



Centre for Affordable  
Housing Finance  
in Africa



# **State of Housing Microfinance in Africa:**

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## ABBREVIATIONS

AHMF	Africa Housing Microfinance Initiative
AMHLF	Alithea Micro Home Loans Facility
CAHF	Center for Affordable Housing Finance
CTA	Construction Technical Assistance
DFI	Development finance institution
FSDT	Financial Sector Deepening Trust
FINDEX	Financial Inclusion Index
HfH	Habitat for Humanity
HMF	Housing microfinance
MFI	Microfinance institution
NGO	Non-governmental organization
NHFC	National Housing Finance Corporation
NUFF	New Urban Finance Facility
OPIC	Overseas Private Investment Corporation
PAR	Portfolio at risk
RHLF	Rural Housing Loan Fund
ROSCAs	Rotating savings and credit associations
SACCOs	Savings and credit cooperative societies
WAT-HST	WAT Human Settlements Trust
ZINHACO	Zimbabwean National Housing Cooperative

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## **EXECUTIVE SUMMARY**

This paper investigates the progress being made by housing microfinance (HMF) on the continent. The Center for Affordable Housing Finance (CAHF) together with its partners has long been involved in studying, understanding and lobbying for the sector. We firmly believe that it represents a critical ingredient to solving the problem of housing on the continent, because it works with how the majority of the continent's people are housed; that is incrementally and through processes of self-build.

There have been some notable and encouraging advances in the industry with a steady trickle of new commercial entrants into HMF. Banks, microfinance banks and general microfinance lenders are introducing it, in various shades, as a product within their lending portfolios. Some continue to expand this offering to more and more countries. New commercial entrants are a sign that HMF is still seen as a viable commercial lending operation. Meanwhile the lending activities of less commercially orientated organisations such as housing cooperatives and the NGO sector continues to grow in recognition of the demand and need among lower income earners. The activities of these organisations offer an important contribution to HMF practice in their willingness to take on higher risks, as well as engage with downstream processes such as the house building process itself. They serve as an important repository of knowledge and lessons in this new industry. Further, more and more funding is coming on-stream in the form of grants, loans, equity, as well as technical support, as the sector increasingly becomes an important investment destination.

Yet, true large scale lending in HMF is yet to happen, and demand is still largely unmet. The potential for the industry still remains, largely untapped.

There is no denying that there are challenges. There has been a decline in some commercial lending activities. It is important that the reasons for this are determined. The constant need for engagement with the state on critical issues around land administration, management and provision of infrastructure remains. Indeed government policies are still largely at best ignorant, or at worst openly hostile to incremental housing processes. The pragmatic responses by lenders on the continent around this issue have been useful studies in truly adapting and working with what circumstances dictate. These challenges will remain hurdles that need to be overcome, given that HMF is essentially about the housing process, and these elements are intricately tied to it. Finally, practitioners across the continent are increasingly coming together to address these problems as a collective and an encouraging sign is that the industry is becoming more coherent and forceful as it pushes its own unique agenda.

There are some important caveats to this paper. HMF in francophone Africa has not been covered and could have possibly offered many more useful lessons on practice. Furthermore, the practices provided here have been obtained in the face of what is usually difficult to-come-by information on different HMF lending products. It is thus by no means exhaustive.

# 1 INTRODUCTION

Africa is urbanising fast, and urban areas are seeing that the demand and need for housing is not being met. The 2012 *World Urbanization Prospects* report from the United Nations emphasises that the two biggest factors driving urbanisation growth in Africa are first, the fact that Africa still has a very high natural population growth; and second that Africa's levels of urbanisation have generally been low, and the continent is in essence playing catch up. Thus, African cities may not be growing as fast as they were 10 or 15 years ago,<sup>1</sup> but compared to Asia or Latin America, Africa is still experiencing the highest rate of urbanisation in the world.

In these growing African urban centers, the majority are involved in building their own houses, incrementally.<sup>2</sup> This has been long recognised; the early writings of John Turner emphasised the critical role of self-build in urban centers. Recent studies by FinMark Trust on housing finance in Zambia, Botswana, Malawi and Tanzania show that the vast majority of urban dwellers build their own housing.<sup>3</sup> However, the story of self-build and incremental housing is not limited to urban areas either; rural dwellers have also always done this using locally available materials. For the most part, to finance incremental housing, households use savings or general microfinance.<sup>4</sup> Testimonies vary on the exact amount of the latter. It is generally noted however that between 15 to 40 percent of general microfinance loans are used for purposes of housing development.<sup>5</sup>

Incremental build is also necessary because of limited affordable housing supply in urban centers. Notes one microfinance lender in South Africa "although there is significant demand for affordable residential accommodation, especially in metropolises, coupled with very low levels of supply, there are limited options for financing home acquisitions for middle and lower income earning individuals".<sup>6</sup> Microfinance, specifically housing microfinance offers an alternative method of financing home acquisition through its support of incremental building methodologies. Taking out loans they can afford, borrowers build their housing step-by-step, loan-by-loan, "one wall at a time".<sup>7</sup>

The majority of Africa's urban dwellers do not qualify for mortgages. Recent data from the World Bank's Financial Inclusion Index (FINDEX) shows that formal access to and usage of credit is very low in sub-Saharan Africa. Mauritius has the highest rate of borrowing, where only 14 percent of adults said they had borrowed in the last 12 months. Mortgage lending is necessarily much lower given the

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<sup>1</sup> One of the biggest proponents of this position is Deborah Potts.

<sup>2</sup> There is increasing evidence that even in much more developed economies, self-help housing was a prominent feature of urban development and contributed significantly to housing supply in these countries. One author calls it the "First World's hidden housing arm". See Harris R (1999).

<sup>3</sup> See FinMark Trusts housing finance access frontier work.

Malawi: <http://www.housingfinanceafrica.org/document/housing-finance-access-frontier-in-malawi/>;

Tanzania: <http://www.housingfinanceafrica.org/document/housing-finance-access-frontier-in-tanzania/>; Botswana:

<http://www.housingfinanceafrica.org/document/housing-finance-access-frontier-in-botswana/>; Zambia:

<http://www.housingfinanceafrica.org/document/housing-finance-access-frontier-in-zambia/>;

Report compilation on <http://www.housingfinanceafrica.org/document/defining-access-to-housing-finance-in-malawi-tanzania-botswana-zambia/>.

<sup>4</sup> See for example Kihato, M. (2009).

<sup>5</sup> Kihato, M. (2009).

<sup>6</sup> Statement attributable to Real People, a HMF and affordable housing financier in South Africa.

<sup>7</sup> See Malholtra (2003) the original user of this phrase.

more stringent requirements created by the longer terms and amounts for borrowing, the need for collateral and costly housing options in the market for this form of lending. FinMark Trust's housing finance access frontiers studies in Zambia, Malawi, Botswana and Tanzania uniformly show that mortgages are utilised by less than 1.5 percent of the population to obtain housing. Further, mortgage lending does not provide sufficient flexibility around payment terms and makes it difficult for people with irregular income streams. For example in Tanzania, a recent Bank of Tanzania study in the country has determined that only 28 percent of people sampled have incomes where evidence could be provided through some form of documentation, a critical requirement for mortgage lending.<sup>8</sup> Additionally, the supply of mortgageable dwellings in many urban centers is very low.<sup>9</sup>

It is in this context that HMF has emerged to finance the process of incremental self-build. HMF enables this by adapting to the methodology of phased and incremental build, adjusting to the financial capacities and cash flow of the borrowers. Housing microfinance thus is,

*... any micro financial tool to support investment in the components of housing, including land purchase or access, provision of or improvement to services, full or incremental house construction, renovation or maintenance.*<sup>10</sup>

Daphnis<sup>11</sup> defines HMF as encompassing financial services that allow poor and low income clients to finance their habitat needs through microfinance methodologies. It thus entails loans for relatively small amounts (but which are larger than general microfinance loans, typically from US\$100 to US\$5,000 – US\$10,000) based on the clients capacity to repay. The repayment periods are relatively short in comparison with mortgages, but longer for general microloans (1-5 years) - generally, unsecured or sometimes collateral substitutes are used. Importantly, the property itself is not used to secure the loan.

This report sets out the current state of HMF in Africa, highlighting institutions and actors, and including progress around the development and growth of retail products. It examines initiatives to create capacity to develop such products as well as developments in the regulatory and policy environment surrounding HMF lending. Finally, the report offers some important messages going forward.

## **2 INSTITUTIONS AND ACTORS**

Retail lenders of HMF span three tiers, from regulated first tier organisations which can raise capital from deposits, through to cooperatives and NGOs at the second tier and finally informal third tier lenders. First tier lenders include microfinance banks such as K Rep Bank and Faulu in Kenya and commercial banks, such as ProCredit in Ghana and Mozambique and Akiba Bank in Tanzania, the latter who recently introduced home improvement loans. Second tier lenders include SACCOs

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<sup>8</sup> Bank of Tanzania (2012).

<sup>9</sup> A mortgageable dwelling is one that has a permanent dwelling in an urban area that is owned (through title deed) by either the head or other member of the household. Finmark Trust's Housing Finance Market Frontiers work puts the figures as low as 4 percent (Zambia) and 6 percent (Tanzania).

<sup>10</sup> Daphnis (2004).

<sup>11</sup> Daphnis (2004).

(savings and credit cooperative societies), cooperatives, and microfinanciers that offer HMF. These also include housing NGOs which branched into housing microfinance lending on recognising the demand, such as the Kuyasa Fund in South Africa. Others are microfinance institutions that have included HMF as an additional product to their microfinance lending for enterprises such as Ugafode in Uganda. The National Cooperative and Housing Union (NACHU) in Kenya is a SACCO formed in response to a common need for housing and has grown dramatically since its establishment in 1979. Finally, there are third tier, generally unregulated HMF players who include rotating savings and credit cooperatives (ROSCAS or stokvels) and other informal lenders.

Investment into these lending operations comes from a variety of sources and with a variety of objectives. International development organisations such as Rooftops Canada and Homeless International have given explicit attention to the growth of HMF lending capacity among housing NGOs and SACCOs as part of their effort to grow scale and address housing backlogs across the continent and globally. They are in many ways the pioneers of explicit HMF investment and lending.

Development finance institutions (DFIs) such as the American Overseas Private Investment Corporation (OPIC), the Belgian investment company (BIO), the International Finance Corporation (IFC), and KfW (Germany) and Proparco (French), the International Finance Corporation (IFC) seek to stimulate investor interest in general microfinance by taking first loss risk positions or easing the risk burden in some other way for commercial investors. Much of their investment in HMF has been in many ways linked to general microfinance lending, with organisations they have invested in, branching off into HMF. Double and triple bottom line investment funds such as Acumen, Omdiyar Tufts Microfinance Fund, responsAbility, ACCION International, FUNDSAL and others are connected by their objective to realise the social outcome of microfinance lending and poverty alleviation while also realising a commercially viable return. They are, like the DFIs, associated with HMF through general microfinance and the creation of HMF product lines within these organisations.

Finally, as investor interest grows in HMF, the wider housing delivery chain is also receiving attention. At the forefront of this is Habitat for Humanity (HfH), which provides Construction Technical Assistance (CTA) to borrowers engaging with lenders offering HMF products. Ashoka has developed what they call the hybrid value chain approach, which has been successfully applied in Egypt.

## **2.1 THE LENDERS AND THEIR PRODUCTS**

### *i. Commercial lenders*

There has been considerable interest in HMF by first tier organizations such as commercial banks and microfinance banks. One effect of the growing middle class in many African countries is that there has been increased competition among these organisations to grow market share and tap into rising income levels. Some lenders see HMF as a potential area for growth, and this has incentivised

product development.<sup>12</sup> Such new entrants include Akiba Bank in Tanzania. It has a home improvement loan, which has grown from nil in 2010 to US\$ 145,000, with a reach of 130 customers by the end of the 2011 financial year. The product has a term of between three to twelve months, and the lending amount ranges from US\$ 320-US\$13,000. The product is designated for home additions and roof repairs. Centenary Bank in Uganda has short term loans with both regular and irregular repayments targeted at home owners with regular income earnings for financing home improvement. Amounts that can be borrowed range from US\$ 340- US\$11,500 with regular and flexible loan repayment plans offered. The maximum period is up to 36 months. In Zambia, the Entrepreneurs Financial Center introduced a home improvement loan product in 2010. Its target is already existing entrepreneurs with housing projects to either complete the house, which should have already reached window level, or to extend an already existing house for business or personal purposes. To qualify the beneficiary should be in full-time employment or have been in business for at least six months, have property insurance, and have some form of savings. In 2010, the home improvement loan portfolio of the Entrepreneurs Financial Centre comprised 31 percent of the lender's total loan portfolio. A similar product is offered by the same microfinance bank in Tanzania, with the loan amounts ranging from US\$ 946 – US\$ 12,618 for up to five years. ProCredit Bank in Ghana launched a housing improvement loan product in 2006, although it has struggled to grow significantly. Amounts range from less than US\$5,000 to highs of US\$80,000 (almost all the loans are however less than US\$5,000).<sup>13</sup> In Mozambique, a similar product by the same company has registered somewhat better fortunes but on a declining trend.<sup>14</sup>

**Table 1: Sample of home improvement products offered on the continent: various tier one commercial lenders**

Country	Lender	Type	Product	Loan terms and conditions
<b>Mozambique</b>	Pro Credit	Commercial Bank	Housing Improvement	Amount: more than US\$ 1350 to a maximum depending on the profitability of the business operation of the customer. Term: maximum of 60 months Others: proof of income (salary or otherwise); have an account with the bank; and proof of work on house if to finish the house.
<b>Tanzania</b>	Akiba Bank	Commercial bank and microfinance	Home improvement and roof repairs	Amount: from US\$ 320-US\$13,000. Term: 3-12 months
	Entrepreneurs Financial Centre	Commercial microfinance, deposit taking	Home improvement	Amount: US\$ 946 – US\$12,618 Term: up to 60 months Others: credit or life insurance
<b>Uganda</b>	Centenary Bank	Commercial bank	Home improvement	Amount: US\$ 340-US\$11,500 Term: up to 36 months Others: savings or current account with the bank; house as security; application fee US\$51; and 2% of loan amount as commitment fee.

<sup>12</sup> Sentiment expressed by Bezant Chongo of Planet Finance. This has been one of the reasons for the growing interest for HMF in Zambia.

<sup>13</sup> Its housing improvement loan portfolio has fallen by 75 percent between 2010 and 2011 and fell by over 90 percent from 2009 to 2010.

<sup>14</sup> ProCredit *Annual Report 2011 Mozambique* INTERNET [http://www.procredit-holding.com/front\\_content.php?idcat=26](http://www.procredit-holding.com/front_content.php?idcat=26) Accessed on 7 October 2012.



A number of notable issues emanate from the commercial products above. Firstly, these are generally home improvement loans, not products that support incremental housing from the onset. Thus while they do support incremental build, they are associated with already existing houses. This is an important distinction as it often speaks to the higher comfort levels sought by commercial lenders (there already is a house in existence) for their lending operations. The lenders also require proof of regular income, or a business track record. The latter requirement is often tied to a history of banking with that particular lender, which can easily be verified. The new product is also often a later addition by the institution, aimed at creating more product offerings for its customer. Finally, title to the land is often important and necessary.

There are some products that straddle the divide between HMF and mortgages. They are targeted at the home improvement market, but are very much akin to micro-mortgages given their smaller size but very similar terms and conditions to normal mortgages. In South Africa, U Bank (formerly Teba Bank) offers such a product. It requires a salary, a bank account, and in addition adds another dimension; the requirement for a provident or pension fund to back the loan. The use of pension assets to secure housing loans is increasingly attracting greater attention, but so far is still rarely used.<sup>15</sup> Amounts for this product vary from US\$ 571- US\$ 57,086 with up to 120 months to pay back the loan. It is both for the incremental construction of a new house, incremental improvements to an existing house, or the purchase of an existing house. Likewise, the Zambian National Building Society has a home improvement loan tied to a mortgage of the property. Amounts borrowed range from a minimum of US\$ 567 to a maximum of US\$ 9,452. The product requires among others, title and evidence of income through a pay slip business account.

## *ii. Microfinance organisations and housing funds*

Second tier lenders are both commercial microfinance operators as well as the less commercially orientated housing development lenders such as SACCOs, cooperatives and housing NGOs. Commercial but non-deposit taking microfinanciers such as Select Africa have entered into the HMF lending space. Select Africa has operations in Swaziland, Malawi, Kenya, Lesotho and Uganda and offers a home improvement incremental construction product as well as one for new build. Amounts range from US\$ 250-US\$12,000 (Swaziland) US\$600-US\$6,000 (Kenya) and US\$ 75-US\$ 3,740 (Malawi). Terms range from 6-60 months depending on country of operation. Select Africa relies on a monthly salary from the borrower as the basis for monthly payments and has specifically targeted civil servants without access to mortgages in this regard. Over the period of 12 years, Select has disbursed loans to the value of US\$ 153.7m, to 53,539 clients through a network of 10 branches over a period of 12 years. The gross loan book as at June 2012 was US\$ 31.7m, with a 5.7% provision for bad debts.

The SACCO and Cooperative sectors and housing NGOs often branch off into HMF lending, realising the need for a product to enable their members to finance their incremental self-build efforts. A good example is NACHU in Kenya which has seen considerable growth in its various loan offerings.

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<sup>15</sup> See for example Mutero (2011) writing of the East African region where securing of loan finance using pensions is permitted only in Tanzania out of the four countries examined, and even there it is yet to be used.

**Table 2: Growth of HMF loan products NACHU 2010-2011**

Loan product	Use	Growth of book value of loan portfolio (year- on-year 2010-2011)
<b>Hatua new housing loan</b>	For new house construction or house extension	100%
<b>Huduma Infrastructure loan</b>	Improve the physical infrastructure of their homes (installing electricity, water and sanitation facilities, sewerage systems, fencing and roads)	41%
<b>Ploti resettlement loans</b>	Buy land for residential and commercial purposes	94%

The first two products are incremental building loans and individual small disbursements are done periodically on demand to fit the progressive build effort. NACHU lends through individual cooperatives and the eligibility criteria for members in the cooperatives requires, among others that, 3 months savings have been made and a resolution authorising the borrowing has been obtained. Amounts vary between US\$2,300-US\$58,000.

The WAT Human Settlements Trust (WAT-HST) in Tanzania has been piloting a microfinance housing program for low and middle income households and communities since 2008. It is a multi-year programme with major funding from the Financial Sector Deepening Trust (FSDT). WAT-HST provides technical services and training necessary for housing delivery, and expanding the capacity of WAT SACCOS, who lend to their members for the housing development process. Through a guarantee fund from FSDT to OikoCredit, WAT SACCOS received the first tranche of a loan worth US\$127,000 in May, 2011. The funds were lent to HMF clients for various land and housing related loan products which include housing upgrading and housing construction. As of 31st December 2011:

- A total of 575 HMF loans were disbursed by WAT SACCOS amounting to a total of US\$ 500,424 which translates to an average housing loan size of US\$ 870 per beneficiary (US\$ 760-1550 for loans for land). Out of these, 53 percent of the loans were disbursed to women.
- The portfolio at risk, (PAR) at 30 days was 4 percent.
- The total number of HMF clients by the end of 2011 was 1,266.

South Africa presents somewhat of a unique situation given the existence of active government development funding institutions such as the Rural Housing Loan Fund (RHLF) and the National Housing Finance Corporation (NHFC) that provide wholesale finance for on-lending to specialist housing micro lenders. The other reason for this is the housing subsidy. This has had the unintended consequence of crowding out the private sector, at least, in relation to the purchase of land and incremental construction of the dwelling. Households waiting for their subsidy entitlement choose not to invest their affordability in housing. Further, access to land and housing is entirely mediated by the national housing subsidy – for a long time there has been no product available for HMF borrowers to buy. This according to the country’s national development plan, “the system of state-provided housing has benefited many poor households but may have undermined the incentive for

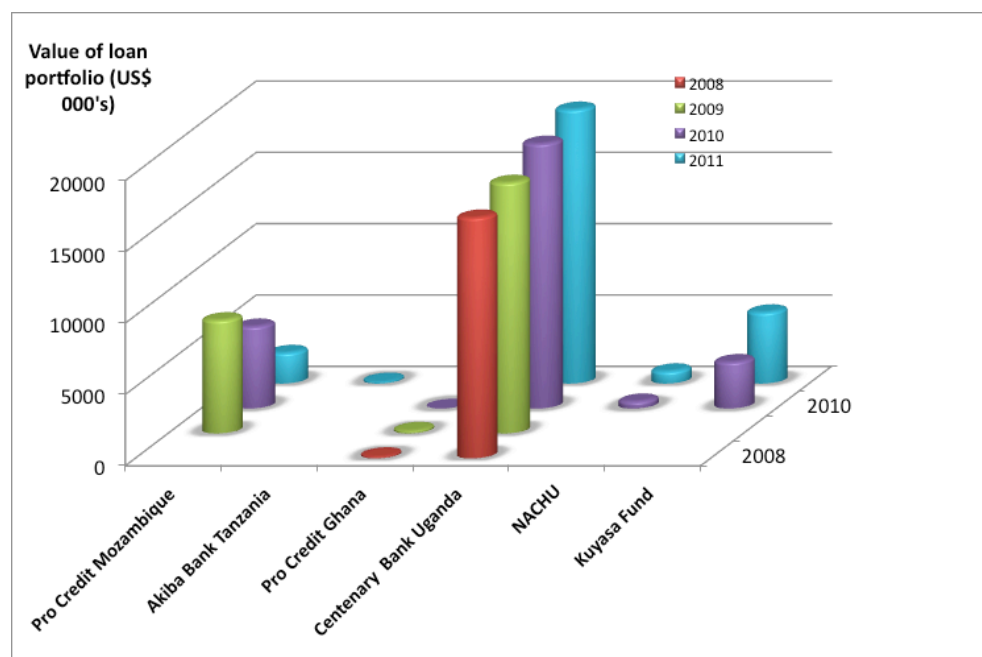
people to upgrade their own housing circumstances and may have increased a dependency of the state for the supply of private goods".<sup>16</sup>

Nevertheless the RHLF and NHFC have managed to lend to a number of specialist housing microlenders, including Lendcor, Real People and the Kuyasa Fund.<sup>17</sup> The basic Kuyasa housing loan product is a loan of between US\$ 113- \$3400 (average loan size is around US\$ 850) for a term 6-24 months at 2.675 percent interest per month. Typically its borrowers earn under US\$ 400. Forty percent of Kuyasa's clients are informally employed, 31 percent are pensioners and the vast majority, 72 percent, are women. The Kuyasa Fund has grown its lending operations to include the Eastern Cape, and plans to open several additional branches in four provinces in South Africa.<sup>18</sup>

iii. Understanding the performance of HMF loans

There has been no comprehensive analysis of the performance of HMF and related products among lenders in the continent – although individual lenders do this for their own books. In this short paper, a cursory examination of annual financial statements considers broad trends.

**Figure 1: Reported loan book value of housing improvement loan portfolios of some selected lenders**



Sources: Annual financial statements 2012

<sup>16</sup> Presidency, South Africa (2011) *National Development Plan 2030 Our Future Make it Work* p. 270.

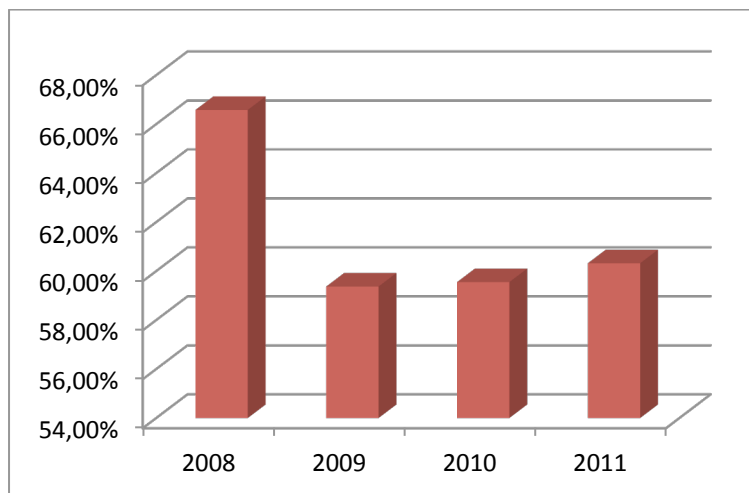
<sup>17</sup> The Kuyasa Fund has occupied a niche position in the housing finance landscape in South Africa. In essence it disburses loans to beneficiaries of government-subsidised housing to assist them to increase the size and value of their homes through incremental home improvement processes. The government subsidized house provided is typically between 23m<sup>2</sup> to 35m<sup>2</sup> in size. After clients invest their savings (approximately R2,800 or about US\$350) and apply for one or more loans from Kuyasa, they can increase the size to as much as 60m<sup>2</sup> and the value of their homes likewise increases.

<sup>18</sup> Others SACCOS involved in lending include the Zimbabwe National Association of Housing Cooperatives (ZINAHCO). It is the apex organisation of Zimbabwe's housing cooperatives, representing over 150 co-operatives with over 7,200 members throughout the country.

From the above diagram, it is clear that the growth of home improvement lending has seen mixed results among commercial lenders. Thus while there is clear growth displayed by Centenary Bank in Uganda, this is not the case with Pro Credit in Ghana and Mozambique which are both seeing declines, with the former effectively ceasing its lending activities. Meanwhile it will be interesting to monitor the progress of new entrants such as Akiba Bank in Tanzania. The housing development funds sector, represented in the graph by NACHU of Kenya and Kuyasa in South Africa are all seeing slow but steady growth in their lending activities. However, and importantly, the question of sustainability of this growth without considerable concessionary capital remains. Kuyasa, for example, has in the two years examined above registered consecutive deficits and its existence and growth going forward will be highly dependent on sourcing concessionary funding. NACHU presents a much better picture in this respect and it has recorded a year-on-year surplus over the same period. It is however, not clear if this can be sustained without the considerable grant revenue it receives.

Centenary Bank which has a growing portfolio for housing improvement loans also provides some interesting insights. The proportion of this form of lending to general microfinance for business lending has averaged around the sixty percent mark over the four years between 2008 to 2011. This is considerably higher than anecdotes which suggest a norm of 30 percent of general microloans loans being used for housing improvement. Potentially, this means that when deliberately provided as a dedicated product, housing lending can become a significant proportion of microfinance portfolios and a key growth area.

**Figure 2: Housing improvement loans as a percentage of small business loans, Centenary Development Bank Uganda**



*iv. Notable developments and potential innovations*

A key area of innovation has been the use of information technology to enhance HMF lending. In South Africa, Lendcor's *Wozani Nonke* interactive store terminals have made the process of assessing loan qualification by potential clients simple and quick. Kuyasa has likewise adapted information technology for its purposes and implemented the use of mobile technology in the

field.<sup>19</sup> Every loan development officer and Customer Service Center representative is now equipped with a mobile phone, which remotely connects to Kuyasa's servers. It allows the field staff to access client information, in real time, along with the ability to print receipts on the spot.

There are also some unique and innovative products under consideration. In South Africa, given the large demand and growth of backyard dwellings for rental, there have been attempts at introducing incremental build products and financing for the development of these, with the rental income serving as the security.<sup>20</sup>

## 2.2 FINANCIERS

There have been some positive developments in the HMF funding environment, with an increase in grant, debt and equity finance from donors, DFIs, as well as commercial investors. The following looks at some of these activities among various actors.

### *i. Homeless International and CLIFF*

The Community Led Infrastructure Finance Facility (CLIFF) is a programme managed and part-funded by Homeless international that enables organisations to access greater public, private and civil society resources to deliver adequate and sustainable housing and basic services for slum dwellers. It provides financial support through capital funds (in the form of a loan, grant or guarantee) to enable implementing partners access finance or provide loans for project construction related costs. Operation funds include the costs of CLIFF implementation and address project preparation, management, documentation, and dissemination phases of the project. CLIFF sources its own; largely grant funding, through the British Department for International Development (also known as UKaid), the Swedish International Development Cooperation Agency and Homeless International. CLIFF and HI work in a number of countries throughout Africa, promoting housing microfinance and incremental housing development. From January 2010 to March 2012 representing its second phase of lending, the cumulative total for funds in its Africa operations amounted to more than US\$ 7 million.<sup>21</sup>

Besides CLIFF, Homeless International provides other services and facilities for its partner organisations including:

- The Africa Bond, a soft loan facility to support partners where banks refuse or unwilling to lend to its partners and where the cost of lending is so high as to render housing and services projects unviable.
- The Housing and Infrastructure Guarantee Fund, to facilitate the continuity of programs and service delivery for partners, who seek more sustainable sources of finance from local finance institutions and banks. The fund provides a guarantee to enable lending for this purpose.

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<sup>19</sup> The main challenge being dealt with in the roll out has been Telkom (the national phone operator) and the provision of sufficient ADSL lines, used to transmit the data.

<sup>20</sup> LENDCOR has sought to introduce such a product although this has not happened because of the difficulty in guaranteeing the rental income for payment over the term of five years.

<sup>21</sup> CLIFF Annual Review 2012.

In **Kenya**, Homeless International continues to support NACHU through its five CLIFF housing projects to secure tenure and build appropriate housing for over 1000 people.<sup>22</sup> The money is channeled through cooperatives where individual beneficiaries save money and there is full cost recovery built into the payment amounts. The projects entail the purchase of land, demonstration units as well as training for the beneficiaries to enable them to do incremental housing on a basic starter unit provided. NACHU harnesses government subsidies through tax rebates from construction and building.

**Table 3: CLIFF projects in Kenya through NACHU as a partnering organisation (as of 2012)**

(Source: CLIFF Annual Review 2012)

	Location	Cost (US\$)	Capital Funds	Number of Units
<b>Ngumo Mbegwa and Mutindwa Settlement Project</b>	Nairobi	462,325	283,319	59
<b>Faith Foundation Phase 1 Ruiru</b>	Nairobi	382,623	257,280	52
<b>Semba Moto Resettlement Project</b>	Nairobi	1,836,677	1,836,677	124
<b>Alfa Mwandwa Housing project</b>	Nakuru	325,478	325,478	33
<b>Royal Housing Project</b>	Nairobi	350,679	350,679	50

- In Malawi, CLIFF has partnered with Malawi Alliance (a partnering of the Center for Community Organisation and Development and Malawi Homeless People’s Federation) to fund access to land and home building materials for over 100 families for self-build as well as by chosen contractors. The total cost of the project is US\$ 400,000.
- In Zimbabwe, CLIFF works with the Zimbabwean National Housing Cooperative (ZINAHCO) with a substantial amount of effort going into training and construction loan management for the cooperatives to help develop capacity.

**Table 4: CLIFF Projects in Zimbabwe through ZINAHCO (as of 2012)**

(Source: CLIFF Annual Review 2012)

	Location	Cost (US\$)	Capital Funds (US\$)	Number of Units
<b>Bulawayo District Union Cooperative Core Housing</b>	Bulawayo	319,354	286,506	63
<b>Chitungwiza District Union Cooperative Core Housing</b>	Chitungwiza	780,646	780,139	154
<b>Harare District Union Cooperative Core Housing</b>	Harare	770,508	545,284	172
<b>Masvingo District Union Cooperative Core Housing</b>	Masvingo	745,161	882,637	147
<b>Mutare District Union Cooperative Core Housing</b>	Mutare	745,161	1,055,089	147
<b>Kariba District Union Cooperative Core Housing</b>	Kariba	121,659	100,673	24

- In Angola, Development Workshop received its first CLIFF project to provide housing and basic services for 129 poor families in Huambo. The Quissala Phase 1 project is being funded

<sup>22</sup> Some of the projects include the Ngumo Mbega and Mutindwa Project with a capital outlay of US\$ 341,330 and the Faith Foundation project with an US\$ 317,790.

for US\$ 1,325,244 of which capital is US\$ 503,621 and will be channeled through Development Workshop's KixiCredito microloans.

- In Burkina Faso, Ghana, Togo and the Central Africa Republic, through its partner Water and Sanitation for Africa, CLIFF is implementing the first phase of a program to provide housing for over 300 poor families.

ii. *Habitat for Humanity*

Previously, HfH was involved in financing homes through micro-mortgages in various countries across Africa, in addition to their housing work for vulnerable groups. This has changed, and their engagement with housing financing today has shifted to being a catalyst for greater delivery at the affordable segment of the market, through HMF.<sup>23</sup> This is being done in two ways: the first is through a pilot for HMF lending in the three East Africa countries of Kenya, Tanzania and Uganda where up to 1000 loans are being offered.<sup>24</sup> The pilot, known as *Makazi Bora*, lends for home improvement purposes. In Tanzania for example, the loans are for the amounts of between US\$127 –US\$ 953 with the average loan being US\$ 475 for a period of 6-24 months.

The other approach is based on the principle that to reach scale, the activities of HfH will need to catalyse lenders, such as MFIs and others, to lend for HMF. For this, HfH provides capacity building, Construction Technical Assistance (CTA), as well as capital funding. In Malawi for example, HfH is working with Opportunity International Bank of Malawi and Select Financial Services to provide CTA alongside those lenders' HMF loan products.

**Box 1: Ashoka's Hybrid Value Chain**

The concept of the Hybrid Value chain was developed by Ashoka, and refers to commercially sustainable partnerships between organisations in the private sector and civil society (or citizen sector) to service low income populations. In these partnerships, the two sectors combine their typical value-added steps, which constitute their value chains to create hybrid value chains that leverage both sectors' critical strengths, expertise and resources. The business sector thus brings in investment and operational capacity as well as infrastructure and logistics capabilities. The citizen sector on the other hand brings in understanding of community needs, mobilisation and social networks and enabling complementary services. There are a number of successful applications of this idea. These include CEMEX's Patrimonio Hoy in Mexico and its offering of finance, technical assistance and building materials for housing, and Manila Water's approach to reticulation and billing of water infrastructure for the poor in the Philippines. To create greater scale with HMF, HfH is working with existing microfinance organisations to develop specific housing microfinance products and provide technical expertise where necessary. This approach is very much in line with the Hybrid Value Chain business model. The microfinance sector provides a natural successful and continuing commercial platform. HfH on the other hand with its history, knowledge and experience in community housing development is a useful complementary partner. In implementing this strategy, HfH and Select Africa have partnered in Malawi to provide HMF products.

The MicroBuild Fund established by HfH is a global fund intended to supply debt capital and fund capacity building to microfinance institutions.<sup>25</sup> The main shareholders in the fund are HfH itself and

<sup>23</sup> Interview with Ezekiel Esipsu of Habitat for Humanity 08 October 2012.

<sup>24</sup> Interview with Ezekiel Esipsu of Habitat for Humanity 08 October 2012.

<sup>25</sup> The fund according to HfH will:

- Provide a source of longer term social investment capital for financial service retailers who serve the poor so that they can expand their housing microfinance portfolios;

the Omidiyar Tufts Foundation. OPIC has invested US\$ 45 million of debt capital in the fund. The fund is to run for at least 10 years and should ideally provide wholesale loans to between 30 and 40 microfinance institutions across the globe. As of September 2012, the Fund had disbursed its first loans. The fund includes a facility for piloting housing microfinance products for institutions committed to making housing microfinance an organisational priority. The debt provided by the fund will be at market rates.

*iii. Rooftops Canada*

Rooftops Canada is the international development programme of Canada's cooperative and social housing sector, which works with Canadian and international partners to improve housing conditions, build sustainable communities and develop a shared vision of equitable global development.

In Kenya, Rooftops Canada has provided a first installment of US\$245,000 to NACHU, which has enabled two housing cooperatives purchase land for 160 families. Further, 25 other housing cooperative members are receiving loans to build, upgrade or extend their houses. Rooftops is sourcing this money from the Cooperative Housing Federation of Canada (US\$80,000) and the Canadian International Development Agency (US\$250,000), with these funds being used to leverage loans from the Cooperative Bank of Kenya, a local bank. Usefully, this investment is also supported with technical assistance, and together with the CLIFF investment into NACHU, has given NACHU a strong base for its planned growth towards sustainability.

*iv. Rural Housing Loan Fund (RHLF) and National Housing Finance Cooperation (NHFC)  
South Africa*

South Africa has two dedicated development finance institutions whose mandates are to encourage housing lending to lower income segments of the population. The Rural Housing Loan Fund (RHLF) is a not-for-gain organisation established by the Department of Housing as a wholesale development finance institution. Its mandate is to enable non-mortgage housing lending by retail financial intermediaries to low income earners in rural and peri-urban areas in South Africa. Borrowers use these loans to incrementally improve their housing conditions.

The RHLF has seen its lending portfolio increase by as much 75 percent between 2011 and 2012. Its lending to Lendcor, a microfinance business, for example, has increased from US\$ 4.4 to US\$ 4.9 million. The RHLF, according to its own admission has nevertheless struggled to expand its list of loan intermediaries beyond the current ones because of the very limited number of micro-lenders offering housing microfinance products.<sup>26</sup> Its loans are also not reaching all the population segments they would like. For example, its clients have only extended 2-4 percent of their loans to self- and informally-employed persons. Rather, most loans are accessed by employed people with 70 percent

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- Demonstrate the viability and scale of opportunities of housing microfinance to the microfinance sector, their networks, and the donor and investor communities); and
  - Provide leading technical assistance in the design and refinement of housing products, and supervise and share best practices with the sector as they emerge.

<sup>26</sup> See RHLF Annual Report 2011.



of these being the in the public sector. Further, only 51 percent of the loans were to people earning less than R 3500 (US\$ 422), less than the intended target of 60 percent.

The NHFC also lends for incremental housing and the Kuyasa Fund is one of its borrowers. At the year-end 2011, the largest loan held in the Kuyasa books belonged to the NHFC.

v. *New Urban Finance Facility for Africa*

The New Urban Finance Facility for Africa (NUFF) is a US\$100 million facility in formation, intended to provide catalytic investment in affordable housing and basic services in African cities. Its investments will be made through local banks and microfinance institutions, with the intent of encouraging lending for housing microfinance and other programs for affordable housing real estate development. Initial target countries in Africa include Ghana, Kenya, Tanzania, and Uganda. The NUFF is also planning a project in the Middle East, in the West Bank.

Direct investment in local commercial banks and microfinance institutions will constitute 85 percent of the fund, with the remaining 15 percent being indirect to investment for the newly established IFC-KfW credit enhancement program for housing microfinance.

vi. *Other developments*

In addition to those outlined above, HMF-focused funds are currently being established in Nigeria and Tanzania.

- In **Nigeria**, traditionally not a prominent country in terms of HMF, a debt facility, the Alitheia Micro Home Loans Facility (AMHLF), operated by Alitheia Capital,) has been created. Its intent is to provide capital (US\$ 15 million available for this purpose) to micro finance institutions for on-lending to the economically active poor to finance home improvement, completion and extensions. The average loan size offered by AMHLF's partner lenders is US\$2000. The facility is expected to reach over 11,000 households over a period of 5 years through as many as 10 partners.
- In **Tanzania**, the process of establishing the US\$ 3 million fund provided by the World Bank **to support** liquidity for MF institutions to invest in housing microfinance has commenced.

vii. *Profile of investors in HMF lending operations*

**Table 5: Profile of investors for two second tier HMF lenders**

<b>MFI</b>	<b>MFI activities</b>	<b>Investor / Financier</b>	<b>Type of financier</b>
<b>Kuyasa Fund, South Africa</b>	Almost exclusively housing microfinance	Ubutyebi Trust	Public benefit organisation operating in the Nelson Mandela Bay municipality with the intent of enabling affordable finance for housing
		Kovacs Investment	Local investment company
		Cadiz Life Limited, South Africa	Local investment fund
		NHFC	Government owned development finance institution
		South African Municipal Workers Union	Municipal workers union pension fund
		Rural Housing Loan Fund	Government owned development finance institution
		South African Micro Finance Apex Fund	A government organisation established in 2006 and tasked with wholesale funding for MFIs.
		Dutch International Guarantee for Housing	In cooperation with Dutch housing corporations and municipalities, DIGH loans are used to fund social housing projects across the world.
		Oikocredit	One of the largest funders of microfinance worldwide with wide ranging investors from USA, Canada, UK and both individual and institutional.
<b>NACHU, Kenya</b>	Largely housing microfinance but has business loans as well.	Rooftops Canada	International development programme of Canada's cooperative and social housing sector, which works with Canadian and international partners to improve housing conditions
		NBBL	Cooperative housing Federation of Norway representing 57 cooperative housing associations and 9300 affiliated housing cooperatives.
		Homeless International/Cliff	UK based charity
		Swedish Cooperative	Swedish Cooperative Centre established by the Swedish Cooperative movement to equip poor people with the ability to fight poverty.
		Cooperative Bank of Kenya	Commercial bank. NACHU has borrowed from it using a guarantee from Rooftops Canada.

The above table represents a profile of the type of investors in HMF lenders. Both lenders, NACHU and Kuyasa are second tier lenders; NACHU is a housing cooperative and Kuyasa started as an NGO. Both are still working towards long term sustainability. Their investors provide grants, and debt for onward lending or guarantees, and equity. In South Africa, the diversity of investors is apparent with a mix of local funds and pensions, government funded capital through RHLF and NHFC, as well as private investment funds. In Kenya, it is largely foreign grants and debt with some borrowing from local banks using the latter as guarantees.

The profile of investors for commercial HMF lenders is different. Since the lenders are all microfinance organisations who have branched off into housing improvement lending, investors are those ordinarily associated with general microfinance lending. Importantly, in many of these organisations, investment is through equity and ownership of shares rather than purely debt.

**Table 6: Profile of investors for two first tier HMF lenders**

MFI	MFI activities	Investor (through shareholding in the company) / Financier	Type of financier
<b>Akiba Bank, Tanzania</b>	Commercial Bank	Accion Investment	International equity investment company focusing on microfinance
		Erncon Holding	Local investor
		Inconfin CSVO	Specialist microfinance investor, international
		Interconsult	Local investor
		FMO	Dutch development bank
		Parastatal Pension Fund	Local pension fund investor
		Triodos Doen Foundation	Global microfinance investor
		SIDI	Local investor
		Tanzania Development Finance	Local investment company, government owned
<b>Pro Credit Bank</b>	Commercial bank and microfinance	Pro Credit Holding	Pro Credit Holding is the parent holding company which is owned by among others IPC (a finance consultancy) the Dutch Doen Foundation, the US Pension Fund TIAA-CREF, Omdiyar Tufts Microfinance, the Swiss responsibility, KFW, IFC, FMO, Bio and Proparco.
		Stichting Doen Foundation	Dutch foundation established by the postal lottery

## 2.3 TECHNICAL SUPPORT

The lending methodology around HMF is different which is tied to the progressive creation of a housing asset over time. The technical requirements of the housing process, and the impact these have on the health and risk profile of the loan, suggest that technical assistance, or housing support services, is an important part of the product model, and needs financial support.

Support can come in various ways: on the one hand, there is support targeting the business processes and development of the HMF lender. This is being done by organisations such as Planet Finance for example which has provided organisational technical assistance to the Kuyasa Fund in South Africa to help it expand its HMF lending. Its assistance was also directed at making the organisation more financially efficient and effective. It has shown interest in doing the same in Zambia among MFIs that have or are intending to provide HMF.

The other is construction technical assistance (CTA) targeting the house build process. A good example is HfH activities in Malawi, Ghana, Uganda, and planned for Zambia and Angola. In Malawi, HfH has partnered with Select Africa operations given that most loan applicants self-build or employ local labour to do the work. This results in generally low quality construction necessitating specialised support. As a result, the two have signed a Memorandum of Agreement, wherein HfH makes available to all incremental housing clients of Select a suite of CTA services. This CTA suite includes the following:

**Table 7: Construction Technical Assistance provided by HfH to Select Africa customers in Malawi**

Off-site	Technical Information	General information about shelter-related issues provided prior to, or not linked to, a specific construction project. Usually prepared beforehand, remotely, or in bulk, and typically not customised for specific clients.
	<b>Professional services and training</b>	Information, advice, and services related to a specific construction project, but not involving site visits or direct support for construction. Provision usually requires skill and/or experience. Typically customised for specific clients.
On-site	<b>CTA Level A</b>	Advice and services related to specific construction projects, involving 1-2 site visits. Requires some skill and/or experience, but not advanced engineering skills. Typically associated with minor repairs, maintenance, minor home improvements, etc.
	<b>CTA Level B</b>	Advice and services related to specific construction projects, involving one or more site visits. Require advanced construction skills but not structural engineering skills. Typically associated with repairs, extensive maintenance, more complex home improvements, non-structural renovations and extensions, etc.
	<b>CTA Level C</b>	Advice and services related to specific construction projects, involving more systematic site visits. Require structural engineering skills. Typically associated with major repairs, structural renovations and extensions, etc.

While the partnership between HfH and Select is intended to cover all housing microlending clients, only about 2000 clients (less than 50 percent of loan recipients) have received assistance over the past 12 months.<sup>27</sup> One major challenge has been that the demand for such assistance is higher than the capacity of HfH to provide it. Experience in CTA has also revealed that there is a need for a

<sup>27</sup> Email correspondence with Wayne Faulds of Select 23 May 2012.

revision to the suite of services, as well as reaching the client before construction starts, to reduce the probability of poor overall construction. According to Select, going forward this may require joint marketing exercises for Select and HfH. Further, refining the cost model for CTA assistance might enable HfH to better match resources with demand. An exercise of finding the optimal cost/benefit model is still underway and is likely to vary country-to-country and region-to-region.

In Tanzania, WAT HST provides housing support services as an integral part of the HMF loan package. They include basic construction design, budget verification, guidance on materials and labour procurement, assistance with permits and legal requirements, construction oversight and verification. The package also includes technical inspection and supervision, client/artisans technical capacity building, bulk land purchase negotiation and finalization, guidance on suitable materials and purchase, to mention but a few.

### **3 CAPACITY BUILDING AROUND HMF**

Given that HMF is a relatively new form of lending, there is a lot of capacity building work necessary to skill organisations in its methods. HfH has emerged as a key player in the capacity building arena. It has for example together with the Citi Foundation created a toolkit. This is designed to provide technical training and tools to encourage microfinance institutions to include or enhance housing microfinance products in their portfolios. The organisation has likewise partnered with the Master Card Foundation in a deal worth US\$ 6.6 million to launch a learning and dissemination exercise for emerging promising practices in HMF.<sup>28</sup>

In the late 2011 and early 2012, nine consultation sessions were convened jointly by the CAHF, HfH and Rooftops Canada, and held in Zimbabwe, Malawi, Kenya, Zambia, Tanzania, Mozambique, Nigeria, Angola, and South Africa to discuss the HMF sector and its growth. Participants identified measures that might assist the growth of a housing microfinance sector in Africa. Four broad themes had emerged of which capacity, including institutional management and the ability to understand HMF was prominent.<sup>29</sup> The following issues raised across the nine sessions touch on capacity challenges and the need for technical assistance in a number of areas:

- Weak client affordability;
- Weak market knowledge and segmentation;
- Poor client retention;
- Weak MFI skills in HMF provision;
- Limited client understanding of microfinance in general;
- Emphasis on FSS excludes subsidised product development (e.g. HMF);
- Weak institutional capacity in management information systems and human resource as well as technical skills;
- Lack of donor/funder understanding of HMF;

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<sup>28</sup> PR Newswire (2012).

<sup>29</sup> The others were capital, including a lack of institutional access to capital that is linked to the refinement of models; the housing process, which is difficult to package as it involves complex stages that are different within individual country; and an enabling environment, and the need for the development of a coherent HMF policy.

- Lack of MFI understanding of HMF (for example around the usability of alternative forms of security outside titles;
- Culture of client over-indebtedness;
- Limited savings capacity of clients; and
- Dislocation of MFIs from the formal financial sector.

The need for country and regional partnerships around HMF is increasingly being seen as fundamental to the process of building knowledge and capacity around HMF lending. Beyond the **Tanzania** working group for HMF which continues to meet, share knowledge and lobby for the industry, the beginnings of a number of other national initiatives have emerged from the nine consultations.

## **4 KEY ISSUES IN THE WIDER HOUSING DELIVERY CHAIN**

HMF lending involves the production of houses and because of this, needs to deal with broader issues tied to housing delivery and often beyond the realm of microlending. These include questions of land and building regulations as well as supply of infrastructure related to housing delivery.

### **4.1 LAND USE ADMINISTRATION, MANAGEMENT AND TENURE SECURITY**

The creation of appropriate systems of land use administration, management and tenure security that facilitate HMF still requires greater work and lobbying across the continent. This includes legislative and policy reform to allow for and even encourage incremental build. Other areas include removing threats to tenure security such as evictions, and the provision of incremental tenure and step-by-step acquisition of land rights. Threats to tenure security often kill off any self-build and incremental housing initiatives by households.

There have been some gains in this respect. Important legal precepts around evictions as enshrined by international human rights law have gained recognition and legal entrenchment in countries such as Kenya. Nevertheless the need for reform to land administrative systems around the continent, to make them more credible, accurate, and free from corruption remains. Recent studies by Urban LandMark and others in countries such as Nigeria, Mozambique and Zambia have highlighted this. Of particular concern are questions on accuracy of deeds registry systems, which hamper the security of tenure of holders, and affects comfort levels of lenders including those dealing with HMF. Further, many countries still retain high building and infrastructure standards, which serves as a barrier to HMF, for example Zimbabwe. In Rwanda, the city of Kigali has adopted urban densification standards that require all buildings in the inner city core to be a minimum of four storeys. This has meant that low income earners unable to afford to construct or purchase a four storey structure are forced to move into the urban periphery, where they do build incrementally, but with the added transport cost burden of their new location. Administrative systems associated with land use management are also a barrier. The operations of WAT HST in Tanzania for example have noted that delays in approving the town plan drawings at the municipality level and at the Ministry of Lands, Housing and Human Settlements Development area pose a challenge to getting HMF lending going.

Nevertheless HMF lenders have adopted localised pragmatic responses that help them manage these regulatory burdens. These include for example negotiations with local authorities for approvals and appropriate standards. Lenders such as Kixi Credito's in Angola have included as part of their activities lobbying for access secure tenure. Select Africa on the other hand is flexible on the type of tenure acceptable, and recognises tribal rights to land for example. Indeed most dwellers have some form of tenure security to the land they hold, and this is where HMF using its flexible lending methodologies and collateral substitutes fits in so well.

## 4.2 HOUSING AND INFRASTRUCTURE

Another important area that needs engagement with state authorities is the issue of infrastructure for housing. There have been examples of successfully funded infrastructure for HMF developments, for example in Kenya.<sup>30</sup> However, the costs of development of such infrastructure, often partly off-grid, do increase the cost of the final development. Again, ways of working with the local state where the delivery of such infrastructure is part of a negotiated process, on a project by project basis is the norm given the largely deficient infrastructure situation in many African urban areas.

In South Africa, one policy change that is being pushed and is gaining some momentum is that part or the entire national housing subsidy is directed at providing plots of land serviced with the requisite infrastructure. The approach provides housing microlenders with an opportunity to provide an incremental housing finance product that supports self build on these individual plots.<sup>31</sup> There is some policy traction for this position; a national target has been set for 400 000 households in well-located informal settlements to receive basic services and secure tenure by 2014. So far 125 694 serviced sites have been delivered by provinces by June 2012 (31.3% of 2014 target) (Eastern Cape, Free State and Limpopo figures outstanding).<sup>32</sup>

## 5 MAJOR MESSAGES ON A WAY FORWARD ON HMF LENDING ON THE CONTINENT

While there has been a steady growth in HMF lending across Africa, its prevalence is still limited, and not yet matched to the potential demand. This means that incremental housing is still financed either by general microfinance loans that are diverted to sustain and finance the housing process or other less formal means. This is despite the fact general microfinance loans are not specifically targeted at a housing process. The potential for HMF on the continent therefore still remains enormous, and scaling up the limited instances of its use still needs to be done.<sup>33</sup>

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<sup>30</sup> See Kihato M (2011) Infrastructure and housing finance: exploring the issues INTERNET <http://www.housingfinanceafrica.org/document/infrastructure-and-housing-finance-exploring-the-issues-in-africa/> Accessed on October 10, 2012

<sup>31</sup> This opinion on the private sector was provided by LENDCOR.

<sup>32</sup> Topham S (2012) *National Upgrading Support Program* Presentation at the Planning Africa Conference 18 September 2012 Durban South Africa.

<sup>33</sup> Ferguson (2004).

This large potential has attracted greater capital flows, in terms of grants, equity, loans and capacity building and technical assistance. Indeed there are encouraging signs that HMF is being explicitly targeted by investors as a viable investment destination. A number of new commercial entrants into HMF retail lending also attest to the fact that it is indeed viable operation.

As a launching pad, general microfinance organisations still represent important platforms for the growth of HMF in the continent. Most enter into HMF and home improvement lending through their current microfinance lending activities. They use the familiarity with clientele, knowledge of microfinance lending methodologies and already existing network of branches to create a platform for this. They have the incentive to include HMF to their stable of products as value-add and loyalty enhancer. They thus still represent the most likely entrants into HMF lending going forward, and will continue to attract the immediate attention of funders for this. As a target for capacity building and advocacy going forward, they are thus an important sector.

There are emerging successes in HMF lending among many of these commercial organisations. The growth in the loan books of lenders such as Centenary Bank in Uganda, attests to this. Indeed this organisation has shown a dedicated home improvement product can constitute a good proportion of an organisations lending and grow as fast as other products. Meanwhile, new entrants continue to see the potential for HMF for example Akiba Bank, in Tanzania. Existing organisations such as Select Africa have also been expanding their operations in more and more countries. But there have undoubtedly been some declining trends among some of these commercial lenders, and having existing microfinance or other commercial lending operations does not guarantee success in HMF. Going forward, it is important that the experiences of these commercial lenders are monitored and highlighted to understand some key determinants of success and even potential pitfalls that cause problems for HMF lending.

The lending activities of HMF lenders that originated as NGOs and non-profits continue to grow. They are an important component to HMF because they deliberately cater for much lower income earners, something which other more commercially orientated lenders do not necessarily do. While commercial HMF lenders as a first point of entry target regular incoming earning people such as civil servants, the NGOs and non-profits are more open to a wider range of often less well to do clientele where affordability challenges are more acute. In Tanzania for example, the pilot operations of WAT-HST have noted this limited affordability means that very long saving periods are needed to acquire housing, and there is a crucial role to be played in bridging that long waiting period. It is precisely this kind of practice and experience in these lower income segments that is critical to scaling up HMF on the continent. A much larger market exists for HMF than is being served by commercial lenders and indeed, non-salaried people with small business and irregular incomes provide the largest potential for growth. The general microfinance industry has shown this as an important “bottom of the pyramid” segment, which is yet to be truly breached by HMF lending. NGOs and non-profits thus represent the best option where lessons and practices in lending to these segments can be accumulated, understood and used to scale up HMF lending. In addition, their interaction with the housing process provides an important resource that can be harnessed for CTA for the more commercially orientated lender. Going forward therefore, support and investment in these NGOs and non-profits needs to be sustained as a way of reaching poorer borrowers, but more importantly, as a way of understanding HMF better and establishing practices that can contribute to scaling up.



One clear strategy by many entrants into incremental housing lending, especially larger commercial banks and microfinance banks, is to offer the home improvement loan product to their existing client base, for improvement on an existing house. This strategy reduces the risk to the lender as they learn about how an HMF product works. As they accumulate knowledge and practice on this new product, they bridge the divide between current operations and potentially new ways of lending and growing new HMF business. This is thus an option that should be encouraged among commercial lenders who intend to offer HMF product going forward.

Another important area for investment and support is targeting the development of institutions and organisations that provide construction technical assistance (or housing support services). Based on the experiences of HMF lenders, it is now universally recognised as an important component to the lending process. Ways of harnessing this important ingredient of HMF for example, entering into partnerships between lenders and the providers of such support are important to strategy to greater lending and the creation of a good housing product.

Another intervention, relevant to all stakeholders, that touches on the question of affordability, is the considerable costs of building materials in many African countries. An immediate challenge is bringing down the costs of housing through cheaper and more readily available construction technologies and materials. This should be a priority for all involved in the industry.

The policy environment, especially around land use administration and management remains difficult in many African countries. As a first step and minimum requirement, tenure security needs to be guaranteed. It is further illustrative that no deliberate policies for HMF exist in African states, very unlike the general microfinance sector. These could potentially cover among others the leveraging off pensions for HMF, tax relief, affordable infrastructure and liquidity facilities. There is some positive movement with regard to the last item. The government of Tanzania in conjunction with the World Bank has established a mortgage liquidity facility, and there are proposals that its use is extended to HMF lending in recognition of this important sector. This is yet to happen, but represents a potentially positive development going forward. Another example of policy shifts is that regarding the state's role in providing land and infrastructure where it was noted that in South Africa, there are policy proposals that serviced plots be provided, which will support the incremental housing process. If this policy is fully implemented and truly used to support the incremental housing process by households, in combination with HMF, it can grow the industry significantly and provide housing to many of the country's current un-housed.

Yet these represent only the beginning of a process to entrench HMF as a viable option for housing finance in government policy. Advocacy and lobbying of the state is still critical going forward in numerous areas.

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