SHOREBANK INTERNATIONAL

Final Report

Feasibility Study on Developing a Social Housing Programme at Shelter Afrique

April 2011

DRAFT

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY 1

2. PROJECT SCOPE AND METHODOLOGY 3

3. DEFINITION OF A SOCIAL HOUSING PROGRAMME 5

4. KEY CONSIDERATIONS FOR THE SOCIAL HOUSING MARKET 7

4.1 Supply: Affordable housing development 7
4.2 Demand: Affordable housing finance 10
4.3 Enabling Environment: The role of the government 11

5. REVIEW OF BEST PRACTICES AND LESSONS LEARNED 13

5.1 Ongoing Initiatives and Lessons Learned – African Examples 13
5.2 International best practices 15

6. COUNTRY-LEVEL ANALYSIS AND SOCIAL HOUSING PIPELINE OPPORTUNITIES 18

6.1 Cross-country analysis, overview of types of opportunities for Shelter Afrique 18
6.2 Kenya country analysis 21
6.3 Uganda country analysis 23
6.4 Zambia country analysis 25
6.5 Senegal country analysis 27
6.6 Future country opportunities 29

7. CONCLUSIONS AND RECOMMENDATIONS 31

7.1 Strategic goals and key features of Shelter Afrique's Social Housing Programme 31
7.2 Social Housing Programme Implications on Shelter Afrique's Policies and Operations 38
7.3 Next Steps and Action Plan 44

APPENDIX I. REFRENCES AND RESOURCES - SELECTED 47

APPENDIX II. COUNTRY MEETING SCHEDULES 50

APPENDIX III. SOCIAL HOUSING PROGRAMME MARKET ENTRY SCORECARD 56

APPENDIX IV. HOUSING FINANCE DELIVERY CHANNELS 59

1. EXECUTIVE SUMMARY

SBI is pleased to present this Feasibility Study on Developing a Social Housing Programme for Shelter Afrique. This was a multi-faceted study focusing on three main areas of intervention for social housing: 1) Expanding low-cost housing supply through public-private partnerships and alternative delivery channels; 2) Increasing access to housing finance by promoting products which match the affordability levels of low-income home owners and match the building process of low-cost housing; and 3) Supporting the development of an enabling environment through public policy and regulatory initiatives. Based on Shelter Afrique's mission to provide housing across its member countries, the member countries' government missions, and heightened interest by donors, Shelter Afrique has identified social housing as a strategic priority for the organization. Shelter Afrique is interested in expanding its market and products to social housing suppliers and housing finance providers.

Shelter Afrique's interest in the social housing sector is reflected by increasing interest in this sector from the public and private sectors across Africa and from international donors. There is broad understanding of the large unmet demand for social housing and adequate finance for this market, and therefore, Shelter Afrique's programme study and implementation come at a critical moment in urban development around Africa. Shelter Afrique's involvement in upper and middle income housing markets are an asset in developing its social housing programme, placing social housing as part of its larger holistic efforts to expand the supply of housing and strengthen housing markets.

The country strategy of the social housing programme should be based on key evaluation metrics for the market, which should focus on Shelter Afrique's competitiveness in the market and the receptivity of the market to social housing programmes. Shelter Afrique's level of success will depend heavily on competitive pricing and its ability to hedge foreign currency; these factors will greatly influence where Shelter Afrique can work and what kinds of projects they can successfully finance. The social housing programme market strategy should be well integrated into Shelter Afrique's broader market strategy and mission, leveraging ongoing marketing and project relationships where possible. The receptivity of the market can be evaluated based on a range of factors that indicate the level of development and sophistication of the housing finance sector, the housing supply systems and the enabling environment, each of which is discussed in detail throughout this report.

In this report, we provide background information to inform Shelter Afrique's potential social housing programmes, discuss key considerations for the supply, finance and public support of social housing and identify best practice models and approaches in Africa and globally. The report will also focus on specific country recommendations for Shelter Afrique, discuss select markets and identify four high potential markets for a social housing programme pilot. The country analyses are followed by SBI's programme recommendations which have three main components: 1) key features and components of Shelter Afrique's social housing programme, 2) the implications of this programme on Shelter Afrique's operational structures and policies, and 3) next steps and an action plan for implementing a social housing programme. This feasibility study should be viewed by Shelter

Afrique as part of a larger process in developing a social housing programme. It identifies key points for Shelter Afrique's consideration, important decisions points in moving forward, and future research required beyond SBI's recommendations and analysis.

2. PROJECT SCOPE AND METHODOLOGY

SBI's core team was led by Mr. Zaigham Rizvi and supported by Ms. Anna Fogel, with expert advice from Rooftops Canada Abri International and Ashna Mathema. The project spanned 5 months, with the majority of the work taking place over a 3 month period, from February to April 2011. SBI's methodology combined targeted desk research and expert interviews with select country visits and field research. During the project inception, the SBI team travelled to Kenya to meet with Shelter Afrique project stakeholders and review Shelter Afrique's lending activities, policies and procedures. SBI focused its initial assessment and inception meetings on a number of key areas for Shelter Afrique's social housing programme: current lending operations and policies, treasury, risk management, and management commitment. The core team conducted field research in select countries: Kenya, Uganda, Zambia, Botswana and Malawi, and directed local SBI staff in conducting field research in Ghana and Senegal.

The selected countries were chosen by the joint Shelter Afrique-SBI team to reflect Shelter Afrique's continent-wide operations. The select countries are considered high priority for Shelter Afrique's social housing programme and are intended to be representative of the respective regions. In each country, the SBI team met with key stakeholders involved in the supply and finance of social housing. On the supply side, SBI met with commercial developers and non-profit developers, professional associations and policy stakeholders involved in land, housing and infrastructure. On the finance side, SBI met with commercial banks, specialized housing finance institutions, community-based organizations and non-profit lenders. In addition, SBI focused its research on the enabling environment and meeting with key government stakeholders to evaluate the potential of leveraging ongoing initiatives and future strategies with a social housing programme.

The select pilot countries were chosen strategically, taking into account Shelter Afrique strategic and regional priorities. The selection was guided by consideration of a number of factors, including:

- Regional relevance of select country and potential pilot social housing projects
- Housing finance – the level of sophistication of the financial sector and the prevalence of mortgage and housing finance
- Housing supply – presence of public, private and non-profit actors in the supply-side of housing development; state of development of the private developer industry, including availability of local project finance
- Land availability and servicing – status of land security and land titling system, availability of serviced land and external infrastructure
- Enabling environment and ongoing initiatives – Buy-in of government stakeholders into social housing programme and ability to leverage existing donor and public initiatives and programmes; effectiveness of justice system and foreclosure process; regulatory environment for housing finance and microfinance; availability of pro-poor housing policies
- Key partners and stakeholders – Presence of public, private, non-profit and international donor organizations and initiatives

- Level of Shelter Afrique involvement and presence in country

As mentioned above, the following countries were selected to be studied:

- East Africa: Kenya and Uganda
- Southern and Central Africa: Zambia, Botswana, and Malawi
- West Africa: Senegal and Ghana

As part of this assignment, SBI delivered an inception report, interim report, and this final report, which was presented to Shelter Afrique at headquarters in Nairobi, Kenya.

3. DEFINITION OF A SOCIAL HOUSING PROGRAMME

Social housing is differentiated from market housing as the segment of the housing supply market which is not currently met by market forces. Market housing, particularly in the African context, targets middle and upper income housing segments and is developed mainly by the private developer industry in most cases without any government intervention, subsidies or support. Therefore, the housing supply shortage is often concentrated in the low-income housing market. While real demand is very high among the low-income population, effective demand – the population that demands housing and is eligible in terms of affordability and other requirements to purchase housing - is constrained to the middle and upper income segments (making up the market housing segment). Social housing programmes therefore are critical in engaging the private and non-profit sectors in increasing the supply of housing and financing for the low-income market segments.

There are a range of definitions of social housing that span a variety of housing types and varying levels of government involvement, from subsidized rental housing to publically-owned affordable housing. Public housing is defined as property that is owned by a government authority, either central or local, and either rented or sold to low or moderate income individuals. In this study, we have broadly defined social housing as housing that focuses on expanding the supply of low-cost housing and increasing access of housing to low-income populations. This includes the traditional definitions of social housing, public housing, affordable or low-cost housing, incremental or self-built housing and subsidized housing, and ensures the definition is sufficiently broad to a range of public, non-profit and private stakeholders.

The target market for the social housing programme is a specific segment of the population. As described in the below pyramid, the social housing programme should not target the bottom of the pyramid or the very low income, but should focus on low and moderate income segments. This is often comprised of the lower paid salaried workers, such as teachers and civil servants, or self-employed segment. The below pyramid depicts the target market segment for social housing as defined in this study, which focuses on the low-income segment just above the bottom of the pyramid:

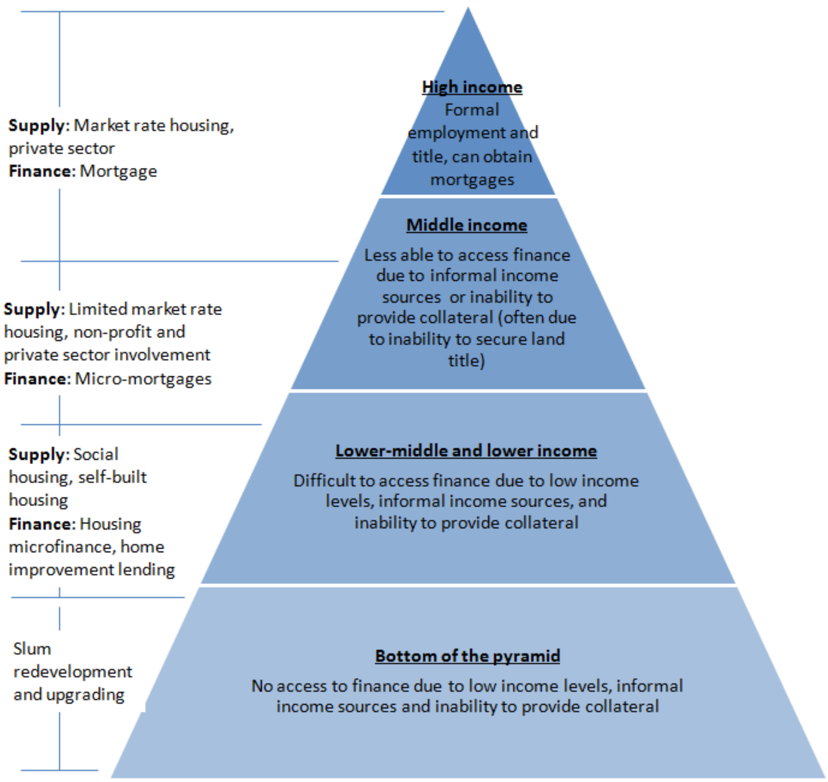

Figure 1. Social housing market segmentation

Few countries in Africa have legal definitions of social housing, which may include specific terminology, target income ranges, geographical focus or other criteria for allocation. In South Africa, social housing is an umbrella term which includes rental housing which is owned and managed by the state, non-profit organizations, or by a combination, with the aim of providing affordable housing. In Kenya, the draft Housing Bill 2010 defines social housing and low-cost housing: 1) Social housing is defined as "adequate housing targeting low-income segments of the population comprising a combination of subsidized rental housing or low-cost home ownership, including slum upgrading funded by public resources or grants and managed by a public agency, non-governmental organization or community-based organization"; 2) Low-cost housing is defined as "a housing unit a) comprising a minimum of two habitable rooms, cooking area and sanitary facilities and covering a gross floor area of between 30 to 60 square meters for each household with basic infrastructure and services of standards stipulated by law, and b) of a cost of not more than 200 times the prevailing statutory minimum wage". In the country road maps, we propose country-specific definitions and parameters for Shelter Afrique's social housing programme.

4. KEY CONSIDERATIONS FOR THE SOCIAL HOUSING MARKET

Any successful social housing programme must be founded in an understanding of the broader housing market and its inability to meet the housing needs of the majority of the population. The market must be understood holistically in terms of the supply of affordable housing, access to housing finance, and government support of an enabling environment. The following section describes key considerations of the overall housing market and its challenges, with particular consideration on the impact of creating a successful social housing programme within the housing market.

4.1 Supply: Affordable housing development

Expanding the supply of affordable housing is a critical factor in the development of a successful social housing programme. The greatest challenge in expanding the affordable housing supply is managing the cost of the housing that is developed. The two main components of the housing cost are the cost of land and the cost of construction.

Managing the cost of land

There are a number of factors that result in the lack of available and affordable land for the urban poor. Rapid urbanization, subsequent land scarcity and rising land prices in major metropolitan areas are major factors contributing to the escalation of housing prices beyond the affordability of urban poor. This is exacerbated by poor land use management and often corrupt land allocation. Land ownership, therefore, is out of the reach of many urban poor. As a result many urban poor resort to squatting on land illegally or renting rooms. Securing title to land can add significant cost and time in housing acquisition. Land ownership varies greatly from city to city, divided mainly among the government and private landowners, with areas outside of the cities often under tribal ownership. In addition to the cost of undeveloped land and requisite title, land servicing can add significantly to the cost of land for housing development. Existing infrastructure is often overloaded by the rapid population growth in cities, with land on the outskirts of the city often entirely unserviced and unconnected to infrastructure (road, water, electricity, sewage). Additionally, many African countries have by-laws that stipulate large plot sizes and low densities, which raises the cost of infrastructure and prevents developers from pursuing economically viable business models for development. Finally, increasing land speculation contributes to rising land costs within the city and on the outskirts.

Some of the most successful models of social housing programmes are government provision of serviced land, often on the outskirts of the city. Government can acquire land for social housing specifically, such as through “land banks,” purchasing land from private or tribal owners, or distributing land currently under government ownership. In order to ensure the affordability of the housing development, the land provided must be fully serviced with bulk infrastructure, either by the municipal government or by a private developer paid for by the government. When developers are forced to build the external infrastructure it greatly increases the price of the housing developed and brings it above the affordability range of low income populations. There are successful examples of public-private-partnerships that have resulted in the low-cost provision of serviced land for affordable housing, some of which are described under the best practices section below.

Managing the cost of construction

In addition to high land costs, the cost of construction is a major impediment to the provision of low-cost housing. While the cost of construction varies significantly based on location, some of the major components that contribute to rising construction costs in many African markets include the cost of materials, taxation, import duties and availability of funding.

The two main sources of housing development in the target markets are private developers and owner-built housing. Generally, developer-led housing cannot lower the cost of construction enough to reach low-income or the lower end of middle-income populations. Therefore, the majority of low-cost housing is designed and built by the individual occupants. Development of low-cost construction technologies and materials are receiving heightened attention due to initial success by developers in some countries, including South Africa, Malaysia and India. This suggests a strong potential for applications of these technologies in other countries with the result of lowering construction costs. While government–led housing development is a third option, we strongly recommend that governments focus on creating an enabling environment, such as providing land, infrastructure and fiscal incentives, while relying on the private and non-profit sector to expand the supply of housing based on market driven approaches.

In order to manage the cost of construction for a social housing programme, there are a range of options that can mitigate social housing construction costs:

- **Developer-led housing development – low-cost construction technology and large scale:** In order to benefit from economies of scale, low-cost housing should be developed to scale in order to decrease the cost per housing unit. Large-scale development should be designed as mixed income development to avoid creating high density low-income populations and to ensure the adequate upkeep and investment in the development. In addition to mixing income levels of occupants, all housing developments should be linked with transportation, which is particularly important when built on the outskirts of urban areas. Larger scale developments can also greatly benefit from technology in reducing labour cost and improving construction quality. There are a range of low-cost housing technologies that are widely available and proven in a number of markets, including off-site pre-fabricated slabs and on-site fabrication of structures (monolithic). Best practice technology providers are operating in Malaysia, Canada, Mexico and South Africa. However, the viability of technologies must be evaluated based on local context, uptake by potential clients and material availability, which often requires initial investment to support research and the establishment of a construction supply chain. For example, off-site pre-fabricated slab development requires the development and operations of pre-fabrication manufacturing plants, an investment that is being considered in a number of the target African markets. In addition, it is important to consider the importance of job creation when importing technologies into the market. One option may be limited pre-fabrication for some components, such as floor planks, which facilitate higher densities, and stronger on-site training of construction workers to build their skills.

- **Self-built and incremental housing development:** The majority of low-income populations in each of the target markets live in self-built housing, as developer-led housing is unaffordable. Many self-built homes are built incrementally (known as incremental or progressive housing), allowing individuals to build a house in stages as financing and labour is available and spreading the cost of the housing development over 10 to 20 years. Homeowners can also mitigate the cost of labour and construction by contributing sweat equity and managing the professional fees and costs of construction, limiting the size of the home and the quality of the construction materials and finishing. However, it is important to provide construction technical assistance in addition to financing to ensure the quality of the home while maintaining cost levels.
- **Low-cost and local construction materials:** Rising cost of construction materials is a significant factor in the cost of construction in many of the target markets. There are a number of factors that contribute to rising construction costs. In many markets construction materials such as cement and steel are imported, with accompanying duties, taxes, transportation and rising fuel costs) increase the cost of materials. The government could provide fiscal incentives to waive sales taxes and import duties for materials supplying social housing or low-income housing developments, as well as provide incentives and tax exemptions on promoting alternative building materials. However, any hidden subsidies should be carefully monitored to ensure they benefit the target group. The construction market should be cautious about overreliance on imported materials, as the use of local and indigenous materials is a more sustainable strategy for lowering construction costs in the long-term. However, research must be done into the availability and viability of local construction materials and the wider social acceptance of the use of alternative building materials. Additionally, the standardization of materials and construction elements, such as windows and doors, can lower manufacturing costs across social housing developments.
- **Fiscal and regulatory incentives:** The government can play a significant role in decreasing the cost of construction by providing fiscal incentives, such as tax and import duty exemptions, and regulatory incentives to encourage social housing development.

4.2 Demand: Affordable housing finance

Availability of affordable housing finance is a limiting factor in accessibility of affordable housing for low-income populations. There are a number of common challenges in providing affordable housing finance, including the low income levels of potential borrowers, the absence of long-term funding availability in the markets, the lack of financing and support to housing microfinance institutions, insufficient collateral provision due to borrowers' inability to provide formal land ownership documentation, as well as ineffective judicial foreclosure processes. There are also a few key measures in defining housing affordability and affordable housing finance:

- **Rent:** Common international standards state that affordable rent is defined as up to one third of monthly income.
- **Mortgage:** The cost of an affordable housing unit should be no more than 50 to 60 times monthly income. The equal monthly installment (EMI) of the mortgage should be no more than one third of the monthly income, measured by the payment to income ratio (PTI).

There are key components that can increase the affordability of housing finance and expand access to low-income populations:

- **Lower monthly mortgage instalments:** There are a number of product features that can lower the required monthly instalment for the borrower, known as equal monthly instalments (EMI). Three main components are the loan-to-value (LTV), the tenor of the loan and the interest rate. In general, a lower LTV or higher down payment will lower the cost of the EMI over the term of the loan though may be a difficult requirement for low-income borrowers to meet. Typical LTV requirements range from 70% to 80%, but depend on the lending policies of the financial institution and the availability of mortgage insurance or guarantees in the market. Increasing the tenor of the loan will also decrease the monthly payment required and increase the loan affordability. High interest rates contribute significantly to financing costs for housing finance, which are generally larger loans and longer term than other types of enterprise or consumer loans.
- **Collateral and down payment requirements:** Stringent down payment requirements can preclude low-income borrowers from accessing financing. Similarly, collateral or land ownership requirements often prevent low-income borrowers who do not have formal titles or land ownership, or do not have alternative capital or assets to pledge as collateral. Inefficient judicial foreclosure processes can limit the value or risk mitigating nature of collateral requirements and add significant cost and time for the bank and borrower.
- **Availability of long-term, local currency funding:** Financial institutions in many of the target markets do not have access to long-term funding either sourced from local markets, external sources or international lending agencies. This limits their capacity to on-lend for longer terms and to increase the affordability of housing finance to low-income populations. In most of the target countries, central bank regulations do

not permit long-term mortgage lending to be funded out of deposits due to tenor mismatch risk. Due to these prudential regulations, commercial banks are forced to provide mortgages on short- to medium-tenors only due to their asset-liability positions. In the absence of a long-term yield curve, the financial markets have not been able to float long-term mortgage backed instruments of long tenors, though in select markets, short- to medium-tenor bonds have been floated. This challenge is further enhanced by the lack of availability of local currency funding, forcing financial institutions to resort to external, foreign currency denominated funds. This results in financial institutions bearing the foreign exchange risk or passing these risks and requisite costs onto the borrower. When passed on, this adds to the cost of funding for the end borrower, decreasing affordability and capacity to repay.

- **Improved financial institution assessment of capacity to repay:** One aspect that limits access to affordable housing finance is the informal nature of borrower income. Commercial banks traditionally lack the ability to evaluate and verify sources of income beyond formal salaried employment. As such entrepreneurs or self-employed often find themselves unable to qualify for mortgages from banks due to restrictive bank lending policies on verifiable income. Improving financial institutions' ability to identify and verify informal income streams would expand access to finance and affordable housing for these income segments.
- **Effective regulations:** Though the mortgage industry in many of the target markets is growing, as measured by the growth of the outstanding mortgage debt, central banks have not yet developed regulatory standards for the mortgage industry to promote prudent lending and increase access to finance. In addition, central banks and MFI regulators should consider appropriate and prudent regulations for housing microfinance as a way of expanding access to housing finance.

4.3 Enabling Environment: The role of the government

The housing finance and supply system relies heavily on the larger enabling environment and the government plays a key role in developing and promoting favourable conditions. The government stakeholders will be a key partner for Shelter Afrique in developing and implementing any social housing programme.

In terms of the supply side, there are a range of interventions that governments can enact in order to create a more positive enabling environment:

- **Provision of serviced land:** The government can greatly decrease the cost of housing development by providing serviced land at a subsidized cost. As mentioned above, all subsidies should be carefully monitored to ensure the benefits reach the end borrowers. In some cases, the cost of land is covered by the national government and the cost of infrastructure is covered by the municipal authorities.

Infrastructure provision is also a tool for directing development, decreasing sprawl and formalizing urban planning strategies.

- **Expansion of land ownership and title availability:** Land titling systems in many of the target markets are complex and do not provide sufficient land tenure security for the majority of low-income populations. There are a number of types of land ownership title, including freehold, leasehold and tribal or customary; often only certain titles are eligible for a lien. The government could work with ministries to decrease the cost and time required to access full land ownership or title for a greater portion of their populations. In addition, in countries where not all land is demarcated or titled, the government can conduct land surveys to include additional parcels of land under land titling systems to include individuals residing on this land. However, this will be a long-term process. Alternate forms of tenure can be well adapted to shorter term housing microfinance models, in order to enable access to housing finance without formal tenure.
- **Fiscal and regulatory incentives for private developers:** As mentioned above, the government can play a significant role in decreasing the cost of construction by providing fiscal incentives, such as tax and import duty exceptions and regulatory incentives, such as relaxing floor area ratios,
- **Investment in low-cost technologies, materials and research:** The adoption of low-cost technologies and materials often requires initial investment in developing the infrastructure for the technology and better understanding available materials. This investment in research should be covered by the public sector and can provide significant incentive for the private sector to adopt alternative technologies and materials in the medium and long-term.

There are a number of examples of low-cost housing development and financing led by public-private-partnerships (PPP). In many cases, the government provides serviced land at a highly subsidized cost (often as a joint project between the federal and municipal governments), the private developer builds housing of which a certain percentage is low-cost as defined by the stakeholders, and financial institutions provide housing finance.

5. REVIEW OF BEST PRACTICES AND LESSONS LEARNED

There are a number of examples of well-designed low-cost or social housing programmes, in Africa and globally. However, in addition to looking at good practices, this section reviews key lessons learned from less successful initiatives. There have been varying levels of success of public and private initiatives in addressing the low-income housing need, and many examples, particularly in Africa, highlight strategic mistakes and common pitfalls. In terms of successfully addressing the need, there are two main considerations: accessing the low-income housing market and providing solutions that are sustainable and scalable. While there are a number of initiatives that have successfully reached low-income populations, one of the main criticisms of these programmes is their lack of scale as currently designed and implemented. Other programs have been unsuccessful in ultimately targeting low-income beneficiaries, whether due to corruption or errors in project design or monitoring. It is useful to review the African experience in the context of international initiatives in order to discuss good practices as well as lessons learned.

5.1 Ongoing Initiatives and Lessons Learned – African Examples

The African Housing Fund, Shelter Afrique

The African Housing Fund (AHF) was established in 1988 by Shelter Afrique "to supplement the efforts of Shelter Afrique by assisting the poorest people in Africa to improve their shelter and condition."[1] Countries joined the fund based on an initial subscription payment, and maintained their membership with an annual payment. AHF was established as a legally separate entity from Shelter Afrique with its own capacity and was directed by a Chief Manager. There were more than 20 country members in which AHF operated. Zambia was one of the first countries to join AHF and conducted a pilot project from 1996 to 1999 which successfully developed more than 2,000 houses in five districts.[2] In 2000, due to a variety of challenges, including mismanagement and poor governance, lack of institutional structure and a poor definition of the target social housing market, the fund was liquidated.

It is important to incorporate Shelter Afrique's experience with AHF and lessons learned into a future venture into social housing. AHF's mission overlapped with some of the goals of Shelter Afrique's proposed social housing programme, though the structure and institutional framework will deviate significantly. AHF was established as a distinct fund, with separate membership and management. It will be important to understand social housing as a key component of Shelter Afrique's ongoing work to expand housing development across the African continent.

[1] Dissolution of African Housing Fund, page 2

[2] In 2005, the local AHF chapter in Zambia was registered as the Zambia Low Cost Housing Development Fund, and is currently focused on supporting housing development and other services, including enterprise training and water services. The Fund has struggled due to lack of funding and institutional capacity.

Rather than serving the poorest people in Africa – AHF's focus – Shelter Afrique's social housing programme will have a targeted and defined market and a sustainable programme design. The social housing programme will leverage key partnerships as part of Shelter Afrique's work, incorporating social housing into Shelter Afrique's broader mission and ongoing partnerships and activities.

Low-Cost Housing Initiatives in Africa

It is widely believed that there are few best practice examples of social housing initiatives in Africa. While there are examples of successful approaches, they are predominantly small-scale initiatives that are greatly limited in reach by the capacity of the institutions or the industry. Many initiatives have suffered from corruption or rising costs, and have resulted in housing developments or programs that while initially claimed to target low-income populations, eventually target middle and upper-middle income ranges. Subsidy programs that were designed to ensure a focus on low-income markets have been misdirected and often resulted in market distortions that weakened the overall housing market. Below are a range of initiatives that describe both good practices and initial successes in the context of past lessons learned and unsuccessful projects.

World Bank Housing Finance Project for Tanzania: Began in 2010, this project is still in progress. The project aims to develop the mortgage finance market to reach a larger percentage of the population through the provision of medium and long-term liquidity. There are three components: 1) Development of the mortgage market, focused on the creation of the Tanzanian Mortgage Refinance Company (TMRC), 2) Development of housing microfinance, which will include a study on the potential for a Housing Microfinance Fund to provide longer term liquidity for housing microfinance providers, and 3) Expansion of the affordable housing supply, through the development of the private developer industry. This project takes a holistic approach to developing the housing finance market, looking at both the supply and finance side.

Cities Alliance, Africa: The Cities Alliance is a global coalition of cities and development partners, including governments, committed to scaling up approaches to poverty reduction. It has grant programs to support three types of projects: City development strategies, citywide and national slum upgrading and sustainable financing strategies. Cities Alliance has projects across Sub-Saharan Africa and has worked to promote its strategic objectives by building political commitment, development a shared vision for scaling slum upgrading and city development strategies and establishing a network of cities and stakeholders to support systemic change.

Centenary Rural Development Bank, Uganda: One of the most impressive providers of housing microfinance and low-income housing finance in Uganda, and across the region, is Centenary Rural Development Bank. Their strategic priority is low income housing, and they have emerged as the top housing microfinance provider in Uganda. They have offered home improvement loans for the last 10 years and with the largest portfolio in the market serving 30,000 borrowers with UGX 48 billion (more than $201 million), have maintained a focus on low-income borrowers (average monthly income of UGX 300,000 or $125) and accept alternative collateral other than formal title. They are currently developing a mortgage product, but stated that their main challenge is access to longer term, affordable financing. They receive external financing from prominent investors, including the European Investment Bank and Triodos.

WAT Human Settlement Trust and HMF Industry Building, Tanzania: WAT - Human Settlements Trust was established in 1989 as a non profit NGO, focused on gender equality, equal rights in access to land, property ownership and inheritance. They pursue a number of activities to expand access to improved shelter and housing finance, and focus their work on mobilizing communities to form housing cooperatives. These cooperatives receive technical support in specific technical skills and construction, acquiring land and plots, and financing. The Shelter Loan Revolving Fund was started in 1998 with Rooftops Canada and has the goal to facilitate the provision of small loans for housing to low and middle income communities. WAT has emerged as one of the regional leaders in housing microfinance and in addition to its direct work, is engaged in larger housing microfinance capacity building initiatives in Tanzania and the region. Recently, a group of stakeholders formed the Housing Microfinance Working Group in Tanzania which held its first meeting in recent months with the Centre for Community Initiatives (CCI), Desjardins International Development (DID), Habitat for Humanity Tanzania (HFHT), the Presidential Trust Fund (PTF), PRIDE Tanzania, Tanzania Financial Services for Underserved Settlements (TASFUS) and WAT Human Settlements Trust.

5.2 International best practices

While there are significant efforts in developing and implementing low-cost housing programmes across Africa, many global best practices have made further progress in terms of promoting broader access to housing and building at a more sustainable scale. While all lessons learned must be adapted and vetted for relevance to the target African markets, there are key takeaways and best practices in terms of innovative partnerships, low-cost technologies and commercially viable business models. The following list is not intended to be an exhaustive review of successful low-cost housing initiatives, but to provide a selection of a variety of types of approaches and geographic locations.

Patrimonio Hoy Program, Mexico: The Patrimonio Hoy Program was started by CEMEX in 1999, one of the largest cement providers in Mexico. It targets low-income individuals who are building their own homes, providing CEMEX an avenue to branch into a new client segment. Much of the self-built homes take significantly longer and are of lower quality because of the lack of formal involvement in terms of construction professionals, construction material providers and external financing. Patrimonio Hoy addresses many of these issues by organizing borrowers into savings groups, providing loans that are disbursed as raw materials often through formal arrangements with other local building material suppliers, and provides construction technical assistance to borrowers through local CEMEX offices. Patrimonio Hoy is marketed by a team of promoters, almost entirely women, who are from the community and develop relationships between CEMEX and the communities. The programme ultimately decreases the cost of building for the borrower, ensures high quality of building and construction materials, and meets the financing needs and incremental building schedule of the borrower. In the first two years of operation, Patrimonio Hoy reached 100,000 people and by 2010 it had served more than 1.3 million people and 260,000 families.

Micasa product at Mibanco, Peru: Mibanco, a commercial bank in Peru, is focused exclusively on serving the "emerging sectors" and is one of the largest MFIs in Latin America with more than 90,000 active borrowers. In October 2000, in its search for potential new growth areas and ways to better serve its target clients, MiBanco developed an innovative housing improvement loan product known as Micasa ("my home"). It has a repayment period of up to five years, a value of up to $10,000 and an average loan size of $2,500, a repayment period of 18 months, and an interest rate slightly below the microenterprise loans. Less than 12 months after piloting and launching the new product, 3,000 clients were being served with a portfolio of $2.6 million. As of 2006, 13 percent of its $320 million portfolio was housing microfinance and 10 percent is in mortgage loans, serving 180,000 customers with $90 million in loans between 2000 and 2005. Its housing microfinance portfolio has grown rapidly and is a strategic growth area for the organization.

Commercial Developers Business Model for Low Income Housing (LIH), India: Monitor Inclusive Markets has worked closely with commercial developers in India to "make the market" or develop a business model for commercial development of low income housing. The current urban housing shortage across India is estimated at 25 million units, mainly in the economically weaker sections (defined as a monthly income of less than $110) and low-income groups (defined as a monthly income of $110 to $210). Affordable housing is defined as monthly payments of no more than 30% - 40% of monthly household income or a home price that is no more than four to five times the annual income.[3] In order to develop an effective and sustainable model that meets the demand for low-cost housing, developers need to focus on adopting low-cost materials and technologies and building to scale. Monitor has worked to support these efforts, conducting a study sponsored by the IFC on sustainable technologies in LIH and organizing conferences and working sessions to disseminate key lessons learned. There are currently 25 large-scale low-cost housing projects being developed commercially throughout India by developers focused on the LIH space, including Matheran Realty, Tata Housing, Rashmi Housing, Poddar Housing, Neptune Group and Michael and Susan Dell Foundation. Matheran Realty, for example, designed a project in Karjat, outside of Mumbai, in 2008, which was a 10,000 unit integrated township project targeting the low-income population that integrated commercial and residential property. The project was successful as Matheran cross-subsidized high profits from the commercial property to allow sales of housing at or just above costs.

[3] Housing Finance in India: an Overview, by Renu Sud Karnad, IUHF Autumn-2010

The housing finance efforts in India have been led by the Housing Finance Bank which is receiving a loan from the World Bank, intended to encourage banks to lend more down market and target lower income segments and MFIs to provide larger, longer term loans.

Khuda-ki Basti (KKB), Pakistan: The Khuda-ki Basti, or Incremental Developmental Housing Scheme, was launched in the late 1980s by Mr. Tasneem Siddiqui, then Head of the Hyderabad Development Authority (HAD). The incremental building model was first implemented in Hyderabad and has since been developed in four locations in Pakistan by SAIBAN, a non-governmental organization. KKB provides the plot of land to the borrower who then builds incrementally, using unsubsidized loans payable over 8 years and personal savings and investment, with the support of technical and construction assistance. Residential infrastructure is provided, including utilities and public transportation. In order to effectively target low income beneficiaries and avoid misdirecting of the project to middle or upper income segments, plot ownership is conditional to living on the site. SAIBAN incorporates cross-subsidies into its model, reserving 10% of the residential and commercial plots for market rate sales.

- **KKB-Hyderabad:** In 1987, the first scheme (KKB-1) was allotted 190 Acres of land in Gulshane Shahbaz, Hyderabad, which was subdivided into 3,180 plots of size 80 square yards. Later another small size scheme (KKB-2) of 100 plots was launched in Hyderabad.

- **KKB-Karachi:** The KKB-3 project was initiated by SAIBAN in1999 near Surjani Town in association with Malir Development Authority (MDA). The project was implemented in two phases. Phase-1 consisted of 60 acres and Phase-2 of 40 acres. The scheme developed 2,856 plots of 80 square yards each. Today the KKB-3 has a population of about 20,000 people. The average cost of the plot was Rs 40,000 and 25 % was paid in advance. The scheme was developed in strict compliance with prevailing laws of Town Planning, with ample provision for schools, hospitals/dispensaries, places of worship, community centers, play grounds and commercial areas. Residential infrastructure was provided at the initial stage.

- **KKB-Lahore:** The KKB-4 project in Lahore was started by SAIBAN in association with Acumen Fund of USA. At present it consists of 20 acres of land, and efforts are being made to procure more land in the adjoining area. The layout plan of KKB-4 is based on a community concept that is divided into blocks of 23 housing units each, and a park in the center of each block. In order to ensure greenery and conserve water, the scheme is equipped with water recycling facilities as well.

Finally, the KKB model has inspired a broader movement of incremental housing development in Pakistan, such as the activities of Ansaar Management Company (AMC). It is a community-based approach that follows the SAIBAN KKB model, but does this through a for-profit, low-cost approach, identifying large tracts of land in peri-urban areas of cities in Pakistan and preparing feasibility studies for prospective investors.

6. COUNTRY-LEVEL ANALYSIS AND SOCIAL HOUSING PIPELINE OPPORTUNITIES

SBI grounded its feasibility study in field research conducted in six select countries, reflecting representative regions and of Shelter Afrique's priorities. Below is a summary of our key findings from the country-level analyses, followed by analyses of four of the highest potential markets for a social housing programme pilot.

Social Housing Programme Feasibility Study select countries

East Africa: **Kenya*** and **Uganda**

Southern and Central Africa: **Zambia**, Botswana, and Malawi

West Africa: **Senegal** and Ghana

*The countries in bold were selected as high potential countries and full analyses are provided below.

6.1 Cross-country analysis, overview of types of opportunities for Shelter Afrique

While there are clear differences among the select countries' housing markets, there are common and critical challenges in promoting social housing that emerged across the markets:

Housing Supply and Development

- Availability and cost of land and infrastructure located near employment, increasing urbanization contributing to the rising cost of land and need for infrastructure; developer provision of infrastructure adds significantly to the cost of housing development[4]
- Inadequate construction supply chain, including high costs of construction materials and high costs of doing business (including costs of electricity, power, transportation); this is particularly problematic in land-locked countries where the majority of materials are imported
- Quality control of housing development, unskilled construction labour force
- Cultural resistance to high-density housing: this is associated with poor infrastructure, lack of services and maintenance
- Nascent developer industry
- Limited access to developer or project financing [5]

Housing Finance

- Low affordability levels of potential borrowers and informality of income bars borrowers from traditional bank financing
- Minimal supply of credit for low income populations

[4] In Zambia, for example, infrastructure is rarely provided by the government and developers estimated that infrastructure added 40% to the cost of a housing development.

[5] In many of the target countries, such as Senegal, this has forced many developers to freeze their social housing programs due to a lack of liquidity.

- Shortage of affordable, long-term funding due to high market risks, resulting in high cost of funds (banks funding mainly from shorter term deposits)
- Long and expensive security processes, which involves ministries, lawyers, valuations

Enabling environment

- Weak land titling and documentation
- Lack of urban planning strategy and coordination by the government
- Weak confidence in government housing and infrastructure schemes: the lack of infrastructure is not meeting existing development needs

In the below country assessments, there are a variety of delivery channels and mechanisms described and recommended for consideration in Shelter Afrique's social housing programme. (Please see appendix IV for a description of low-income housing finance delivery channels.) These range from housing microfinance providers in Kenya, to microfinance apex organizations in Uganda, to finance building societies in Zambia to private developers in Senegal. The selected delivery channel depended on key factors that determine Shelter Afrique's competitiveness in the markets, including pricing and foreign exchange risks, the potential for social housing in the markets, the level of development of the enabling environment, the housing supply infrastructure and the housing finance infrastructure.

Table 1. Summary of pipeline opportunities in select countries

Country	LC/FX	Delivery Channel/Potential Borrower	Cost of funds (in local currency)[6]	Tenor	Pipeline opportunity
Kenya	KSH	HMF provider	6% - 11%[7]	6 – 8 years	NACHU
Uganda	UGX	Private developer MF apex organization - HMF	15% - 20% 6% – 9%	3 – 5 years 5 – 10 years	Kasoli Housing developer Stromme Microfinance Ltd
Zambia	ZMK	Private developer	15 – 20%[8]	3 – 5 years	NHA

[6] The below ranges reflect blended rates according to feedback on cost of funds we were provided by a range of potential borrowers in the category of potential borrower or delivery channel identified in the table for each country.

[7] Larger financial institutions, such as Housing Finance Bank, had lower costs of funding (HFB's average cost of funding was 5.5%) but MFIs described higher costs of funding, such as NACHU's estimation of 11% interest rates from local financing sources.

[8] Shelter Afrique has lent to private developers in Zambia, including NHA, and can use this experience to estimate the cost of funds. However, Shelter Afrique should note that the above is the cost of funds in local currency rather than foreign currency.

		Finance building societies	7% - 10%[9]	7 years	Pan-African Building Society
Senegal	CFA West African Franc	Private developer	TBD	TBD	NAMORA

[9] Interest rates in Zambia are very high and most microfinance loans range from 30% to 60% in interest. The Pan-African Building Society requested an interest rate of 7 to 10% though their current cost of funding is higher than this and should be taken into consideration when Shelter Afrique prices its products.

6.2 Kenya country analysis

Kenya remains one of the largest and most viable markets for social housing in East Africa. Affordable housing remains one of the key challenges in infrastructure and basic human needs, particularly in rapidly urbanizing cities and peri-urban areas. The overall housing shortage in Kenya is conservatively estimated at 150,000 – 200,000 units in urban areas and more than 300,000 units in rural areas. Currently government and private sectors are providing only 30,000 units per year, well below the actual demand for social housing.

Target affordability and housing demand: Only 3.6% of Kenyans earn more than KES 30,000 per month (approximately $360) and nearly 90% of the population falls below a monthly income of KES 25,000 ($300). In the formal employment sector, 50% of formal employees earn less than KES 20,000 ($240) per month. The government defines the low-income segment as earning below KES 16,000 ($191) per month (2010 Kenya Housing Bill).

The low income housing market is primarily a rental market: 80% of urban Kenyans rent housing and 70% of renters are low income, mainly renting single rooms (which account for 60% of renters in Nairobi). According to a study carried out by PriceWaterhouseCoopers, a three bed housing unit costs up to KES 800,000 ($9500), with a mortgage financing of KES 640,000 ($7650) (LTV 80:20), while the EMI would be KES 9,960 ($119) (at 15% for 10 years loan), unaffordable to most of the population.

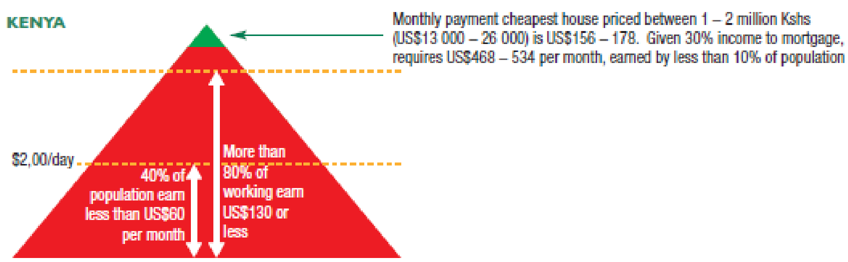

Figure 2. Affordability of typically priced homes in Kenya. *Source: Centre for Affordable Housing Finance, 2010 Yearbook Housing Finance in Africa*

Role of government and ongoing initiatives: Kenya has high social housing market potential due to the high level of government support and buy-in, and ongoing commitments to promote social housing across the public and private sectors. Shelter Afrique will work to leverage ongoing initiatives and coordinate closely with public and private sector initiatives to incorporate any social housing projects as part of a broader national effort. The role of the government could include:

- The provision of serviced land in strong market locations to developers
- Services and Infrastructure support for social housing initiatives, including specific land acquired by the government on the outskirts of Nairobi be earmarked for low-cost housing development.
- Investment in mass-scale housing technology: National Housing Corporation is engaged with foreign technology providers, including Moladi (South Africa), to set up a pre-cast factory in Kenya to supply pre-cast slabs. There is a need to evaluate various types of low-cost and alternative construction materials and technologies for their relevance in the market.
- Continue dialogue with Kenya Property Developers Association (KPDA) regarding potential tax exemptions and financial and regulatory incentives to lower the cost of construction for private developers.

Social housing definition and programme opportunity in Kenya: Kenya is a high potential market for Shelter Afrique to pilot a social housing programme. Shelter Afrique has a strong foundation for working in Kenya, partly due to its headquarters base in Nairobi and because of the strong developer industry, housing finance system and commitment of the national government. Shelter Afrique has ongoing projects in Kenya and sufficient capacity to market and monitor potential housing projects.

Parameters for Kenyan Social Housing Projects
Income: Monthly income up to KES 20,000 ($240)
Cost of housing unit: Up to KSh 1.2 million construction cost ($14,000)
Equal monthly installment: KES 6,000-8,000 ($71 - $95) (should equal no more than 33% of monthly income)
Housing unit size: Minimum size of 30 m^2

Short-term pipeline opportunity: Given that 90% of Kenyans cannot afford developer-built housing in its current form, Shelter Afrique should focus on supporting institutions that reach low-income populations through self-built and incremental building solutions. Important organizations, or key partners, in the housing microfinance field include: Jamii Bora, National Cooperative Housing Union (NACHU) and Pamoja Trust.

NACHU is a leading member of the housing microfinance field in Kenya and has 340 member housing cooperatives, representing 250,000 individual members. More than 85% of their KES 167 million portfolio is housing finance with products covering the range of housing microfinance services, including new home construction, home improvement, resettlement, infrastructure and starter units (which includes the land plot and a one-room starter unit of 20 to 30 m2). Their services target the low-income population, with average income levels ranging from KES 10,000 per month for starter unit clients to KES 15,000 for incremental building clients and average loan sizes of KES 350,000. Many borrowers are in the informal sector and currently 30% of NACHU's portfolio is backed by formal title, further indicating their focus on the lower income housing market since they accept alternative proof of the borrower's right to the land, including letters of allotment. In 2010, NACHU began offering a micro-mortgage product which provides loans of KES 1 million to KES 1.5 million over 10 years for clients with monthly income levels above KES 25,000. NACHU has developed a sustainable model, partly by covering some of its operating costs with sales of market housing development.

There is a good opportunity for Shelter Afrique to provide funding as NACHU's funding is mainly from local financial institutions and from member savings, and the organization would be interested in external funding sources, particularly with longer terms to enable the growth of their micro-mortgage portfolio. However, NACHU is currently not closely regulated (though mirrors its operations to the 2010 SACCO Act) and its PAR should be closely watched, as it was 8% at the end of 2010. NACHU has received technical assistance to set up its HMF program from Rooftops Canada since 2006.

Long-term pipeline opportunity: The government and Kenya Property Developers Association (KPDA) are considering potential for public-private-partnerships as part of their long-term dialogue. The government has recently acquired 5,000 acres of land on the outskirts of Nairobi, which could be made available in parcels for social housing development. Shelter Afrique could fund initial pilot projects on parcels of the land, with the government providing serviced land and private developers committing to low-cost housing development. The target cost per housing unit could be KES 700,000 to KES 800,000 with a sales price of close to KES 1,000,000. Construction costs per square meter in Nairobi, according to the Institute of Quality Surveyor, are approximately KES 31,000. After conversations with the Ministry of Housing and KPDA, construction costs could be decreased significantly with interventions including low-cost technology, decrease in construction material costs with fiscal concessions on VAT and import duties, and relaxations in density, floor-area-ratios and certain building codes.

6.3 Uganda country analysis

The housing shortage in urban Uganda is large, with estimates ranging from 500,000 to 1 million units needed to meet present demand. Levels of urbanization in Uganda are low but rates of urbanization growth are very high and are increasing. There is high demand for adequate housing units but the effective demand is dampened because of low affordability levels.

Target affordability and housing demand: The low-income segment is generally defined as making approximately UGX 200,000 per month ($85). Lower middle income ranges, which include civil servants, make UGX 400,000 to UGX 600,000 per month ($170 to $250). Housing finance stakeholders, including Centenary Bank and the Housing Finance Bank of Uganda, corroborated this information.

The cost of housing and land in urban Uganda is high in relation to income levels. Low-income housing ranges from the very low-income market, with housing costs of UGX 10 million to 20 million ($4,200 - $8,500), to low-income housing with a cost of UGX 40 million to 50 million ($17,000 - $21,000). In terms of the rental market, middle income rent in Uganda is between UGX 940,000 to UGX 1.1 million ($394 to $460 per month, while lower income rents are approximately UGX 230,000 ($95) per month.

Role of government and ongoing initiatives: The government ministries involved in housing are coordinated into one Ministry, which includes Lands, Housing and Urban Development. There is high level of government buy-in and support for low-cost housing initiatives, which is reflected in the range of ongoing initiatives. In combination with the IFC-funded Uganda Primary Mortgage Market Initiative, the government has supported a number of recent initiatives, including the establishment of a credit reference bureau in 2010 (based initially on traditional mortgages and therefore limited information on low-income populations), the computerization of land registry and operations, and the professionalization of professions, including the Association of Real Estate Agents (AREA). In addition, the government has led the development of a public-private-partnership model for developing low-cost housing, which includes the national and municipal government, and private land owners, developers and financers (which is further described below).

Social housing definition and programme opportunity in Uganda: Due to increasing interest and initiatives in the market focused on social housing, Shelter Afrique should consider key opportunities in Uganda. There is very high need for developer financing, and this should be the focus of an initial pilot project. While there are important housing finance providers in the low-cost housing market, Shelter Afrique's current funding terms are not competitive for financial institutions at this stage and therefore limit Shelter Afrique's short-term opportunities with these partners.

Parameters for Ugandan Social Housing Projects

Income: Monthly income up to UGX 500,000 ($210)	**Equal monthly installment:** UGX 150,000 ($63)
Cost of housing unit: Up to UGX 30 million ($18,000)	**Housing unit size:** Minimum size of 30 m^2

Short-term pipeline opportunity: Shelter Afrique should focus on developer financing, which is a key gap to fill in the low-cost housing market. While the majority of private developers target the middle and upper income housing markets, there is an exciting public-private-partnership that is designed to encourage the development of low-cost housing. The concept was developed by the Department of Housing is currently being implemented in a pilot project: the **Kasoli Housing Development**. This project, initially drafted in 2009, establishes a partnership for slum redevelopment between the central government and Kampala municipal government, the Kasoli Housing Association, DFCU Bank and UN-HABITAT. The project will develop 250 homes for low-income households, serving 1,200 people. The target beneficiaries are employed in the market as vendors, lower rank government employees or petty traders, and make approximately $270 per month. In this project, the land was owned by the government, and the land, with an estimated value of $345,000, was sold to the developers for $150,000. The central government will also provide funding for project oversight and land surveying.

The Tororo Municipality, the local authority for Kasoli village, is responsible for designing, planning and developing the infrastructure, which is mainly providing roads estimated at a cost of $150,000. UN-HABITAT's revolving loan facility will provide funding of $500,000 to be distributed through DFCU Bank, which will also provide $500,000 in funds for project and mortgage finance. The housing cost is expected to be approximately $5,500 per unit, and borrowers will receive a mortgage for 15 years at a rate of 15% (slightly lower than the standard market rate for mortgages of 16%), with a one-time fee of $250. Finally, the houses will be built by a reputable developer who will be contracted by the Kasoli Housing Association. Shelter Afrique could be involved in providing additional developer financing, supplementing financing provided by DFCU, or could provide financing to expand the scope of this project. In addition, the success of the Kasoli Housing Development will pave the way for future partnerships that could provide a pipeline for Shelter Afrique's social housing programme. However, this is significant subsidy built into this model which should be considered in terms of sustainability or replicability.

Medium- and long-term pipeline opportunities: One of the most impressive providers of housing microfinance and low-income housing finance in Uganda, and across the region, is **Centenary Rural Development Bank**. They have offered home improvement loans for the last 10 years and with the largest portfolio in the market. They target low-income borrowers (average monthly income of UGX 300,000) and accept alternative collateral other than formal title.[10] They are currently developing a mortgage product, but stated that their main challenge is access to longer term, affordable financing. They receive external financing from prominent investors, including the European Investment Bank and Triodos, and are looking for additional funding. However, Shelter Afrique's current lending terms are not competitive for Centenary and Shelter Afrique would have to adjust its pricing and product parameters before approaching financial institutions in Uganda. Other housing microfinance providers in Uganda include PRIDE, Habitat for Humanity and UGAFODE.

Stromme Microfinance Ltd is providing wholesale financing for housing microfinance providers in Uganda, Kenya and Tanzania, and is working to provide housing microfinance product prototypes and technical assistance packages. Stromme could act as an intermediary between Shelter Afrique and the microfinance institutions, mitigating the credit risk of the microfinance institutions and providing additional expertise and technical assistance to ensure the success of the housing microfinance or social housing project.

[10] This is critical in Uganda as only 20% of Ugandans have formal land title.

6.4 Zambia country analysis

Zambia faces a significant shortage of housing stock, particularly in urban areas. To date the private sector has failed to provide the scale of housing at affordable costs, resulting in the majority of the housing stock developed incrementally by owners. Recent urban housing developments have been started, but much remains to be done to find a solution for adequate housing for the majority of the population.

Target affordability and housing stock: There is little documentation or statistics on current income levels in Zambia, though affordability levels are very low, as illustrated in FinMark Trust's 2007 study. The lower and lower-middle income ranges, according to conversations with current microfinance lenders including Habitat for Humanity-Zambia and Pulse Financial Services Limited, range from ZMK 500,000 ($106) to ZMK 2 million ($424), which includes employees such as drivers, civil servants and teachers. The Zambian National Building Society defines the low-income segment as earning less than ZMK 1.5 million ($318) per month.

The Government of Zambia estimates Zambia's housing shortage at 1.5 million units, with the majority in the low-income segment. Low-cost housing should be below ZMK 55 million, with a size of 35 m^2 and 55 m^2. This is significantly below the cost estimates for developers; for example, the National Housing Authority, a parastatal entity, estimated low-cost housing as having a construction cost of ZMK 1.9 million ($402) per m^2 (which would be ZMK 66.5 million for a 35 m^2, plus an additional margin for the sales price).

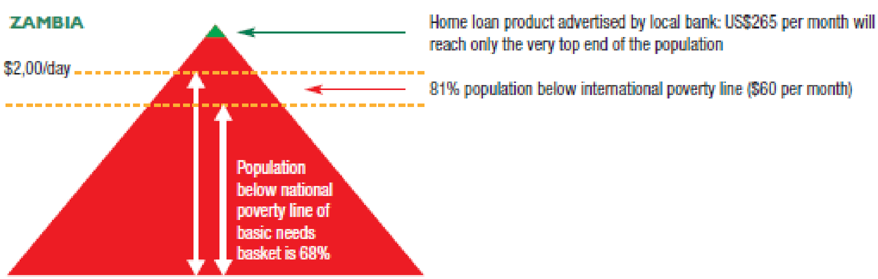

Figure 3. Affordability of typically priced homes in Zambia. *Source: Centre for Affordable Housing Finance, 2010 Yearbook Housing Finance in Africa*

Role of government and ongoing initiatives: In 1991 the Zambian government stopped the development of public sector housing and divested its housing stock as part of privatization. Currently the government is implementing the Fifth National Housing Plan, and has identified housing as a priority whereby it has committed to developing 150,000 units of housing per year. Under this scheme local Zambian authorities would provide land, the national government would provide infrastructure and public-private partnerships would help to develop and finance the housing under a possible build-transfer plan.

Social housing definition and programme opportunity in Zambia: The Zambian market is a strategic priority for Shelter Afrique, and Shelter Afrique is familiar with many of the players and is relatively well-known in the market, with a history and current presence with players on the finance and supply side. The market is less developed than markets such as Kenya or Senegal, but low-cost housing is attracting increasing attention from the public and private sectors, and there is high demand for external financing. While the short-term opportunities are less immediate than the pipeline in other countries, Zambia would be a strong candidate for a pilot in the early stages of the social housing programme, even if not within the first pilot project.

Parameters for Zambia Social Housing Projects
Income: Monthly income up to ZMK 1.5 million ($318)
Cost of housing Unit: Up to ZMK 55 million ($11,000)
Equal monthly installment: ZMK 450,000 ($95)
Housing unit size: Minimum size of 35 m^2

Short- to medium-term: The National Housing Authority is the largest housing developer in the market and has received two loans from Shelter Afrique, and is currently in discussions regarding a third loan. A social housing programme could then expand on this existing relationship. However, the main challenge will be to ensure that NHA can develop housing affordable to the low-income population targeted in the social housing programme. Its current average sales price is ZMK 400 million to ZMK 500 million, almost ten times the proposed cost of a social housing unit. NHA recognizes the potential and unmet demand in this market but would have to work with the public sector to develop an affordable housing development scheme. There are ongoing initiatives that could be part of the social housing programme. For example, NHA is preparing to enter a joint venture with private land owners in which land owners would provide the land for NHA to develop infrastructure and housing in exchange for a profit share. However, financing is a challenge and therefore, if a certain percentage of the housing developed could be in the low-income sector, this would be a strong candidate for Shelter Afrique.

On the finance side, Shelter Afrique should look for initial projects with the finance building societies, which provide the majority of housing finance to the market. Though Shelter Afrique has funded the Finance Building Society in the past, the Pan-African Building Society has focused on developing innovative products targeting the lower income population. They currently offer a range of housing finance products, including the Special Home Ownership Financing Scheme, home improvement loans and small mortgage portfolio (limited by their insufficient long-term funding).

Medium- to long-term: The housing microfinance field is rapidly developing and attracting attention from a range of players. While it is a nascent industry with Habitat for Humanity Zambia as the only organization with significant experience offering housing microfinance, recent entrants to the field include Pulse Financial Services Limited and others have expressed serious interest in developing housing microfinance products, including Cetzam and FINCA. However, the microfinance industry in Zambia has very high annual interest rates (above 60%) which will be particularly problematic for housing microfinance loans which are larger loans with longer tenors. Though the housing microfinance field is not ready for significant investment, it has high potential for future consideration in Shelter Afrique's social housing programme.

6.5 Senegal country analysis

The shortage of affordable housing remains a significant challenge in Senegal. Combined with high cost of land and housing, low-income households access to ownership is limited by rapid and high levels of urbanization (45% of the population is urban), unemployment and land scarcity. Materials, access to affordable housing finance and high construction costs also limit incremental building and owner housing development. The recent economic downturn heavily affected the housing market in Senegal, with a recent African Development Bank report stated that up to 30% of EUR 1 billion sent to Senegal is allocated to the housing sector.

Target affordability and housing stock: There is not a standard definition of social housing in Senegal, with estimates ranging from CFA 7 million ($14,000) to CFA 25 million ($50,000) according to developers. The government has defined social housing as a house costing less than CFA 20 million ($40,000), though this seems to be at the higher end of the market definition of social housing or low-cost housing. However, according to income levels of the low-income segment, the target home price for social housing is from CFA 6 million to CFA 10 million (USD $13,000 to $22,000). The current estimate of the housing shortage is 200,000 units, with an additional 20,000 units each year (Government of Senegal 2008).

Role of government and ongoing initiatives: The Ministry of Housing is in charge of the housing sector and began an initiative in 2008 to establish a legal and regulatory environment for the housing sector, focusing on the market for rental housing. To date, no visible outcome has resulted from such an initiative. One significant public-sector initiative in social housing includes the SNHLM (Société Nationale d'Habitat à Loyers Modérés), which works with the Government of Senegal to provide social housing for low-income households, particularly those hit by the flooding in 2005. SNHLM has acquired 3,000 land plots for the construction of social houses under the government-sponsored "Plan Jaaxaay" (2005 government programme for the re-housing of populations affected by floods in Dakar slums). Although the Poverty Reduction Strategy Paper (PRSP) for Senegal has a social housing component, support from donors and international agencies has to date been insufficient in creating long term solutions for housing.

Fiscal incentives are in place for promoting social housing. Developers of social housing programs and housing cooperatives benefit from tax exonerations with a rate of 5% for private developers and 1% for cooperatives, while the standard charge rate is 15%. Similarly, they pay a VAT rate of 10% (while the standard VAT rate applicable is 20%).

Social housing definition and programme opportunity in Senegal: Senegal has high potential for social housing and Shelter Afrique is familiar with the market and key players based on past projects in the country. Senegal has a number of ongoing initiatives in the social housing sector which highlight key players for future financing, and strong support from the government which has initiated important fiscal and regulatory incentives.

Parameters for Senegal Social Housing Projects	
Income: Monthly income up to CFA 170,000 $380)	**Equal monthly installment:** CFA 50,000 ($112)
Cost of housing Unit: Up to CFA 10 million ($22,000)	**Housing unit size:** Minimum size of 40 m^2

Short-term pipeline opportunity: Private developers have established a business model for developing social housing, partly supported by government fiscal incentives. Shelter Afrique should explore potential funding opportunities to expand on existing and future projects:

- NAMORA is a private developer that targets the Senegalese Diaspora and Senegalese workers who are members of housing cooperatives with a regular income. NAMORA has recently developed a social housing program for a cooperative of teachers, with homes sold at CFA 9.5 million (USD $19,000). The project was in Tivaoune Peul, in the Dakar region. The project was considered a success and received full support from the government in the form of provision of 6 hectares of land.

- SAGEF is another private developer specialized in the supply of social housing, with prices ranging from CFA 7 million (USD $14,000) to CFA 25 million (USD $50,000). One project, the "Cité des Enseignants" (Teachers' City) is in Kounoune, the Dakar region, and developed 240 social houses with financing from BHS. A second project, "Cité Hibiscus" was developed in Mbao, the Dakar region, and consisted of 50 homes.

In terms of housing finance, there is a major institution focused on supplying social housing finance: BHS (*Banque de l'Habitat du Senegal),* a commercial bank created in 1979 to replace CCCE (*Caisse Centrale de Coopération Economique*). Many Senegalese commercial banks offer housing finance products; however, BHS is the only one specialized in the social housing segment.

6.6 Future country opportunities

In addition to the high potential countries described above – Kenya, Uganda, Zambia and Senegal – the SBI study included Botswana, Malawi and Ghana.

Malawi has high demand for housing and housing finance, with a housing shortage estimated at 21,000 units per year, the majority of which is in the low-income sector The government clearly recognizes the need to expand the supply of low-cost housing and to expand opportunities for housing finance. The Ministry of Housing funds a limited number of initiatives, including the Public Service Home Ownership Scheme, and has successfully worked to partner with non-governmental organizations to leverage key players targeting the low-income market. The government has a particularly strong relationship with CCODE and the Malawi Homeless People's Federation under which the government provides land in exchange for CCODE's initiatives in low-cost, incremental housing development. The government is receptive to additional efforts to expand access to housing to lower income Malawians, and current policy initiatives are under discussion to strengthen the developer industry, including a potential sectional title policy, and to expand access to housing and finance, including a policy to survey and register all land in Malawi which would greatly increase access to finance for Malawians.The developer sector is greatly restricted by limited access to finance, with few local sources providing any type of construction or project finance, and high cost of construction materials which is mostly imported. Housing finance for lower income is provided by a range of players but on a limited scale. Savings and credit organizations provide loans for their members but have struggled to provide loans that are large enough to meet housing finance demands. Housing microfinance for incremental building is offered by non-governmental organizations including CCODE and Habitat for Humanity Zambia, with Select Financial Services Ltd recently entering the market. Throughout the financial sector, interest rates are prohibitively high, particularly problematic for the larger and longer housing finance loans.Malawi should be considered for the social housing programme, but not in the pilot stage. There is strong recognition of Shelter Afrique among the developer industry due to recent marketing efforts, but Shelter Afrique will need to expand its marketing and relationship building efforts to overcome reputational risks in the market.

Botswana, with a small population and one of the lowest population densities in the world, has a small market. Botswana benefits from a relatively established developer market with professional companies and local access to finance, supplemented by the parastatal Botswana Housing Corporation. There is a strong financial sector with housing finance provided mainly by commercial banks and the building society. There are a few microfinance providers in the market who provide loans used for housing finance, though none offer housing-specific products, other than Habitat for Humanity Botswana, and all charge high interest rates in comparison to the commercial banks. There is good access to local finance for housing development and mortgage loans, limiting Shelter Afrique's role or competitiveness in the market. The cost of construction is very high, due to the cost of utilities and inputs, such as electricity and water, and the high cost of importing all construction materials. Cost of land servicing adds significantly to the cost of housing development and there is a great need for investment in research for alternative, low-cost construction technology and local building materials.

Ghana has strong demand for housing and housing finance, with estimates of Ghana's housing shortage at a minimum of 500,000 units and up to 1,000,000 housing units. 130,000 housing units are needed to match current annual demand and approximately 47,000 housing units were built by the public and private sector in 2009. Challenges to developing social housing include a lack of adequate public infrastructure in and around housing developments, including water, electricity and roads. Banks and mortgage finance companies require titled land collateral for mortgages, which is unavailable for lower income homebuyers due to weak land tenure and documentation. In addition, most housing construction materials are imported, with shocks in terms of price, transport, oil costs and availability for both developers and self-built homeowners. Most housing developers are not using alternative building methods, prefabrication and alternative materials due to the risk of untested methods, models and market demand risk. In 2007 the International Finance Corporation (IFC) provided support to Ecobank, Merchant Bank, Fidelity Bank and Ghana Home Loans as private sector entities to encourage mortgage financing for social housing, but to date only Ghana Home Loans has drawn down on the facility and their portfolio remains small in the social housing sector. The Government is in the process of drafting a social housing policy as well as engaging a South Korean firm to develop a multi-billion dollar program to provide affordable housing to state employees, the military and police as a pilot activity. The Ghana Real Estate Developers Association is the only organized private sector housing association, with 184 members (30-40 active) producing housing from ranges from $6,000 to more than $100,000 (average cost is $45-$80,000). Developers in general face severe funding and capital constraints, with most operating with self-financing and outside investment. Banks offer developers loans, but are of short duration (2 years average, but up to 5 years, with 6 months grace period) and have high interest rates of 15% for US Dollars and up to 32% for Ghana Cedis. The inflation rate has stabilized, but developer financing and mortgages for lower income and social housing programs remains limited. With Ghana on track to become a member country for Shelter Afrique in 2011, further review of the social housing opportunities should be revisited for 2012 and beyond. There exist potential partners for Shelter Afrique in medium to larger scale developers, smaller scale member of GREDA that require credit facilities, as well as potential finance companies such as Ghana Home Loans that could be incented develop stronger portfolios into this segment.

7. CONCLUSIONS AND RECOMMENDATIONS

Shelter Afrique is positioned to develop an innovative social housing programme that supports the broader housing market in each target market. Due to Shelter Afrique's existing involvement in middle and upper income housing supply and finance, the social housing programme will be incorporated into a larger initiative that will strengthen each country's housing market. The programme is not focused, therefore, on building housing for one segment of the population, but on mobilizing finance and strengthening housing markets by addressing critical needs in the social housing segment.

7.1 Strategic goals and key features of Shelter Afrique's Social Housing Programme

Definition and Mission

The social housing programme should be considered as part of Shelter Afrique's ongoing work and as a key element contributing to the organization's broader mission. The social housing programme should be defined on a programme-wide basis with country-specific eligibility criteria that focuses each project on expanding access to housing and housing finance for lower-income populations. The definition proposed below is intentionally broad in order to include a range of stakeholders and project designs in order to benefit the greatest number of low-income households under a social housing programme. This definition should be refined as needed by Shelter Afrique during the strategy development and pilot phase.

> **Proposed definition of the social housing programme**:
> The Social Housing Programme is an integral part of Shelter Afrique's mission to facilitate the achievement of the goal of housing for all across the African continent. To be considered as part of the social housing programme, projects can be in any of Shelter Afrique's member countries and can be implemented by private or non-profit organizations. The project must have a clear focus on expanding the supply or financing of housing for low-income populations, as locally defined, and can include home ownership or rental. For housing development, a minimum of 30% of housing units must be accessible to low-income home owners or renters. For housing finance, the monthly instalments cannot exceed 30 to 40% of the borrower's income.

Country-specific criteria should be developed at the strategy and piloting phase, based on conclusions on pricing and demand discussed in the country-level analysis above. Country-specific criteria should incorporate local definitions of income level and housing cost as much as possible to establish a means for verifying eligibility.

Market Strategy and Evaluation of Enabling Environment

Evaluation of Enabling Environment

There is high demand and need for low-cost housing in every market in Africa, and therefore, Shelter Afrique will need to develop criteria for evaluating markets based on likelihood of project success. In order to evaluate the readiness of countries for a social housing programme, there are a couple of key elements that Shelter Afrique should consider when beginning a social housing project in these markets. Shelter Afrique conducts risk evaluations of each country of operations, and the social housing programme should fall within this risk evaluation process.

- Shelter Afrique market strategy – How does this support or supplement Shelter Afrique's ongoing work in the country or in the region? Is Shelter Afrique currently working in this market (market knowledge and capacity considerations)?
- Foreign exchange risk -- Is Shelter Afrique able to hedge the foreign exchange risk? Are donors/lenders willing to absorb the foreign exchange risk by adding basis points to their lending rates?
- Government support and ongoing initiatives – The level of government support and buy-in is critically important for Shelter Afrique's activities in social housing. In addition, Shelter Afrique must confirm the commitment of the government, which can be evaluated by existing definitions of low-cost or affordable housing, housing legislation and willingness to invest in related services, such as land provision or infrastructure development. Prior social housing activity and partnership with such organizations as the Cities Alliance are a positive indication of commitment.
- Legal and regulatory environment – What is the land titling system and what is the level of land security? How effective is the legal and judicial system for housing related laws, including judicial foreclosure? How effective is the lien mechanism? What is the level of appraisal or property brokers associations? What types of building codes exist and how are they enforced?
- Housing finance system – What housing finance products existing in the market? What is the level of the mortgage market development (which can be evaluated based on the levels of mortgage as a percentage of GDP)? What long-term funding exists in the market, either locally or internationally sourced? What is the level of development of the microfinance and housing microfinance sectors?
- Housing development and housing stock – What is the level of sophistication of the private developer industry and what are sources of developer financing? What construction materials are available locally and from where are materials imported? What is the level of development of urban infrastructure and who is responsible for developing new infrastructure when needed?

Based on these key factors, SBI has developed a sample market evaluation scorecard for Shelter Afrique to review and adapt as necessary. Please see appendix III for a scorecard adapted for Shelter Afrique's market entry strategy for the social housing programme.

Government Participation

As mentioned above, government support is a key driver of national social housing programmes in which Shelter Afrique could participate, generally led by the Ministry of Land, Housing and Infrastructure. Local ministries are often important in terms of infrastructure development and land allocation. There are a number of ways in which governments can be proactive in creating an enabling environment, including:

- Procurement and provision of subsidized land
- Provision or funding of external infrastructure (up to project site)
- Provide fiscal support, including concessions on import duties and taxes (sales/VAT) on construction materials to be used in a social housing project; income tax concessions for developers allocating a specified percentage of housing to low-cost housing
- Provide regulatory incentives such as relaxing density regulations, floor area ratios (FAR), and building codes to enable developers to create economically viable business models for low-cost housing developments
- Enable and motivate long-term funding providers, such as pension funds, provident funds and insurance companies to invest in financing instruments to raise long-term funds from the open market
- Define key terms of social housing, affordable housing and low-income ranges
- Establish public-private-partnerships that engage key stakeholders; engage in dialogue and convene industry workshops with developers and financers
- Invest in industry-level research on low-cost or alternative technologies and construction materials to lower the cost of construction
- Central Banks can facilitate access of commercial banks to long-term funding in order to encourage lending for lower income populations, such as enabling long-term liquidity facility institutions, the floatation of mortgage bonds and mortgage-backed securities. Central Banks could further promote lending to the social housing segment by directives such as directed credit policies.

Marketing and Awareness

As part of its overarching market entry strategy, Shelter Afrique should consider expanding its marketing activities in targeted countries to increase market awareness. SBI found varying levels of awareness of Shelter Afrique's activities in different markets and by different stakeholders. In order to successfully implement, monitor and expand on a social housing programme, Shelter Afrique will need to invest in marketing and awareness activities in order to build trust and support, and generate a robust pipeline. This could include partnering with other key donors or stakeholders in the African low-cost housing market, establishing local representatives in key regional markets or holding regional events. While Shelter Afrique has organized local events in the past, including a recent developer conference in Malawi, it should consider expanding the target of these events to include financial institutions, microfinance institutions and apex organizations and government stakeholders. In order to expand its physical presence in its member countries, the program may require specific country representatives who could be responsible for marketing and business development, preliminary due diligence and monitoring support.

In addition, many stakeholders who were interviewed during the field research expressed interest in viewing the findings of this feasibility study and selections of the document could be used to develop an initial marketing tool to generate commitment and buy-in from potential partners and stakeholders.

Engagement with Industry-wide Initiatives

The social housing programme provides Shelter Afrique with an opportunity to engage institutions and initiatives on the industry-wide level. Key players in the social housing sector include a new range of potential partners for Shelter Afrique, including microfinance institutions, non-profit developers, and advocacy organizations. Shelter Afrique's involvement with the broader social housing industry stakeholders will be mutually beneficial. As mentioned above, industry-wide initiatives will provide a key venue for Shelter Afrique's marketing and awareness efforts and will expose Shelter Afrique to important players and critical challenges in the field. In addition, this will provide Shelter Afrique with additional leverage in policy and government discussions, working with other institutions who are advocating for similar agendas and initiatives.

Potential Delivery Channels and Pipeline Development

Borrower Profile and Delivery Channel

The social housing programme will expand the type of borrowers in Shelter Afrique's portfolio. In order to focus on the low-income market, Shelter Afrique will have to look beyond its current private and relatively large scale developer borrowers. A summary of the types of delivery channels for low-income housing finance is in appendix IV. The following profiles are of stakeholders in the housing finance and supply sides that will be the most common delivery channels for Shelter Afrique's social housing programme:

- **Housing microfinance providers**: Financial institutions which provide loans for housing-specific uses, mainly for home improvement, construction or expansion, generally through incremental, self-built models. These organizations can be specialized housing microfinance providers, such as Select Africa (Malawi), NACHU (Kenya) or Habitat for Humanity (regional), microfinance institutions that offer housing-specific loans, such as Pulse Financial Services (Zambia), or housing finance providers with a product targeting low-income earners, such as finance building societies. Housing microfinance provides an innovative solution which prioritizes matching the affordability of the product with the borrower and that addresses both the supply and demand side of low-cost, affordable housing.

- **Microfinance apex institutions**: In order to reach smaller institutions and mitigate some of the risk in lending to microfinance institutions, which are unfamiliar to Shelter Afrique, a microfinance apex could act as an intermediary between Shelter Afrique and the housing microfinance provider. One example is Stromme Microfinance Ltd East Africa which has established a housing microfinance programme.

- **Commercial banks**: Shelter Afrique has current clients in the commercial banking industry, but banks mainly provide mortgage finance and developer finance targeting upper and upper-middle income populations. Mortgages are generally available only to the very top percentage of the population and commercial banks are rarely willing to develop products that are accessible to the lower income. Some commercial banks provide home improvement loans, but these are often targeting upper income homes and borrowers. However, it may be possible to include commercial banks as the financing provider in a public-private-partnership or as the on-lender to microfinance institutions.

- **Commercial developers**: While there are currently very few private developers that produce housing for the low-income segment, there is wide understanding among developers of the large opportunity and therefore an openness to collaborate in developing a business model. Access to funding is particularly limiting for smaller commercial developers, often small and medium enterprises, and these types of businesses may be most open to receiving funding to develop social housing projects. In markets with more advanced developer industries, such as Kenya, associations are established and are actively working with the government and private banks to pursue low-cost alternatives. However, there are activities that must be pursued initially in order to engage developers in the low-cost housing industry, including investment into research of low-cost technology and materials, fiscal and regulatory incentives and concessions, and industry-wide standardization.

Pipeline Development

There are a number of approaches which Shelter Afrique could pursue in order to build a pipeline for social housing. However, SBI would recommend in identifying key partners with demonstrated track record and capacity who are actively engaged in the social housing realm in order to identify high-potential, low-risk opportunities from the outset. Partnering with other international organizations and donors would give Shelter Afrique additional exposure to social housing projects while sharing some of the pipeline development costs and risks involved in these projects. In addition, partnerships with other service providers can increase the project's likelihood for success.

Products and Terms

To enter the social housing market, Shelter Afrique needs to adapt its product offerings to meet the needs of clients who are offering social housing projects. The terms (including pricing, currency denomination, tenor and disbursement schedule) should be determined by the feasibility of the project, risk profile, and local markets, but should be adapted as much as possible to allow for effective social housing projects. Below is an overview of key social housing products that could be offered:

Table 1. Product descriptions

Terms	Credit line – low-income mortgage financing	Credit line – housing microfinance[11]	Developer financing – debt
Tenor	Long term (20 – 25 years, or as directed by borrower)	Medium term (5 – 7 years, or as directed by borrower)	Short term (2 – 4 years)
Delivery channel	Commercial bank Specialized housing finance institution Savings and Credit Cooperatives	Specialized housing finance institution Microfinance institution Housing microfinance institution	Commercial developers Non-profit developers
End borrower profile and loan uses	Low-income home owners	Incremental building Home improvement Land purchase	Commercial social housing development
Security required	Based on existing Shelter Afrique policy	Structure based on case by case basis, ensure to be pari passu with other senior lenders in terms of pledged assets or other security	Based on existing Shelter Afrique policy
Technical assistance required	TA focused on identifying and understanding the low-income market and product terms	TA focused on building institutional capacity to offer larger, longer term loans	TA focused on property management for low-income tenants

*Pricing and currency denomination of loan will be determined based on local market conditions. Loan size will be determined by borrower risk profile and loan use.

Country-specific considerations for products, including pricing, are discussed in the country-level analysis. While developing products, Shelter Afrique should consider the following key concerns that are relevant across the member countries:

- *Tailored products to local markets:* Shelter Afrique currently has similar products for all its markets of operations. In order to provide funding that is tailored to social housing projects, Shelter Afrique will have

[11] On a case by case basis, could consider sub-debt products for microfinance institutions

to tailor products, in terms of tenor, pricing and key product terms, to local markets and partners.[12] Shelter Afrique's current pricing (10% to 12% in foreign currency loans) is only competitive in markets with high interest rates and little to no developer financing. However, to fund social housing projects, Shelter Afrique will have to adjust its pricing and product terms to accommodate the range of partners and institutions that would fit within the framework of a social housing program.

- *Pricing* will be a key determinant in the competitiveness of Shelter Afrique's products in each market. In a few of the select countries, such as Zambia and Malawi, the financial markets operate at very high interest rates, making Shelter Afrique's current product pricing competitive in the market. However, in more sophisticated markets, such as Kenya, interest rates will be a challenge for Shelter Afrique's current product pricing in the social housing market.
- *Local currency loans:* In a number of markets, foreign currency loans are unrealistic and expensive and decrease Shelter Afrique's competitiveness in the market. Developers will often pass exchange rate risk onto the end borrowers, which is unacceptable for low-income borrowers. As discussed below, Shelter Afrique should consider ways to mitigate the foreign exchange risk rather than passing the risk onto the borrower, which will damage their ability to lend for social housing programmes. Preventing this will entail managing loans in local currency by using a number of methods to reduce the risk associated with foreign exchange. These include hedging, the use of back-to-back facilities (when necessary), and diversification using risk limits. Given the high exposure of the fund to local currencies, risk should be monitored frequently, with the possibility of hedging existing exposures on the fund if required. Shelter Afrique and its lenders/donors would, however, need to have a more detailed study on FX hedging options and mechanisms.
- *Long-term funding:* In many markets, long-term funding is a major limitation in the provision of housing finance. There is high demand for longer tenors, from 20 to 25 years for mortgage loans and up to 7 years for housing microfinance, which Shelter Afrique should consider in developing competitive products. Additional developer financing could be provided that extends beyond the normal bank tenors to allow for developing rental properties, while allowing for alternative collateral and guarantee mechanisms that fit into Shelter Afrique's overall risk management framework.
- *TA and capacity building:* When lending to MFIs and organizations who have not offered social housing products previously, Shelter Afrique should incorporate a technical assistance component to their funding. This will be an important risk mitigant for Shelter Afrique to ensure the success of the project and

[12] In a number of the select countries, there is a large Muslim population which may demand sharia-compatible products for developer financing and housing finance.

will add significant capacity to the institution to pursue social housing more broadly, beyond Shelter Afrique's loan. For microfinance institutions offering housing microfinance, technical assistance will focus on broader institutional capacity building efforts to help the institution offer larger, longer term loans. For larger financial institutions, such as commercial banks, technical assistance will focus on refining products to meet the target market need and better understanding the low-income market, which may be a new client type for the financial institution.

- *Credit enhancement mechanisms* may provide Shelter Afrique additional comfort while entering the social housing market and lending to new borrowers. This could include government guarantee schemes or international organizations, such as Homeless International, USAID Development Credit Authority or Thembani International Guarantee Fund in South Africa (founded by Shared Interest in the United States).

7.2 Social Housing Programme Implications on Shelter Afrique's Policies and Operations

The social housing programme will have an impact on Shelter Afrique's operations and Shelter Afrique will have to develop the institutional capacity, including knowledgeable staff, policies, procedures and processes to implement a social housing programme successfully. SBI fully acknowledges the comprehensive policies and procedures which Shelter Afrique follows for its current activities, and therefore the below recommendations focus on what adaptations to existing frameworks and operations would be needed in order to effectively implement a social housing programme.

Funding Requirements

Shelter Afrique has a sophisticated treasury department and function that should incorporate any social housing programme or funding into its current operations. The following recommendations are focused only on treasury and funding items that directly relate to the social housing programme:

- *Concessionary funding and pricing:* In order to meet the affordability requirements for social housing products and remain competitive as a wholesale lender, Shelter Afrique should seek concessionary funding from interested donors. Pricing will be critically important in allowing borrowers to effectively design and implement social housing projects, which is addressed in the country-level analyses. Shelter Afrique's products should be offered at market rates, even if Shelter Afrique is receiving concessionary funding, but lower pricing will allow Shelter Afrique to be more active and address the market needs of the social housing space. A cost of funding of 12% to 14% will not allow for adequate profit margins for financial institutions and developers seeking to either on-lend for housing loans or develop social housing. Therefore if Shelter Afrique is able to source funding at interest rates of 4% to 5% this would allow for more competitive product. Shelter Afrique will then need to further analyse its pricing to ensure sufficient operational and profit margins. Again, this is by no means to advocate for below-market pricing to the end borrower, but given the nature of housing products and affordability issues, and Shelter Afrique's role in the market as a wholesale lender, their cost of funds will ultimately need to come down to effectively reach the low income housing market segment.

- *Foreign exchange risk:* Foreign exchange risk is a concern throughout Shelter Afrique's portfolio, and again will be particularly important for social housing programmes in which end-borrowers cannot absorb the foreign exchange risk. Shelter Afrique's current policy passes on the foreign exchange risk to the borrower or developer which adds significantly to the cost of funds, and would make funding for social housing projects uncompetitive. Shelter Afrique is currently in conversations with TCX, and in addition, SBI would recommend exploring a potential relationship with MFX, which traditionally works with MFIs or microfinance investment funds. We suggest exploring the possibility of earmarking the funding specifically for social housing, which could possibly enable participation in MFX, thereby bringing the membership price into more affordable ranges. Shelter Afrique could also focus its social housing programme initially on countries with currencies that are easier to hedge, such as the Shilling and the West African CFA Franc. Other possibilities are to structure a special purpose local currency fund with international donors who in turn hedge their participations and bear the currency risk. We are aware of discussions of structuring guarantees for local banks to reach low income housing markets. This is something that could be explored by Shelter Afrique once some of these mechanisms have been launched. Local currency funding is critical for achieving affordability in markets where hedging is not an option and until this is resolved we recommend Shelter Afrique limits its activities to those countries where hedging is possible.
- *Asset and Liability Management:* Shelter Afrique should continue to weigh the ALM considerations for all social housing projects, with particular attention to the varying tenors and terms of social housing loan products.

<u>Institutional Framework and Internal Capacity</u>

Shelter Afrique should consider different options for developing an institutional framework to implement a social housing programme. This is a choice that Shelter Afrique will have to make by evaluating its internal commitment and capacity, but below we have outlined three distinct options and key considerations. Each of these options entails appropriate staffing decisions, operational adjustments to policies and procedures to adapt them for social housing, and training of staff involved in the lending process.

- ***Option 1: Dedicated unit staff**:* Dedicating staff or a unit within Shelter Afrique to the social housing programme will allow Shelter Afrique to distinguish social housing as a separate product with tailored borrower assessments, policies and procedures. In contrast to establishing a separate facility, it will embed the social housing programme within Shelter Afrique's current institutional framework, which ensures that the social housing programme maintains alignment with Shelter Afrique's broader strategy and business goals. This will include staff with a specific focus on social housing. This can be done in a separate department or unit that includes staff familiar with social h*ousing products, partners and po*tential borrowers. The staff with this sectoral knowledge will need to be recruited and additional training for existing staff and supporting departments will need to be developed and delivered.

- ***Option 2: Integrating social housing into current product offerings and structures****:* Incorporating the social housing programme within current product lines and staffing configurations will ensure integration of the social housing programme within Shelter Afrique's organization and mission, but has the risk of assigning staff who are not familiar with the different borrower profiles and delivery channels or social housing products and projects in day to day activities. It may be possible for Shelter Afrique to identify and establish initial pilot projects under this organizational structure, but before any roll out of the social housing programme, and in order for the programme to reach scale, SBI would recommend nominating dedicated staff with specific knowledge of social housing projects and products and providing additional training to them in social housing market and practices.
- ***Option 3: Establish a stand-alone social housing programme****:* Establishing a social housing programme will require that Shelter Afrique develop appropriate lending policies, due diligence criteria and risk management and monitoring procedures for these types of loans. Establishing this as a separate *facility* within the Shelter Afrique structure could have a number of advantages, including ensuring dedicated staff is focused on social housing products and allowing Shelter Afrique to easily separate funding on a country by country or regional level for the social housing programme from their other activities. Moreover, this type of facility structure could allow Shelter Afrique to carve out dedicated funding for social housing activities from committed international funders and provide an opportunity to negotiate more favourable long-term pricing from funders, such as eligibility under MFX. However, the institutional framework will have to be well-considered to avoid any of the challenges faced by the African Housing Fund, which also acted as a separate facility from Shelter Afrique. As with the other options, this will require investment in terms of staff training, adaptation to operational platforms and processes, and preparatory activities in order to establish effective social housing lending activities.

For the pilot stage, we would recommend that Shelter Afrique dedicate staff or a unit to the social housing programme, as illustrated in the below figure. Once the pilot has performed well and Shelter Afrique is confident in the social housing portfolio, Shelter Afrique could expand this organizational structure to include additional staff or more independent features based on the future growth strategy for the social housing programme.

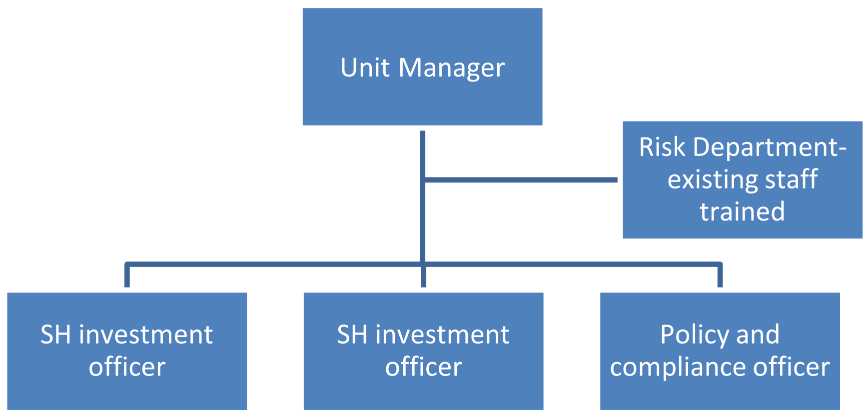

Figure 4. Proposed social housing programme unit

At the pilot stage, SBI would recommend a unit headed by a unit manager, who would act the social housing champion for Shelter Afrique. This position would be dedicated to the social housing programme and would be involved in overseeing the portfolio growth and quality control. The unit manager could also lead industry-wide initiatives and relationship building with broader industry stakeholders. One to two dedicated investment officers would report to the unit manager and would be responsible for borrower assessment and due diligence, loan disbursal, monitoring and repayment. While the Policy and Compliance Unit is currently vacant at Shelter Afrique, this will be an important function for social housing projects and we recommend hiring a policy and compliance officer who can ensure the social housing eligibility of projects during the life of the project development and implementation. Shelter Afrique has a strong risk management unit and in order to ensure consistency throughout the organization, existing Risk Management staff should be trained on policies and procedures for social housing projects.

Marketing

Shelter Afrique will need to refocus on marketing and building awareness for the social housing programme and products across member countries and new areas of operation, including overcoming current market perceptions of social housing viability. This could include regional representation for business development and relationship building, regional events which promote knowledge of social housing and low-cost building techniques and initiatives, partnering with ongoing initiatives, and a concerted effort on the part of Shelter Afrique to engage with a wider range of stakeholders and institutions who would be potential borrowers for the social housing programme. These activities will be important for pipeline development for the social housing programme and building Shelter Afrique's reputation in the low-cost housing sphere. As mentioned above, marketing efforts should include existing industry-wide initiatives and stakeholders and Shelter Afrique should be proactive in learning from, and building the capacity of, the broader social housing industry.

Policies and Procedures

In order to effectively develop and judiciously implement a social housing programme, Shelter Afrique will need to tailor aspects of existing policies and procedures to the operational requirements of social housing. Below are areas of the policies and procedures that will require adaptation for a social housing programme.

Borrower Assessment and Due Diligence Procedures

The profile of the potential borrowers in the social housing programme will differ significantly from Shelter Afrique's current borrowers, and Shelter Afrique will need to adjust policies to incorporate due diligence methodologies of microfinance institutions and financial institutions focused on lower-income populations. In addition, due diligence of a development projects will have to assess the focus on social housing as well as the feasibility of the overall project with regard to return and investment parameters. This can include a percentage of the land or housing units that must be below a certain cost per square meter or below a certain sales price. Due diligence of financial products may include assessing the end-borrower target market, which can be partially assessed by product features that allow for lending to lower income borrowers, such as relaxed collateral, down payment and titling requirements, longer tenors to ensure affordability, and cash flow analysis that includes informal or self-employed income.

Lending Policies – Portfolio Management

The social housing programme should follow best practice portfolio management policies and should have a set of policies particular to the social housing portfolio. SBI would recommend instituting social housing portfolio and investment criteria to account for the specific profile of social housing borrowers, including some of the following elements that will be relevant for MFI investments:

- Portfolio diversity – country limit: No more than 20% of the social housing portfolio should be committed to one country
- Portfolio diversity – borrower limit: No more than 10% of the social housing portfolio should be committed to one borrower
- Single borrower liability limit: A credit line or loan may not exceed 25% percentage of total liabilities of the borrowing MFI
- Financial sustainability: The borrowing institution should be financially sustainable and demonstrate a positive trend at the time of investment
- Portfolio at Risk >30 days: MFIs that have lower PAR 30 than the industry or national average (NAR) would be considered better credit risks

- Microfinance Information Exchange (MIX) transparency rating: This indicator is used as a proxy for an organization's transparency index
- Leverage: Regulated institutions' leverage may not exceed the regulatory limits or 10 times, whichever is lower. For unregulated institutions, a leverage of 3 may be considered optimum

The overall portfolio management functions for social housing should be clearly delineated in advance and incorporated into existing operations and credit functions, manuals, training and management roles and responsibilities

Lending Policies – Loan Closing and Disbursal

Shelter Afrique has well-established risk management criteria for loan closing and disbursal. While these can be used as a foundation for lending policies, Shelter Afrique will need to adapt documentation and loan closing criteria to social housing borrowers. This should focus on boosting internal controls to ensure that the borrower has met conditions precedent for the loan. This will be particularly important for riskier borrower profiles, such as microfinance institutions, non-bank financial institutions and end developers engaged in social housing activities.

Lending Policies - Monitoring and Surveillance

Shelter Afrique is experienced in monitoring housing development projects and these procedures should be followed for a social housing projects and finance facilities. Monitoring will be particularly important for social housing projects, whether financing or housing development, to ensure the project has continued dedication and commitment to social housing as well as is complying with the financial conditions and terms established at the outset with any potential borrower. The enhanced monitoring requirements for social housing have operational implications and require more on-site presence for Shelter Afrique (see related feedback from current partners below), or partnership with organizations or contractors that may be able to provide such monitoring assistance. This is reflected in our recommendation for a Policy and Compliance Officer that has responsibilities for the social housing programme, which can monitor some of the risks that arise with social housing. For example, in mixed income properties, monitoring should ensure that the planned percentages of low, medium and high-cost housing are being followed. Another common risk is that the low-income market pricing agreed up on at the project outset does not meet low-income market needs when sold, due to price increases or market fluctuations. In addition to in-person monitoring and compliance evaluation, Shelter Afrique must ensure adequate reporting systems to receive the appropriate data throughout the life of the loan. Social performance metrics are currently being refined for the housing space and will be of critical focus of funders dedicated to this segment, particularly if they provide concessionary funding.

Refinement of existing policies and procedures and operations

During SBI's field research, we spoke with eight current borrowers of Shelter Afrique across East and Southern Africa. During these conversations, we gathered feedback on Shelter Afrique's current policies and procedures, which have been incorporated throughout our recommendations. A few key points that were raised included the need for better communication between Shelter Afrique and the projects outside of Kenya, a stronger awareness on the part of Shelter Afrique of local markets and realities, processing time, a bullet payment product for short term developer loans (a matter for further analysis based on the risk profile of construction lending), tailored products for different markets and availability of loans in local currencies.

7.3 Next Steps and Action Plan

At the conclusion of this feasibility study, Shelter Afrique will be in a position to further their development of a social housing strategy. The feasibility study should be understood as the beginning of a process in developing a cogent and cohesive social housing programme, with a number of important decisions that will need to be made by Shelter Afrique. The following next steps and action plan will move Shelter Afrique from the feasibility study stage through the strategy development and social housing programme pilot. It is important for Shelter Afrique to consider next steps in view of the short-term, medium-term and long-term plans for the social housing programme, including long term funding and financial management frameworks.

<u>Presentation to Board of Directors</u>

Before further investing in or developing a social housing programme, Shelter Afrique will present the findings of this feasibility study to their Board of Directors during the meeting in Kenya on June 14, 2011.

<u>Strategy Development</u>

Once the conclusions from this feasibility study have been approved by Shelter Afrique and the Board, Shelter Afrique should develop a strategy for the social housing programme. The strategy and programme development will have three main components:

- *Due diligence and market deep dive:* Building off the initial feasibility study and pilot recommendations, Shelter Afrique will conduct due diligence trips for initial pipeline opportunities. This will include in-depth analyses of the target market, in particular focusing on customers, products and pricing. In this stage, Shelter Afrique will conduct full due diligence missions to assess the credit risk of the borrower and potential project.

- *Internal institutional capacity assessment:* As described in recommendations above, in order for Shelter Afrique to implement a social housing programme, it will have to review its current policies, procedures, product offerings and capacity, and adjust as necessary to roll out social housing projects. The strategy should conduct a full review of Shelter Afrique's internal policies and procedures, funding sources and opportunities, staff capacity and other key aspects and develop a SWOT analysis of the organization and its capacity with regards to a social housing programme. There should be particular focus on the elements most heavily impacted by the social housing programme, such as borrower assessment and due diligence, portfolio management, risk management, monitoring, internal funding strategies and asset liability management. This should be built off the initial assessment done for the feasibility study and should lead directly into the final stage of the strategy: the development of products, policies and procedures and operational plans for the social housing programme.
- *Development of products, policies and procedures:* Based on the selected market studies and institutional assessment, Shelter Afrique should adapt its policies and procedures to parameters specific to social housing projects. In the recommendations above, the feasibility study has proposed recommendations for an institutional framework, lending policies and other initiatives such as marketing. The strategy should build off these recommendations to fully adapt and develop policies and procedures. Initial products are recommended above but should be tailored specifically for local markets based on local pricing dynamics.

The strategy phase, which is likely to take approximately two months, will include the finalization of the pilot countries and subsequent due diligence of institutions, a full review of Shelter Afrique's internal capacity and capabilities with regards to the social housing programme should be conducted, including the requisite products, policies and procedures for the pilot activities.

Social Housing Programme Pilot

The strategy phase should lead directly into the pilot, with minimal delay in order to build quickly off the strategy development and market research. The pilot stage should include a select number of high-potential social housing projects that have high potential for success. During this stage, monitoring and evaluation will be critical and a review of each pilot project should be ongoing for the first year of the project at a minimum.

Work Plan

Work plan	Month 1				Month 2				Month 3			
	1	2	3	4	1	2	3	4	1	2	3	4
Social Housing Programme Presentation to Board and Board approval												
Institutional due diligence and market deep dive - project 1 and project 2												
Shelter Afrique internal institutional capacity assessment												
Review and adaptation of products, policies and procedures												
Social housing programme pilot - project 1 and 2												

Further Research

This study has provided a series of recommendations and has also generated a series of important topics that Shelter Afrique should dedicate further time and resources to better understanding:

- Foreign exchange risk and hedging mechanisms
- Borrower assessment of MFI borrowers
- Strategy phase and internal assessment of Shelter Afrique highlighting operational adjustments to be made to current staffing and structures to implement a social housing programme.

APPENDIX I. REFRENCES AND RESOURCES - SELECTED

Affordable Housing Institute, “What is an ecosystem”, available at http://affordablehousinginstitute.org/what_ecosystem.php

Bankable Frontier Associates, *Capitalizing Housing for the Poor: Findings from Five Focus Countries,* Commissioned by Habitat for Humanity, 2009

Centre for Affordable Housing Finance in Africa, 2010 Yearbook: Housing Finance in Africa, September 2010, available at http://www.housingfinance.org/uploads/Publicationsmanager/AFRICA%20HF%20YEARBOOK%202010.pdf

Daphnis, Franck and Bruce Ferguson. *Housing Microfinance: A Guide to Practice*. Kumarian Press, 2004

IFC Housing Finance – Opportunities in Financial Markets (2008), available at http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/HF-Trifolds/$FILE/HF-Trifolds.pdf

Martin, Carlos, Development Innovations Group, DAI. *Going to Scale with Housing Microfinance: The Role of Commercial Banks.* Produced for review by USAID, March 2008.

Mesarina, Nino and Christy Stickney. *Getting to Scale in Housing Microfinance: A Study of ACCION Partners in Latin America*. In InSight, Number 21, May 2007.

Rooftops Canada Abri International, Habitat for Humanity International and FinMark Trust, Growing Sustainable Housing Microfinance Options in Subsaharan Africa: Turning Loans into Homes, Workshop Report (April 12 – 15, 2010, Tanzania), 2010; available at http://www.finmark.org.za/

UN Habitat, *Housing for all: The Challenges of Affordability, Accessibility and Sustainability*, 2008, available at http://www.unhabitat.org/list.asp?typeid=15&catid=292&start=21&page=3

UN-HABITAT, The State of African Cities 2010: Governance, Inequality and Urban Land Markets, 2010, available at http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=3034

USAID, Development Credit Authority, available at http://www.usaid.gov/our_work/economic_growth_and_trade/development_credit/

Kenya

FinMark Trust, Access to Housing Finance in Africa: Kenya, December 2007, available at www.finmarktrust.org.za

Government of the Republic of Kenya, Kenya Vision 2030, 2007

Joint Building Council, Current Construction Costs in Kenya, 2010

Kenya Land Alliance, National Land Policy, 2007

Kenya National Bureau of Statistics, 2009 Population and Housing Census Highlights, 2009

Ministry of Housing, Government of Kenya, Proposed Housing Sector Incentives and Market Reengineering Measures, 2007

World Bank, Doing Business 2011 Kenya, 2011

Uganda

FinMark Trust, Access to Housing Finance in Africa: Uganda, June 2008, available at www.finmarktrust.org.za

Government of Uganda, DFCU Bank and the participating community groups, Business Plan for Kasoli Housing Development, 2009

IFC, Uganda Primary Mortgage Market Initiative – End of Project Evaluation, 2010

Ministry of Lands, Housing and Urban Development, Government of Uganda, Concept Note: A private-public-people partnership (PPP) for the informal settlements up-grading program, 2010

Ministry of Lands, Housing and Urban Development, Government of Uganda, National Housing Policy (Draft), 2011

World Bank, Doing Business 2011, Uganda, 2011

World Bank, Financial and Private Sector Development Africa Region, Making Finance Work for Uganda, December 2009

Botswana

FinMark Trust, Access to Housing Finance in Africa: Botswana, October 2007, available at www.finmarktrust.org.za

Malawi

FinMark Trust, Access to Housing Finance in Africa: Malawi, April 2009, available at www.finmarktrust.org.za

Kadale Consultants, Overview of Housing Finance in Malawi, Desk-based research study for FinMark and Habitat for Humanity, 2009, available at http://www.finmark.org.za/documents/Pres_HFMalawi.pdf

UN-HABITAT, Malawi Urban Housing Sector Profile, 2010, available at http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=2907

Zambia

FinMark Trust, Access to Housing Finance in Africa: Zambia, May 2007, available at www.finmarktrust.org.za

Ministry of Local Government and Housing, Government of Zambia, The National Housing Development Programme and the National Housing Policy, 2006

Republic of Zambia, Fifth National Development Plan 2006 – 2010, 2006, available at www.undp.org.zm/joomla/attachments/033_zambia_fndp.pdf

Rooftops Canada Abri International and FinMark Trust, Seminar on Strategising Alternative Forms of Housing Finance in Zambia (March 4, 2010, Lusaka), 2010

Ghana

Bank of Ghana, The Housing Market in Ghana, November 2007

Ghana Real Estate Developers Association (GREDA), Proposal to Construct 300,000 Housing Units Over 10 Years, 2010

IFC, Ghana Primary Mortgage Market Initiative – Supply Side Report, October 2008

Ministry of Water Resources, Works and Housing, Government of Ghana, Draft National Housing Policy, 2010

Tweneboa, Alexander (President Ghana Real Estate Developers Association), Achieving Affordable Housing in Ghana through Public-Private-Partnerships, 2009

APPENDIX II. COUNTRY MEETING SCHEDULES

Table 1. Meetings held in Nairobi, Kenya; January 24 – 28, 2011

Shelter Afrique, Feasibility Study of Social Housing Programme
Nairobi, Kenya

Monday, 1/24	Tuesday, 1/25	Wednesday, 1/26	Thursday, 1/27	Friday, 1/28
Shelter Afrique Ms. Nelly Defo - Treasury Operations Mr. Mamadou Barro - Investment Officer Mr. Samson Murithi - Investments and Special Products	**National Housing Corporation** Mr. John Washington O. Agutu - Chief Estates Officer	**Kenya Property Developers Association** Ms. Njeri Cerere - CEO Ms. Laila N. Macharia - Principal, Scion Real	**Ministry of Housing, Department of Housing, Republic of Kenya** Mr. Thomas O. Ogutu - Assitant Director of Housing	**Equity Bank** Mr. Timothy Biwott - GM, SME Banking Ms. Rosemary Mwangi - Head Office Credit, SME Sector
Shelter Afrique Dr. Don C.I. Okpala - Technical Advisor Coordinator	**Agence Francaise de Development** Mr. Hugo Pierrel - Economist, Programme Officer Kenya/Burundi	**Olympia Capital** Mr. Michael Matu - CEO	**Housing Finance** Ms. Rose Mwangi - Relationship Manager, Small & Medium Enterprises Mr. Kennedy - Financial Analyst, Project Finance Department	**Shelter Afrique** Ms. Nelly Defo
Shelter Afrique Dr. Jacques Djofack - Team Leader Risk Management	**UN-HABITAT** Dr. Xing Quan Zhang - Chief, Urban Economy and Social Development Branch	**K-Rep Development Agency/Makao Mashinani Ltd** Mr. Aleke Dondo - MD, K-Rep DA Mr. Golicha Sora - Operations Manager, Makao Ms. Jane Weru - Executive Director, Akiba Mashinani Trust	**Gulf African Bank** Mr. Najmul Hassan - CEO Mr. Mohammad Haris - DGM, Head of Corporate Banking, Structured Finance & Product Development	**Shelter Afrique** Mr. Alassane Ba - Managing Director
	Rooftops Canada/Abri International Mr. D. Jamie Ritchie - Technical Advisor	**Ministry of Housing, Republic of Kenya** Mr. Tirop Kosgey - Permanent Secretary Ms. Jane Mwangi - Deputy Director	**KPDA Seminar: Building Process and Technology**	
			National Cooperative Housing Union Ltd (NACHU) Mr. Stanley K. Ndung'u - Finance Manager Mr. D. Jamie Ritchie - Technical Advisor Mr. Paul Munene - Project Officer	

Table 2. Meetings held in Kampala, Uganda; January 31 – February 4, 2011

Shelter Afrique, Feasibility Study of Social Housing Programme
Kampala, Uganda

Monday, 1/31	Tuesday, 2/1	Wednesday, 2/2	Thursday, 2/3	Friday, 2/4
World Bank Mr. Moses K. Kibirige - Financial and Private Sector Development	**Centenary Rural Development Bank** Mr. Joseph Lutwama - General Manager, Credit Mr. Ben Eyabu - Manager, Product Development	**Lachen Investments Ltd and Planet Development Agency** Mr. Kiiza Lamech - CEO, Lachen Mr. Henry Rugwira - Consultant, Housing Project Design & Funding, Planet	**Ministry of Lands, Housing & Urban Development** Hon. Michael Werikhe Fafabusa - Minister of State for Housing Ms. Annet-Kiraza Balagadde - Senior Assistant, Secretary	**National Housing Construction Company** Caleb M. Kakuyo - Chief Commercial Officer Mohammed - CFO Innocent - Finance and Investment Manager Elizabeth - Project Development Manager
DFCU Bank Mr. Wilbrod H. Owor - Head of Consumer Banking Ms. Edna Kanabahita - Head of Strategy and Innovation	**Association of Real Estate Agents - Uganda (AREA)** Mr. Vincent Agaba - CEO Ms. Nanteza Catherine (Caty) - Administrator	**Ministry of Lands, Housing & Urban Development** Mr. William Walaga - Director for Housing Mr. Dramani Santino	**Uganda Development Bank Ltd** Mr. Steven Opeitum - Director, Development Finance	
Charity Uganda Ltd Robert Canwayt Opobo - MD	**Associated Architects** Arch. Martin Muwonge - Principal Architect	**Habitat for Humanity International** Mr. Ezekiel Espisu - Regional Director, East Africa	**Stromme Microfinance East Africa Ltd.** Ms. Priscilla Serukka - Board Chair Person Mr. Edward Nkangi - CEO	
Ministry of Lands, Housing & Urban Development, Dept of Housing Development and Estates Management Arch. Sewajjwa Kyeyune - Ag Asst Commissioner Estates Management	**Housing Finance Bank** Mr. David Dansor Ninyikiriza			
EcoBank - Uganda Mr. James Kanagwa - Head Domestic Banking Group	**Ministry of Lands, Housing & Urban Development** Mr. Richard Oput - Land Tenure Reform Project			

Table 3. Meetings held in Lusaka, Zambia; March 14 – 18, 2011

Shelter Afrique, Feasibility Study of Social Housing Programme Lusaka, Zambia				
Monday, 3/14	**Tuesday, 3/15**	**Wednesday, 3/16**	**Thursday, 3/17**	**Friday, 3/18**
Pulse Financial Services Ltd Mr. Claude LeFond - CEO	**Ministry of Local Government and Housing** Mr. Moses Muteteka, Deputy Minister Mr. Danny Zulu, Head, Infrastructure Department	**Habitat for Humanity Zambia** Ms. Petronella Shiaka, National Director	**Civic Forum for Housing and Habitat** Mr. Edwin Makuya, Country Programmes Coordinator Mr. Nelson Ncube, Board Chairman	**HFH Site Visit**
Pan African Building Society Ms. Elizabeth Nkumbula, CEO Mr. S imon Mwansa, CFO	**National Housing Authority** Mr. Baldwin Mbuzi, Director of Projects	**Zambia Housing Development Fund** Mrs. Orlean Y. Moyo, National Manager	**People's Process on Housing and Poverty in Zambia** Mr. Nelson Ncube, Country Coordinator	
	MKP Estates Development Ltd Mr. Charles V. Holland, General Manager	**FINCA** Mr. Michael Makumbi, CCO	**MLN Associates** Mr. Matthew Ngulube - CEO	
	Stanbic Mr. Patrick Zimba – Director, Mortgages	**Cetzam Financial Services Ltd** Mr. Dyson Mandivenga, CEO Mr. Clayton Machingaifa, COO	**Finance Building Society** Mr. Benson Tembo – Mortgages Manager	
	Zambia National Building Society Mr. Mwamba J. Chibuta – Director, Mortgages			

Table 4. Meetings held in Gabarone, Botswana; March 21 – 22, 2011

Shelter Afrique, Feasibility Study of Social Housing Programme Gaborone, Botswana	
Monday, 3/21	**Tuesday, 3/22**
Botswana Building Society Ms. Thelma O'Reilly – Chief, Banking Manager Ms. Lesedi Rakhudu – Sales & Marketing Manager Ms. Babedi Motsatsi – Distribution Channels Manager Ms. Retilwe Lefhoko – Credit Risk Manager Mr. Gape Mutimedi – Product Development Manager	**Self-Help Housing Agency** Ms. Dithuto Nikwe – Principal Housing Officer, Policy Division Ms. Dineo Kyotso – Principal Housing Officer, Development Division
First National Bank Botswana Ms. Kelebogile Shala Makgato - Manager, Credit, Property Finance Division	**Motheo Technical and Design Consultant** Mr. Andreas Growth – Managing Director Mr. Carl Bauer
Independent Consultant Ms. Neo Modisi	**Time Projects** Mr. Sandy Kelly – Managing Director
Ministry of Land and Housing Hon. Nonofo Molefhi – Minister of Lands and Housing Ms. Ester Serati – Director of Housing, Department of Housing Mr. Gaokgakala Rabalone – Deputy Director of Housing	**Habitat for Humanity Botswana** Ms. Julia Tebogo Bothasitse – Resource Development and Communication Specialist Mr. Cabelo – National Director
	Letshego Financial Services Mr. Frederick Mmelesi – CEO
	Botswana Housing Corporation Mr. Paul More - Property Development Manager

Table 5. Meetings held in Lilongwe, Malawi; March 23 – 25, 2011

Shelter Afrique, Feasibility Study of Social Housing Programme Lilongwe, Malawi		
Wednesday, 3/23	**Thursday, 3/24**	**Friday, 3/25**
Select Financial Services Ltd Malawi Mr. Wayne Faulds - Country Director Mr. Bernard Mkandawire – General Manager	**GM Properties** Mr. Gaudy Maluza - Chairman Managing Director	**Ministry of Lands, Housing and Urban Development** Ms. Ivy Luhanga - Principal Secretary, Department of Housing Ms. Elsie Tembo - Programme Coordinator, Public Service Home Ownership Scheme Mr. Kelby Chirwa - Chief Housing Officer (Rural)
	Mt Carmel Properties Ms. Chatinkha Nkhoma - CEO	**Centre for Community Organization and Development (CCODE)** Ms. Cynthia Phiri - Director of Programs Mr. Peter Schramm - Technical Advisor, Architecture Mr. Innocent Mnolo - Director of Finance and Administration
	Habitat for Humanity Mr. Amos Kalawe - Country Director Mr. Happy Makala - Operations Manager	**NBS Bank** Ms. Rose Kanyandula - Mortgage Manager
	Golden Star Construction & partners Mr. Hamid Gaffar Mr. Irfan Karim	**Malawi Housing Corporation** Mr. Golden Matiya - General Manager Mr. Wellington Kazembe - Corporate Secretary Mr. Peter Chitosi - Regional Manager Mr. Blair Chitimbe - Finance Manager
		Ministry of Finance Mr. Stewart Malata - Director of parastatals
		Malawi Union of Savings and Credit Cooperatives (MUSCCO) Mr. Fumbani Nyangulu - Head of Finance & Administration
		Shekels Capital Partners Intl Mr. Max Honde - Executive Director

Table 6. Meetings held in Dakar, Senegal; March 23 – 25, 2011

Shelter Afrique - Feasibility Study of Social Housing Programme **Dakar, Senegal**

Wednesday, 3/23	**Thursday, 3/24**	**Friday, 3/25**
ARIS Engineering Aly Ngouille Ndiaye, Manager & Consultant	**Banque de l'Habitat du Senegal** Souleymane Sembene, Commercial Dept	**Keurvision, Bourse Immobilière du Senegal (BIMS)** Doudou Gueye, Promoteur Privé (*Call*)
	Ministère de l'Urbanisme et de la Construction Mayecor Touré, Direction de l'Administration Générale et de l'Equipement	**Ministère de l'Urbanisme et de la Construction** Néné Soumaré, Direction de l'Habitat *(Questionnaire)*

APPENDIX III. SOCIAL HOUSING PROGRAMME MARKET ENTRY SCORECARD

The Social Housing Programme Market Entry Scorecard was developed as a tool for evaluating the market in a country to assess the potential for the success of low-cost housing finance and development. Influential factors are divided into four distinct categories: Pricing and exchange rate market, legal issues and regulatory environment, housing finance market infrastructure, and housing supply infrastructure. Each component is graded on a scale of one to four, with one denoting a nascent market and four denoting a developed market.

The tool is intended to be used as a scorecard. Each component is assigned a score of one, two, three or four, and these scores are then aggregated to assign a score to the overall market. Each of the four main components is assigned a subtotal score, allowing the evaluator to evaluate the state of the pricing and exchange rate market separately from the condition of the legal and regulatory environment. At the end of the assessment, the four component subtotals are aggregated to assign a score for the overall market.

As defined below, any total score from 0 to 26 is considered a nascent market, from 27 to 53 is considered an emerging-low market, from 54 to 80 is an emerging-high market, and from 81 and above is a developed market. Quantifying the status of market factors in any given market will involve some judgment, and information may not be available on all factors in each market. However, this checklist highlights the key factors to consider in an assessment of a market and provides a way of benchmarking markets with each other.

Pricing and Exchange Rate Market *Graded on a scale of 1 (nascent), 2 (emerging – low), 3 (emerging – high) and 4 (developed)* *Scale defined by individual question as needed and explained below*				
1. Currency stability	**1**	**2**	**3**	**4**
• Confidence in stable currency value over short, medium and long-term *(1 – not confident, 2 – confident in 1-2 years, 3 – confident in 5 years, 4 – confident in 5 years or more)*				
2. **Availability of local currency loans**	**1**	**2**	**3**	**4**
• Prevalence of other international funders offering local currency loans *(1 – no other international funders in market, 2 – limited number of funders in market, 3 – increasing number of funders in market, 4 – competitive international funding market)*				
3. **Local market pricing**	**1**	**2**	**3**	**4**
• Competitiveness of Shelter Afrique’s product pricing in the local market *(1 – not competitive to 4 – very competitive)*				
4. **Ability to hedge foreign exchange risk** *(1 – no ability to hedge to 4 – easily tradable currency)*	**1**	**2**	**3**	**4**
5. **Strength of local bond market**	**1**	**2**	**3**	**4**

Pricing and Exchange Rate Market subtotal score: ___/20

Legal Issues and Regulatory Environment *Graded on a scale of 1 (nascent), 2 (emerging – low), 3 (emerging – high) and 4 (developed)*				
6. Land Security	**1**	**2**	**3**	**4**
• Confidence in establishing title for property • Land registration law and registration system, cost of registration o Map property boundaries • Means of property transfer • Women on title				
7. **Cost- and time-efficient lien mechanism**	**1**	**2**	**3**	**4**
• Ability to register lien against property • Lien enforcement (foreclosure) system				
8. **Title search expertise and ability to declare title free and clear**	**1**	**2**	**3**	**4**
• Ease of searching records for liens – including computerization of records • Centralization of records and access to them				
9. **Capable property broker or appraisal sector**	**1**	**2**	**3**	**4**
• Professional valuators and appraisers • Trained to operate objectively and professionally • Independent • Subject to licensing and review, certification				
10. **Networks of independent real estate professionals, property appraisers and sales brokers**	**1**	**2**	**3**	**4**
11. **Legal environment**	**1**	**2**	**3**	**4**
• Mortgage laws, allowing lending collateralized by real property • Asset securitization law, allowing mortgages to be pooled and sold to other investors • Tax provisions to promote development of capital market and mortgage-related securities • Enforcement of any eviction or foreclosure decisions or any coherent laws allowing this to take place • Secured transaction and foreclosure laws • Judicial training in land or property rights				
12. **Title Insurance**	**1**	**2**	**3**	**4**
13. **Property/Homeowners' insurance**	**1**	**2**	**3**	**4**

Legal and Regulatory subtotal score: ___/32

Housing Finance Market Infrastructure				
14. **Long-term funding available in the financial sector**	**1**	**2**	**3**	**4**
15. **Investment in the housing sector available to borrowers other than the upper-income levels**	**1**	**2**	**3**	**4**
16. **Capacity in the financial sector relating to housing finance**	**1**	**2**	**3**	**4**
• State-owned mortgage bank				

• Professionals versed in mortgage products and methodology • MFI product development in housing microfinance				
17. Government-backed mortgage finance system – act as enabling environment to attract private institutions rather than substituting government credit	**1**	**2**	**3**	**4**
• Guarantee scheme/fund • Liquidity facility				
18. Credit information systems	**1**	**2**	**3**	**4**
• Comprehensive – range of information collected on consumers' credit, including both positive and negative information • Automated collection process • Searchable through automated data systems • Credit bureau – presence of one or more centralized entities that gather and organize access to information				
19. Outstanding mortgages as a percentage of GDP	**1**	**2**	**3**	**4**

Housing finance market subtotal score: ___ /24

Housing Supply Infrastructure				
20. Level of sophistication of private developers • Presence of private developers in housing development for low or middle-income housing markets • Level of professionalization of private developers • Presence of developer associations				
21. Developer Financing System • Availability of developer financing from local FIs	**1**	**2**	**3**	**4**
22. Water supply	**1**	**2**	**3**	**4**
23. Roads and drains	**1**	**2**	**3**	**4**
24. Sanitation and solid waste management	**1**	**2**	**3**	**4**
25. Housing Construction	**1**	**2**	**3**	**4**
• Quality of construction - supervision • Level of corruption in construction standards enforcement				
26. Availability of quality construction materials • Quality of materials – quality control • Availability of materials locally	**1**	**2**	**3**	**4**

Condition of housing stock subtotal score: ___/32

Total score: ___/108

Nascent: 0 – 26
Emerging-low: 27-53
Emerging-high: 54 – 80
Developed: 81 - 108

APPENDIX IV. HOUSING FINANCE DELIVERY CHANNELS

Organization	Organizational features	Products offered	Client demographic and requirements
Commercial Banks	Regulated, fund lending with deposits and other funding sources	Wide range of products – mortgages, home equity loans, home improvement loans	Wide base of clients, do not reach low-income populations because of traditional collateral and credit history requirements, and a lack of knowledge of this market segment and product type
Rural/Thrift Banks	Regulated, fund lending with deposits and other funding sources	Wide range of products – can accept savings and deposits, mortgages and housing loans; focus on agricultural products and agricultural value chain	Focus on rural communities, rural poor, farmers
Savings and Credit Cooperative Organizations (SACCOs) , Credit Unions	Often unregulated, though varies by country; owned and controlled by members, typically smaller than banks though size varies	Similar range of products to banks and formal financial institutions, can accept savings, can often offer products at lower rate than MFIs	Only a member of the credit union or SACCO can deposit money or borrow money
Non Bank Financial Companies (NBFCs), Mortgage Finance Companies	Regulation varies by country, does not meet the legal definition of a bank, cannot rely on deposits or savings for lending funding	Restricted to loan products, some focus on certain types of loans, such as housing and mortgages or leasing	Reaches down-market and low-income clients
MFIs	Varied ownership structure, regulated if a financial institution	Group and individual loans, deposits and savings; very few offer housing loans	Serves very poor clients that are not served by formal financial institutions
Government programs (not financial institutions per se but part of the landscape)	Funded by government, regulated	Affordable mortgages and housing finance products, highly subsidized	Targets low-income that are not banked by formal financial institutions often at a subsidized rate