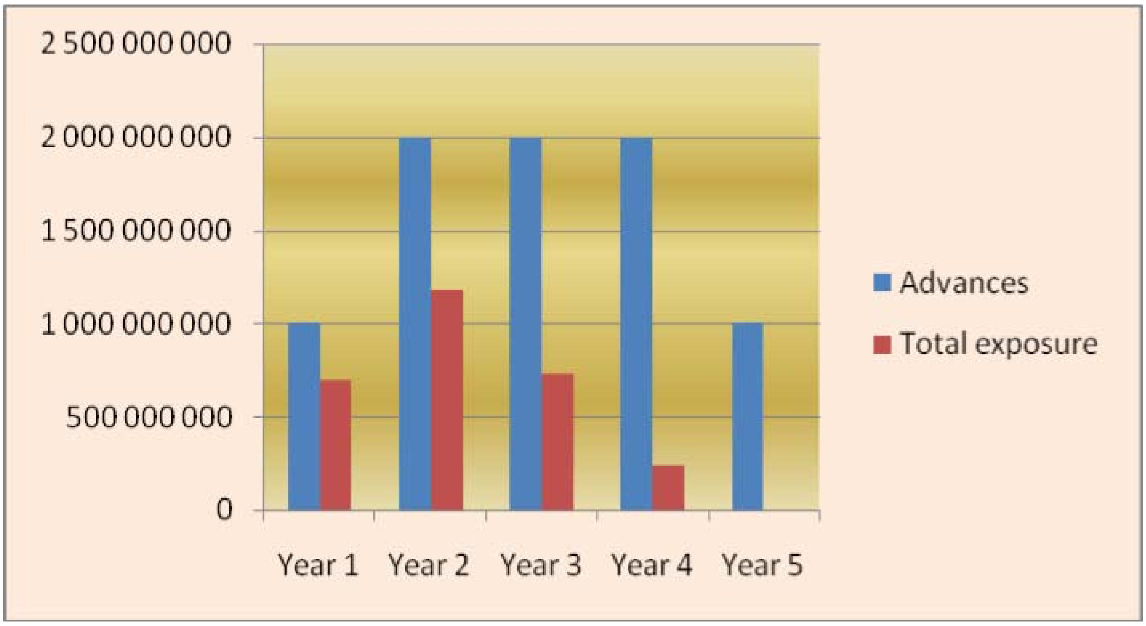
Figure 10.7 Percentage risk exposure



The maximum risk is in year one and thereafter shows a rapidly dropping profile.

The following figure indicates exposure versus advances based on a drawdown period of two years. It has to be considered that drawdowns for modelling have been assumed to be a once off, up front, drawdown which will not be the case and the staggered nature will further reduce risk.

Figure 10.8 Drawdowns versus advances



Funds generation: The proposals will, as mentioned, generate a self funding component shown below. An interesting aspect is that should any bank implement this proposal as a rolling program the substantial cash generated would form a basis for addressing asset and liability mismatches and create a partially self-funding housing programme.

Figure 10.9 Degree of self-funding of the programme

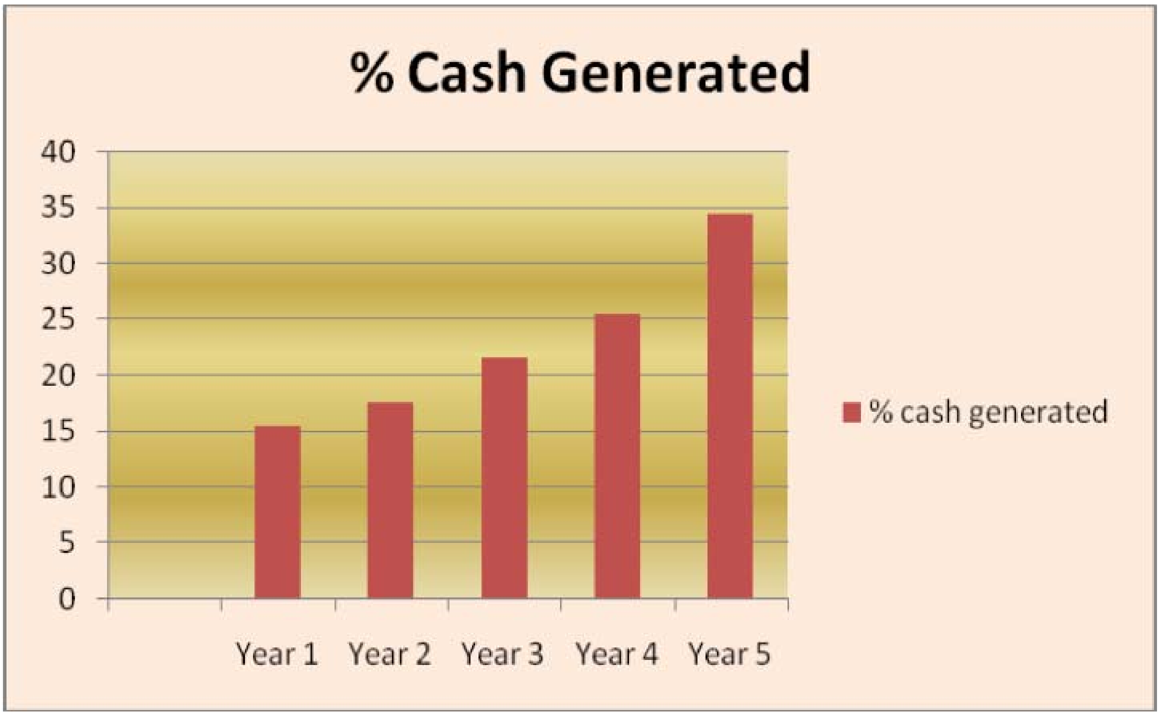
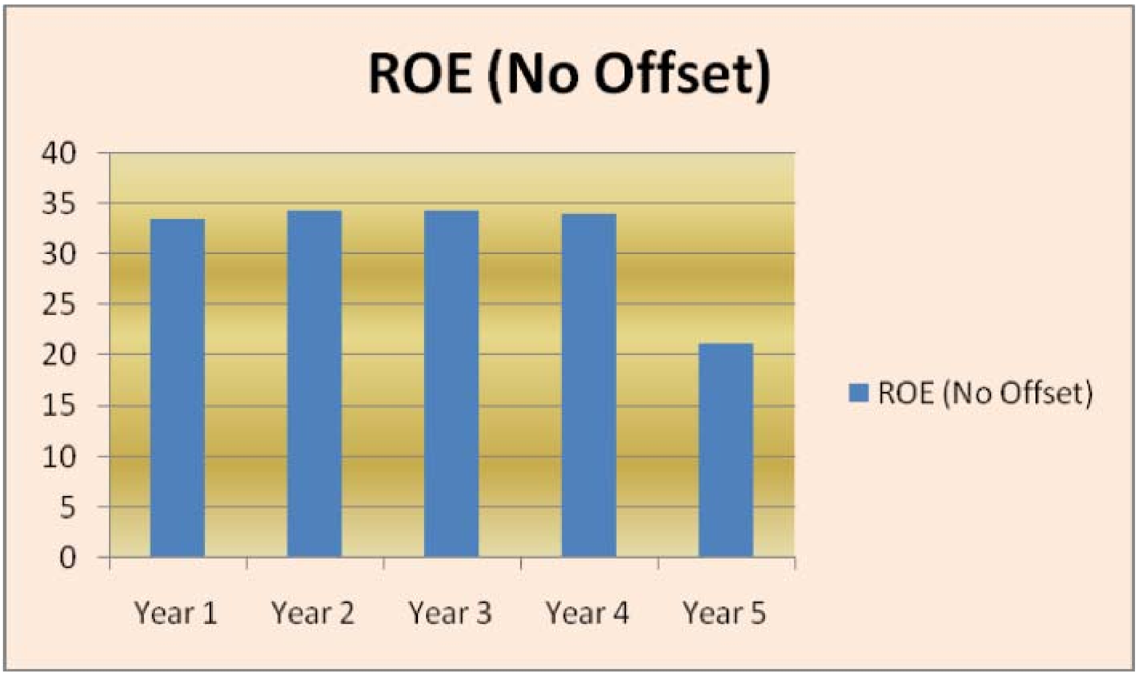


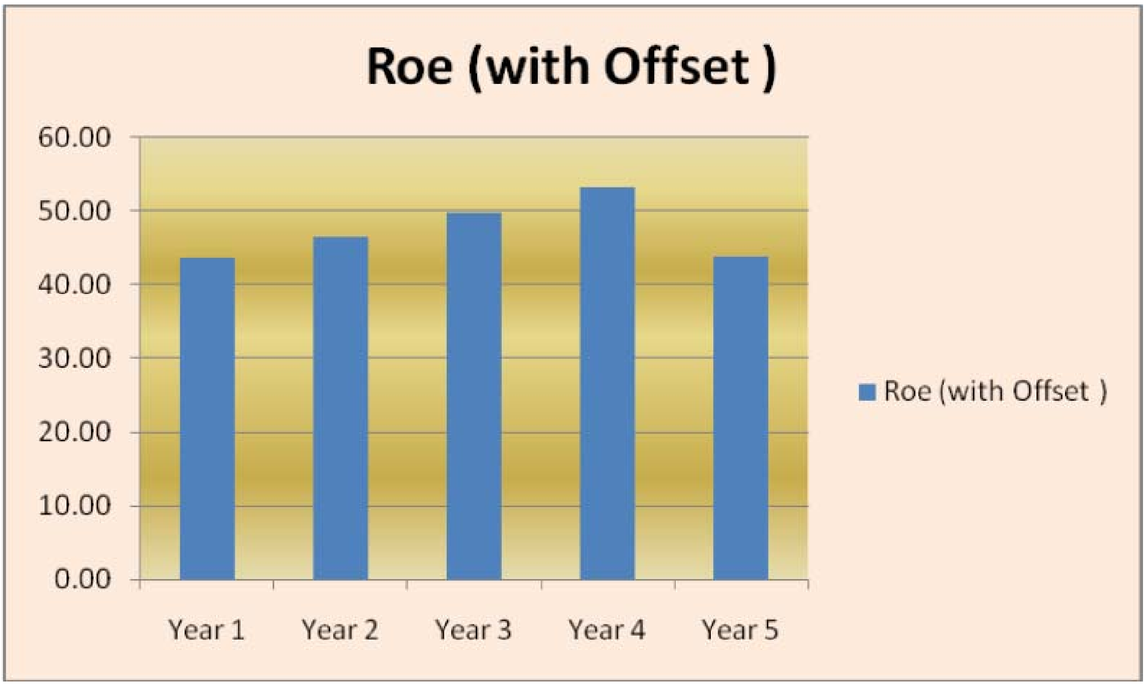
Figure 10.10 Return on expenditure/investment



The critical consideration for any financial institution is the return obtained versus the risk incurred. As shown in the diagram above, the ROE for the banks will consistently be above 30%.This is regarded as a good return considering all the risk mitigation features and the sharply dropping risk exposure.

Should the BOT agree to allow offset with the ceded cash deposits held the return on equity will increase substantially and rise to above 40%. Interested banks should take this up with the BOT.

Figure 10.11 Return on expenditure (with offset)



Affordability: Affordability has been one of the issues to be considered in the design of the proposal. The proposal results in an effective rate of 23% and a monthly all-in payment of approximately 60 000 TSHs ($60) which meets the criteria as stated in the initial surveys.

10.6 Potential Role Players and their Roles

African Union of Housing Finance/Cities Alliance

The Cities Alliance grant made it possible to conduct surveys, prepare project proposals and in general assist with policy and related matters. The role of the AUHF in this pilot project is envisaged to be on the monitoring, provision of policy expertise and interaction with the authorities on policy matters. The possibility of further limited grant assistance as it becomes necessary in the pilot phase remains and provisionally it has been assumed that it can be made available for the community mobilisation phase, where required.

The Ministry of Lands, Housing and Human Settlements Development

The Ministry is responsible for National Policy and should monitor the pilot project carefully to continuously optimise positive aspects at the policy level and obviating negative aspects. It will also render support to the pilot project at the policy and legislative level to address other constraints identified in this and other reports.

The National Housing Corporation
The National Housing Corporation is a strong institution with substantial resources and a stakeholder in the housing sector. As the representative of the AUHF in Tanzania it will play a major facilitating role, especially with regard to providing logistical support to the Housing Finance Forum.

The Housing Finance Forum
The Housing Finance Forum will like, government, play a high level monitoring and support role and exercise more day to day control through a smaller task team composed of parties directly involved in implementation. The role of the Housing Forum will essentially therefore be a monitoring one with, because of the composition, the ability to mobilise high level intervention to resolve policy and institutional problems and issues as they occur. In addition the Forum team will have the responsibility of ensuring the full support, in whatever way, of the institutions that they represent.

The Housing Finance Task Team
The task team will play a coordinating and virtually a marketing role in the implementation of the project. They will have the responsibility of circulating the information to interested parties including very specifically the financial institutions, applying for grant funds, if required, and also for the launch of the pilot. In addition they will have to intervene to resolve practical aspects, mediate disagreements between the parties and recommend policy actions to the Housing Forum. The task team should be composed of all the parties involved in the pilot and at least include Temeke Municipal Council, the participating bank, SACCOS expertise and Dunduliza.

Dar es Salaam City Council
The role of the Dar es Salaam City Council is very similar to that of the Ministry: a monitoring and supporting role although perhaps at a more practical and operational policy and coordinating level.

Temeke Municipal Council
Temeke Municipal Council has a much more direct role to fulfil in ensuring that licences are issued and progress made with registration, provision of new land, provision of bulk services and upgrading of existing infrastructure. The latter is especially important from a health perspective. Temeke Municipality can also facilitate rapid approval of building permits etc.

Dunduliza
Desjardins (one of the biggest financial institutions in Quebec) in 2001 started with a demonstration project to strengthen the financial management of SACCOS, and then formed Dunduliza in 2004, which is essentially a SACCOS support network. One of their objectives was to change the image of SACCOS. Dunduliza provides technical assistance and systems to SACCOS. They provide a standard financial management package, credit policy, etc. They are also developing a standard loan product. They currently have a network 35 SACCOS in four regions. Among the issues they address are a minimum membership and the minimum capital.

They are also working on a special housing loan which will provide assistance in locating land, and house designs. This would follow the micro-finance model, starting small, and would be used for houses for personal use. They could play a substantial role in the pilot and subsequent projects by the provision of technical, administrative and general support. Currently no provision is made for fees to compensate them for their inputs but scope exists to marginally increase the monthly instalment to compensate them, if required.

Women Advancement Trust (WAT) Savings & Credit Societies WAT – SACCO

Founded in 1989, the Women Advancement Trust (WAT) was established to carry out advocacy work around human settlement development in Tanzania. WAT's particular focus has been to:

1) Advocate for women's equal rights to land and property ownership;
2) Promote housing cooperatives;
3) Train youth in construction skills; and
4) Establish savings and credit societies

They were established in 1997 and then registered in 1998 with the Registrar of Cooperatives, with the objectives of:

1) promoting a sustainable self-help financial solution for members, that effectively improves their living conditions; and
2) linking savings and credit for income generation95 and housing. WAT's SACCOS are structured using a social, rather than business, approach to savings and credit.

WAT has 3 sub-units: housing cooperatives, informal settlements and housing finance.

WAT works with housing groups in the following areas:

1) technical support and training;
2) savings and credit;
3) local linkages and collaboration with local government authorities; and
4) design, planning and construction.

They help with, e.g. planning workshops, carrying out socio-economic surveys, carrying out house designs and assisting group members. They could potentially play a substantial role if required.

Other NGOs

There are some other Apex SACCOS-type NGOs that can be approached like PRIDE and FINCA should the arrangements outlined above not be realisable or should the bank decide not to do the administration. However, they are regarded as being expensive (24% to 48% per annum) by the community and only when there is no choice is it suggested to approach them. Both the above NGOs are well established and support if required could probably be mobilised at short notice.

The Community

The broader community is probably the critical component for a successful pilot scheme. They must be involved from the outset and be allowed, within the constraints imposed by the parameters required to keep the project financially viable and sustainable, to influence the detail planning and design, the implementation and the writing the rules. Community involvement poses one of the more difficult development problems as it is highly unlikely to find a homogeneous group of affected people in any community. In most cases, however, there is representation through the strong street leadership arrangements in Makangarawe and recognised by the majority. They could largely facilitate marketing and the launching of local SACCOS.

Local SACCOS
The local community should be encouraged to form local SACCOS from homogenous groups in the community. Sizes could vary from 30 to 100 participants. The local SACCOS will play the pivotal role in the entire project. After initiation they will have to:

- Motivate their members to open savings accounts and save regularly,
- Assist members with opening accounts,
- Vouch for the identity of members (provide employers records voter registration cards business licences etc),
- Assess the credibility, integrity and credit worthiness of new members,
- Create awareness of the benefits and obligations of borrowing,
- Formulate and apply the rules of their SACCO,
- Where defaults occur, assist and encourage the member to make arrangements to get back to good standing, and
- Play the role of mutual guarantors.

The Individual
The participating individual is obviously the key ingredient and must voluntarily be prepared to participate, apply the discipline of savings and commit to regular payments. Care must be taken to explain that the funds do not come from donors, but from the community itself, including their own savings.

The requirements for participation in a local SACCOS should be:

- Ability to afford the planned building, improvement or purchase,
- Acceptance by the group, and
- Acceptable proof of identity

In order to participate in the borrowing pilot people will required to:

- Open up a savings account,
- Generate the required deposit (savings account) within the required period of six months to provide proof of repayment ability, and
- Have a Licence to Occupy.

The Banks
Given the discussions that have already taken place it is suggested that at this stage, all the banks should be approached and the proposal as formulated presented to them with an indication of further assistance in the form of a pro-forma business plan for submission to their boards to obtain approval to participate in a pilot project. Facilities will be subject to the conditions outlined in this report namely:

- Deposits of six months repayments by qualifying individuals to build a credit history,
- Membership of a local SACCOS
- Contributions to a loan loss reserve ,
- Contributions to a guarantee fund ,
- Cession of the licence,
- Positive peer identification and
- Compulsory Insurance

It is also suggested that given the relative lack of sophistication of participants targeted that the costs of the loan-loss fund be build into the interest rate, with the rules of the incentive for good credit behaviour articulated clearly. The guarantee fund will have to be explained as this fund and the contributions to it are a crucial component of mobilising peer pressure.

10.7 Risks and Risk Mitigation

10.7.1 Risks for Government

The risks for government both at central and local level are that the project could fail and that no progress towards a longer term solution to establish access to funding for the occupants of informal housing is created. In the event of such failure, additional pressure will be placed on government to use government resources to resolve the crisis. This, in turn, has been proven throughout the world to place undue strain on limited resources, disturb priorities and create pockets of “lucky owners/tenants” while the bulk of the community is worse off.

The risk for government is thus essentially a political risk. Government can of course partially mitigate this risk by the quality of the support that they render.

10.7.2 Risks for Banks

The risks for banks are mainly twofold: financial and reputational. At the current state of development the reputational risks are not serious as the bulk of the target communities are unbanked in any case. The use of insurance to prevent eviction in the case of death or disability should go a long way to mitigate this particular risk. When extending mortgages banks are normally well protected against losses with the deposits (owner equity) and having as last resort the ability to sell the property in execution should there be an inability to meet commitments. In this particular instance the security that has to protect against credit risks is in the form of virtually a proxy security and a large part of the security consists of the importance of the role that housing plays in the lives of the individual and the communities. This is, of course, augmented in this proposal by “hard” financial mechanisms but these are untested in these communities and could therefore be vulnerable.

The risks can be mitigated in a number of constructive ways;

- Spending quality resources on the detail design of the financial mechanisms ,
- Creating understanding of the proposal before individuals initiate participation,
- Paying particular attention to the user-friendliness of the interface between bank/community/individual,
- Lobbying government to strengthen the quality of the tenure (licence),
- Using peer pressure,
- Protection in the case of death,
- Registration of cession of licence, and
- If required creating further collateral using furniture, vehicles etc. (not recommended as part of this proposal).

Obviously the risks could also be mitigated by obtaining guarantees from government or donors but this would defeat the purposes of the pilot: namely to test **sustainable** ways of creating access to housing loans in a “normalised” market.

Additional risks carried by the bank consist of the normal operational risks that banks manage such as employee fraud, mismanagement etc.

The banks have consistently expressed their concern in respect of mismatches between assets and liabilities. This concern, in the absence of yield curves to allow hedging, is real but can be mitigated by additional skills, the self funding characteristics of the proposal and, in the long run, by variable interest rates. The pilot is relatively small and should not, given the rate of return, pose a serious problem to the funder. However, should the pilot be replicated, this aspect will have to be resolved.

10.7.3 Risks for Donor Community

There are two risks for the donor community: reputational and that a never ending grant cycle is created. Both can be mitigated by correct information namely that the donor community is rendering once off, finite assistance but that execution is in the hands of the role players.

10.7.4 Risks for Participants

The participants in the pilot, in a sense, have the biggest risk but also the ability to manage these risks. Obviously if they cannot keep up with instalments the participant runs the risk of losing everything. This emphasises the need for excellent but simple communication, documentation and explanations. Not keeping up instalments can be precipitated by a number of events:

- Death (should be covered by insurance),
- Destruction of the asset by flood or fire(should be covered by insurance),
- Loss of employment or informal income (this can be partially mitigated by more flexibility from the bank and support from extended family, as is currently the case in the money lending market),
- Going to money lenders exploiting the desperate need for housing to generate the deposit. This can only be mitigated against by educating people in terms of the risks incurred.
- Loss of all, or a portion of, the guarantee fund through default by other members or other SACCOS members.

It is not uncommon for individuals to be unable to make their weekly payments, in which case other members of the group have to come to their rescue; but people recover from these problems and group default is unheard of.

10.8 Compliance of the Product with Requirements

The requirements articulated by individuals and the housing finance task force are again summarised in Table 10.2 with an indication as to the degree in which they are met:

Table 10.2 Comparison of Requirements and Suggested Product

Requirement	Outcome
Affordability	Met
Access to reasonably priced funding	Met
Repayments matched to income	To be informed
Additional rental income	No restriction
Treatment with dignity by banks	Now Clients
Reduction of idle capital incurred in incremental building	Resolved through loan access
Individual loans	Met
Simple documentation	Banks should comply
Interest on reducing balances	Met
Assistance with access to land	Not Incorporated
Incentives for good payers	Met
Assistance with building plans	Not Incorporated
Easier payment facilities	Met

PART 5

11. Next Steps

11.1 Countries

Swaziland

An excellent start has been made with starting savings groups in four of the settlements in Mbabane, and building interest in many others.

These savings groups can form the basis for a very productive relationship between the Mbabane City Council and the Swaziland Building Society so that when the settlements are upgraded the communities can use their savings effectively, both as a way of leveraging better standards for the community, and as a way of accessing funds for individual house improvements.

At the same time the Swaziland Building Society is working with other savings groups, as well as studying methods of bridging the gap between ordinary community members and the Society. This may involve using champions within the community to help potential borrowers to understand the value and consequences of borrowing whether to buy a plot, build or improve their house.

The Swaziland Building Society, thanks to its pioneering lending to residents of informal settlements in the past, is well positioned to innovate in terms of building improved relationships with low income clients and developing products which meet the needs of this group.

South Africa

Many of the ingredients for appropriate housing finance for lower income groups are in place. However, the market is distorted by the government's capital subsidy scheme. The effect of this is that there is no or very little market for housing finance for new housing in the lower income groups. People would rather wait their turn in the housing waiting list than spend their own money on house construction. Furthermore, if they were to spend such money it would almost certainly be in an unauthorised settlement, and therefore liable to demolition.

The other market is for housing extensions and small scale construction on the plot of existing authorised houses. There is a very strong demand for such housing and the rental market is such that debt can be repaid from the rent received. This market is already receiving some attention from micro-lenders, but this development is, in some cases, illegal as it has not received approvals under building or planning regulations. The potential for this market is very great, but its role has not been explicitly recognised by current housing policy. There are many opportunities to explore the matter more fully.

The second issue in South Africa is that currently commercial lenders have been very reluctant to lend to people without formal employment. To them the salary slip is the most basic form of security. It is hoped that more work can be done to widen the coverage of banks and micro-lenders to the informal sector, and possibly develop partnerships between commercial micro-finance institutions and NGOs and CBOs working in the housing sector – especially those engaged as support organisations under the People's Housing Process.

Tanzania

The proposals for a pilot project have been received with much interest by many banks in Tanzania, and there are good prospects for some or all of them to proceed.

It is unlikely, and unnecessary for all parties to follow the model slavishy. However, it is hoped that in view of the different markets served and working methods by the interested banks and financial institutions that different approaches will be used, based on the same basic thinking and methodology. Among the obvious differences in approach will be the ones that use community-based CBOs/NGOs as partners, and those which either form their own, or work directly with the applicants. Secondly there is the question of the role of the municipality, and how its resources and support can be used to best effect. Lastly there is the question of technical assistance, building design and costing, and building materials supply. Another question of interest is whether the banks will choose to syndicate or will prefer to act alone.

It is hoped to monitor its progress carefully and use the project as a basis for the development of a refined model.

Ghana

The experience of the HFC in forming its own micro-finance arm will be of great interest. The initial projections about the demand for housing loans appear to have been much higher than the actual level. It will be of interest to analyse why this is happening, and whether a different model will work better in this respect. Moreover, since many banks are considering adopting this model, it will be valuable to assess its replicability.

In Ghana it is also considered useful to assess the experience of other banks in the field of low income housing.

11.2 AUHF

As the market for high income formal sector housing finance is limited, the membership of the AUHF has become aware of the potential for new products and markets. There has therefore been tremendous interest in this project from AUHF members. The extraordinary interest in the training workshop held in Accra in September 2007 bore witness to this.

To leverage the enormous range of lessons learned from the project, and to train member institutions in the methodology in both market analysis and product design, further training workshops will be required.

A common comment is that the range of countries selected is not representative of the AUHF or Africa as a whole. It is therefore felt that additional country experiences must be documented, and possible new products designed for different circumstances.

11.3 Cities Alliance

This work has made an impact far greater than its modest budget of $250,000 would suggest. It has already started changing attitudes and practices, and builds on work throughout the world in this field. There is tremendous potential to build on the results achieved, and thereby make a major impact.

The problem with the project as originally designed was the limited time frame. Two and a half years are simply not enough to help multiple agencies and countries identify problems, undertake field research, analyse the research and design appropriate products. These activities all take time, and the innovative nature of many of them requires additional work.

The most important role for the Cities Alliance would therefore be to support a second phase which will give time and funds to support the further development of the ideas and practices developed to date, and allow the effective market testing of products.

In addition to this there are areas which can be developed further. To highlight some:

Capital enhancement: Much interest has been devoted lately to the question of how the limited amounts of cash which poor people may have saved either in financial terms or by way of housing assets can be leveraged to give them access to greater sums. Slum Dwellers International has such a model whereby community assets can be used as collateral for borrowing; a similar approach has been used for UN-Habitat's Slum Upgrading Facility. A similar concept has recently been launched by UN-Habitat – the Experimental Reimbursable Seeding Operations (ERSO), which would provide seed funds to stimulate private investment. There is scope to develop concepts such as these within a local setting, and assess whether they can be of value in the informal settlement housing finances market.

Another approach is to look as financial assets per se, of which pension funds and life insurance are the best examples. Some countries allow pension or life insurance funds – whether private or public – to be used either as collateral, or withdrawn for housing purposes. Other countries strongly object to this, taking the view that pension contributions should be protected from opportunistic withdrawals. Our view is that such a system has a potentially very important role to play in low income housing and deserves both wider exposure and advocacy. From the economic point of view it has often been observed that many pension schemes, especially state operated ones, give a rate of return below that of inflation, or at least below the level of appreciation of fixed assets such as housing.

This issue regarding pension funds should be analysed carefully and policy papers prepared which can be discussed at Housing Finance Forums, with a view to regulatory reform.

Partnerships: Many formal sector financial institutions are naturally apprehensive about entering the market of informal housing.

Further work should be undertaken to help formal sector institutions work more effectively in partnerships with both micro-finance institutions and community based organisations. Effectively structured and managed, these partnerships can offer an extremely practical and effective way of bridging the gap.

Transaction costs and systems: One of the fears among formal sector financial institutions is that transactions costs will be too high for such operations to be sustainable. While partnerships can reduce these, there is an increasing body of experience in the use of cell-phones and computerised loan tracking systems which make the life of loan officers and their manager significantly easier. There would be tremendous value in disseminating these systems, and supporting the development or adaptation of new ones.

Pilot projects: There could be very valuable lessons learned from the Tanzanian pilot, but it is to be hoped that other pilot projects will be initiated which reflect the conditions in other countries.

Vertical integration: One of the issues which has often been raised is that of technical assistance and support. There could be tremendous opportunity for lenders to enhance their package by including technical assistance in the field of design and supervision, and to assist the clients by linkages with building materials suppliers and even contractors. Alternatively community-based training programmes in these fields could be of value. There is also room for the development of user-friendly programs to assist borrowers in the design of their houses and estimation of costs and materials.

Knowledge management: One of the striking facts is that even though there is much very useful and effective work being undertaken on the continent, there is little awareness of it. There is great value in disseminating this experience in a practical, hands-on, way.

Other experiences: As noted in the report there has been great interest in this work from many agencies, including USAID, UN-Habitat, and FinMark Trust. USAID funded a study of the situation in Morocco which has been of great value in view of the scale of micro-finance in that country, and the role that it is playing in the national housing programme. The Morocco experience is also valuable in the manner in which conventional banking practice has changed to accommodate a new market. USAID has expressed interest in supporting a new AUHF/Cities Alliance project in Egypt. FinMark Trust has also proposed co-funding of a similar project in Zambia, and at the time of writing a project proposal for that country is being finalised. Desjardins International Development has also expressed an interest in collaborating to study the mass savings schemes in French West Africa, for example Burkina Faso, to which they claim 80% of the people in the country contribute to. Is this success due to cultural, institutional, financial or managerial factors? Perhaps there might be something to learn from these experiences by other countries in Africa?

Cities Alliance
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