Housing Matters: The Importance of Housing Finance in Financial Sector Development in Africa

Kecia Rust, Housing Finance Coordinator (kecia@housingfinanceafrica.org)
Centre for Affordable Housing Finance in Africa, a division of FinMark Trust
www.housingfinanceafrica.org

In the past decade, Africa's growth has completely outstripped expectations on a number of levels. While the rest of the world has struggled with an economic crisis that has devastated growth prospects and fundamentally changed the understanding of financial markets, African economies have been growing. Driven in part by resources and commodities, most notably the discovery of oil in many markets, the past ten years have seen average growth rates of above five per cent, and in some countries as high as seven or eight per cent. This growth has been supported by the rise of democratic governments, liberalizing economies and domestic markets in many African countries that are coming to understand the global nature of their growth and are opening themselves up to the opportunities this presents. At the same time, Africa's cities have been going through a dramatic transformation, growing at a faster rate than any other region on the planet. In this context, the growth of an emerging middle class means that for the first time, a significant population has affordability to participate in the economy. While this growth on all three fronts has been tremendous, it has not been matched by the development of urban residential spaces. UN Habitat estimates that just over 60 per cent of Africa's urban population lives in slums. The majority of this is in sub-Saharan Africa, where every year, an estimated seven million people moving into urban areas find themselves living in informal settlements or slum conditions.

The development response to these changes and opportunities has happened on two separate plains. On the one hand, economic growth is supporting increasing attention to financial inclusion, and the role of financial services in households' lives. Donor support to the development of financial markets is also evident, while at the household level, development emphasis is on the growth of small businesses and mobile financial platforms. On the other hand, the household level effects of urban poverty are being addressed through initiatives which focus on health and education, and recently also on the effects of climate change. While operating in these two broad silos, economic and social, development finance practitioners overlook the link between the two: economic growth and household livelihoods both stem from the home – the physical residential structure where people live.

The growth and performance of the housing sector and the role of housing finance in this process is critical to the development finance agenda for at least three reasons. First, housing is a very rapidly growing subsector of the economy, and over time will represent a substantial portion of GDP. Central to the real economy, the production and consumption of housing stimulates economic growth. Growing property markets and the finance that drives them will also have a dramatic impact on the structure and performance of national and regional economies. Second, the housing and housing finance sectors have a range of hidden multipliers that are particularly useful for developing economies. Housing assets, whether geared with finance or not, can act as a financial springboard to micro and medium enterprise and human capital development and can contribute to the realization of sustainable livelihoods. Housing can also achieve a range of broader development goals, and so can operate as a beacon for other objectives. Third, as the middle class across Africa grows, housing finance offers the opportunity to support its stable growth. The impact of home ownership and quality housing on political and social stability has been established. It is also well understood that the opposite is true: that poor housing can contribute to instability. As Africa's economy grows and develops, access to housing finance will become increasingly important to ensuring broad based economic growth and to protect against the potential for widening inequality.

Housing is central to the real economy and underpins financial sector performance and growth

Internationally, the significance of the housing construction and residential property sectors in the economy is well understood and accepted. In the United States, economists cite new housing construction, or "housing starts" as a leading economic indicator. Positive growth in the housing sector leads economic growth, while a sustained decline in housing starts can slow the economy down and push it into a recession. This has been especially clear in the United States in recent years – with the decline in housing production since the sub-prime crisis, economic growth slowed and unemployment increased (McBride, 2012). The reason for the linkage is clear – housing construction necessarily involves a series of other sectors: building materials, construction, finance, professional services, and so on, as the different links in the housing value chain come together to deliver housing. When housing construction decreases, the demand for and use of these other links also decreases, thereby exponentially undermining growth prospects.

Housing construction also leads the economy after completion. A house newly built is sold to a buyer, usually with finance. Once the buyer moves in, he or she buys new furniture and appliances. Over time, the homeowner is likely to invest in home improvements, financed either with savings or with a loan, which may or may not be secured with a mortgage on the property. In South Africa, the past decade has seen a rapid rise in what appears to be home equity withdrawals as property price appreciation has enabled homeowners to raise finance against their property and invest this in other things (Eighty20, 2012). In the United States, residential investment is estimated to amount to 4-8 percent of GDP and 20-30 percent of total investment (Buckley et al, 2009). Homeowners are always improving their homes, and as property values increase, lenders support the raising of further finance against the property, which then makes it possible for more money to be circulated in the economy, driving further consumption.[1]

[1] As part of these backward and forward linkages, job creation in the production and consumption of housing is also a fundamental output of a healthy housing sector – at all skill levels. Housing construction is a labour-intensive exercise and an increase in housing delivery can lead to substantial job creation, both skilled and unskilled. Napier (2011) reports that "in 2002, it was estimated that R3 billion of government investment in

A key factor in this arrangement is the mortgage instrument. By turning what is probably the most expensive investment a household will ever make into one that is affordably paid in instalments, the mortgage instrument makes it possible for households to realize their housing needs in the short term while paying for them in the longer term. In order to provide this loan, lenders need to raise long term capital – that is, capital that can withstand the twenty to thirty year loan terms that most mortgages involve. In raising the capital to support its mortgage lending, the lender may use any number of sources, and this effort directly links the mortgage and property market with the financial market. Never has the potential and danger of this been exposed as in the recent global economic crisis where sub-prime mortgages in the United States were funded through securitization vehicles that drew on savings from all over the world – China, India, and elsewhere.[2] In 2004, mortgage debt to GDP was over 70 percent in Australia, the Netherlands, the United Kingdom and the United States; and over 40 per cent in Germany, Ireland, Spain, Japan and Canada (Buckley, 2009).

Mortgage finance to GDP figures in Africa, are tiny however. South Africa has the highest ratio at 31 percent, followed by Namibia at 20 percent. Kenya follows, with a mortgage to GDP ratio of 2.5 percent and most other countries in sub-Saharan Africa have ratios of less than two percent (CAHF, 2011). The reasons for this are many, and involve challenges in land registration and housing delivery systems, the capacity of national financial markets, and of course very real affordability limitations for mortgage finance. Nevertheless, Walley (forthcoming) suggests that the potential market size for mortgage loans in Africa could be estimated at six million loans. He goes further to suggest that “on the assumption of an average loan size of $50 000, this represents $300 billion of mortgage loans or 18 percent of Africa’s total GDP. Excluding South Africa, this would mean a debt to GDP ratio of around 12 percent for the continent.” Adding the backward and forward linkages to this calculation suggests a huge growth potential for Africa’s developing markets, all made possible around the availability of a mortgage loan.

Because the mortgage market is so small, current housing investment in African countries is not well quantified. Historically, both rural and the majority of urban households have constructed their housing independently (Ferguson, 2008; Tomlinson, 2007). While some of this housing is formal – commissioned by the owner but built by an established builder using formal building materials and registering the process with the state or other local governance system – the majority of such housing has been informally or self-constructed with materials either self-made or found, and not registered with any statistical service.[3] Many materials come without a direct cost – mud bricks fired or not, reed roofing, even found materials. To account for the labour of producing these materials and constructing

---

South Africa would generate or sustain about 48 000 direct job opportunities in the building industry and 45 000 indirect job opportunities in the building materials and components industry.” Research undertaken for equity investor International Housing Solutions in South Africa (Viruly, 2012) found that the delivery of 25 000 units had created a total of 18 500 direct and 27 750 indirect employment opportunities – 60% of which were for unskilled workers. The management of this housing stock on a rental basis created a further 5 300 continuous jobs – both skilled and unskilled.

[2] Buckley (2009) notes that in 2005, the US Treasury estimated that nearly 15 per cent of US agency securities were held by overseas investors.

[3] A number of countries are only now developing their cadastral systems in which properties can be registered.

the dwelling, development practitioners have coined the term “sweat equity” – but this is neither captured statistically nor does it contribute towards national GDP figures.

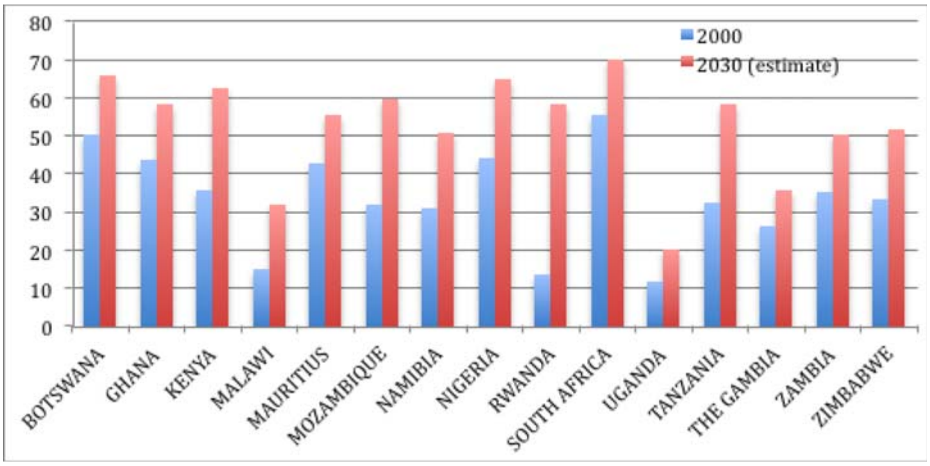
Another way of considering the breadth and depth of housing investment is to use microfinance market figures. According to the MixMarket, the gross loan portfolio across 664 microlenders in Africa in 2011 was $6,6 billion. These loans were held by 3,2 million borrowers.[4] While there is no conclusive way of establishing housing investment from these figures, it has been suggested that upwards of 30% of a microlending book is typically used for housing purposes (Kihato, 2009). This could mean a $2 billion investment across Africa in housing, with loans that the MixMarket suggests have an average balance of $455.80. Approaching the notion of incremental housing investment from the demand side, Kihato (2009) suggests an estimated urban demand for housing microfinance in Africa to the value of $8 billion.[5]

The significance of this ‘invisible’ housing investment is made all the more real given the massive rate of urbanization underway in many countries across the continent. It is estimated that by 2030, over fifty per cent of Africans will be living in cities. Already, the populations of many countries are over 30 per cent urban. In 2010, fourteen African cities had populations of over three million. It is estimated that by 2015, 58 people will be walking into Lagos, 39 people will be walking into Kinshasa, and 15 people will be walking into Nairobi every hour (Kihato, 2012).

Percent of the population that is urbanized, 2000 – 2030 (UN-Habitat 2005)

[4] Deposits held by these lenders amounted to $6,4 billion, saved by a total of 7,2 million borrowers. See http://www.mixmarket.org/mfi/region/Africa

[5] This level of demand is not inconceivable, even given the very low incomes in urban areas across the continent. The case of Mukuru, in Kenya, is illustrative. In 2007, a group of savers approached the AkibaMashinani Trust for assistance in purchasing a 23 acre plot of land on the outskirts of Nairobi. The savings group comprised about 2200 savers, and the land they wished to purchase was available for just under US$1 million. Members of the Mukuru Savings Group saved daily, from as little as 25 cents to as much as US$2,50. Over the period of five years while they sought finance, they managed to save a deposit of $309 400. Ecobank then granted the savings group a loan for $653 600 in 2010 at 16% interest, which the residents managed to repay their loan in just under two years. While the loan was contingent on a guarantee from Shackdwellers International, the transaction demonstrates the potential that can be generated even among very low income households. AkibaMashinani Trust reports that since working with the Mukuru group they have been approached by very many other savings groups in the area for assistance in purchasing land and developing housing. They have further been approached by their lender to purchase another piece of property (Weru, unpublished).



UN Habitat (2005) Global Report on Human Settlements: Financing Urban Shelter.

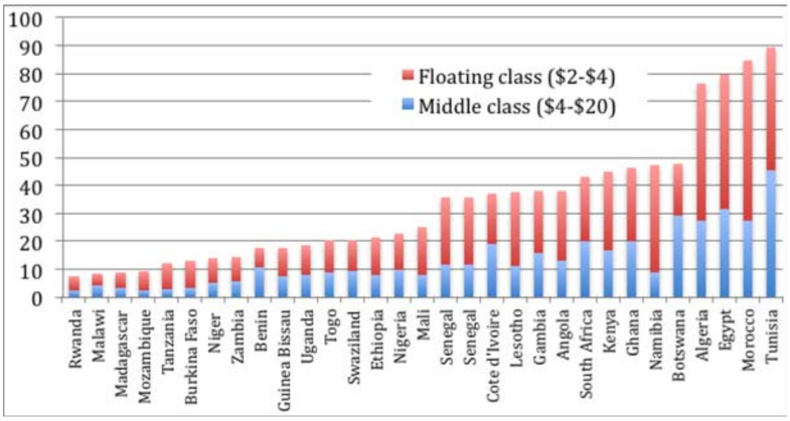
This growth puts increasing pressure on urban infrastructure – water, sanitation, energy, and housing. While the challenge of slum settlements is most severe sub-Saharan Africa (it is estimated that 62% of urban households in the region live in slum conditions), there is a financial capacity among a significant proportion of these residents which could contribute towards a housing solution and ease the overwhelming nature of the problem. It is estimated that by 2030, the eighteen larges cities in Africa will have a combined spending power of US$1.3 trillion[6] and this wealth is not only concentrated among the few.

A study undertaken by the African Development Bank (2011) found that "*Africa's middle class has increased in size and purchasing power, as strong economic growth in the past two decades has helped reduce poverty significantly and lift previously poor households into the middle class.*" By 2010, just over a third of Africa's population, or nearly 326 million people, had a daily consumption of between US$2 - $20. This is three times the population in this category in 1980, and double the number in 1990. While the population across the continent grew by 2.6% over the period, the middle class population grew faster, by 3.1%. The study also found that nearly a quarter of Africa's GDP, an estimated $680 billion in annual expenditure, (based on 2008 purchasing power parity) was as a result of consumer spending driven by the middle class. Projecting forward to 2030, the study estimated that annual consumption could reach as much as $2.2 trillion, comprising about 3% of worldwide consumption.

The African Development Bank research segments the middle class into two parts: the traditional middle class, which comprises individuals who consume between $4-$20 per day, and the so-called floating middle class, who consume between $2-$4 per day, and who are potential entrants into relative wealth as the economy grows further. These segments together comprise people who earn enough to have something to spend, but not so much that they will travel elsewhere to buy it. It is this new dimension to the picture that is likely to drive housing investment in the immediate term.[7]

[6] Reinstra, D(2011) Africa's megacities and the opportunities they offer. 20 May 2011. Accessed from INTERNET in August 2011. www.howwemadeitinafrica.com
[7] Already, developers and financiers are beginning to frame the new opportunities. Renaissance Partners' flagship development in Nairobi, "Tatu City" is a new vision of upmarket living. A mini-city, with its own internal

Percentage of national populations consuming $2-$20 per day



As African cities grow and as urban households build their financial capacity to consume better housing, the role that housing investment plays in national GDP will become increasingly significant. As this is happening, very many national governments are also addressing their cadastral systems, creating the space for property markets to emerge and flourish. It is at this point that the potential of the property sector to change the dynamics of the national economy will become important. However national property rights are defined and allocated, property could become the most democratically distributed asset in the economy – addressing challenges of inequality and poverty. The case of South Africa offers a useful insight into this potential.

Since 1994, the South African government has been providing fully subsidized housing to low income earners as part of the democratic government's reconstruction and development programme (RDP). Critiques of quality and scale aside, it is broadly accepted that the Department of Human Settlements has delivered upwards of about 3 million units[8] to qualifying beneficiaries[9] since the programme began. By September 2010, a total of 1,44 million government subsidized properties were registered on the National Deeds Registry – an estimated 50 percent of subsidized properties delivered (Shisaka, 2011). These 1,44 million properties comprise just under one quarter of the total number of residential properties on the national deeds registry. If the additional subsidized properties not yet

---

coherence, it includes residential developments for an estimated 62 000 residents from a range of income groups, as well as retail, commercial, tourism, social and recreation facilities. The company is in earlier stages in a series of similar developments in Zambia, Ghana and the DRC. Making waves a few years ago was Houses for Africa's Lilayi Project in Zambia, a development of about 3 700 middle-class houses just outside of Lusaka. Houses for Africa has another project in Abuja, Nigeria, involving 7 000 middle class housing units. The motivation for the project explicitly highlights an estimated population growth of 100 000 middle class households in Nigeria, annually. There are other developers as well, some multi-national, others more local. What links them together, is their identification of middle class housing as a key area of demand.

[8] Data regarding the delivery of subsidized housing in South Africa is complex and unclear. The Department of Human Settlements has historically published its delivery figures in terms of construction progress rather than completions, reporting on the number of houses "completed *or* under construction". The National Department of Human Settlements does not offer statistics on actual houses built.

[9] In the early years, 86% of the population was considered eligible to apply, given a household income of less than R3500 (about US$435) per month. By 2010 (given inflation and growth), about 60% of the population fell within this income target range, enabling them to apply for an RDP house. While other criteria apply, the income threshold is the dominant one.

registered on the deeds registry were included, the proportion of the property market served by government-subsidized stock would equal more than 40 percent.

Clearly this is significant. In the short term, these properties are all new and their economic effect, beyond the cost of construction, is not yet fully felt in the market.[10] As of September 2011, only 90 858 properties (6 percent) had been sold by a beneficiary to a new homebuyer, feeding the property market. However, over time, these 1,44 million (and growing) properties will be used by their residents to achieve goals other than simply shelter. Some households may seek to grow a small business and use their property to raise mortgage finance to enable their plans. Others may decide to sell their property, realizing equity for themselves, which they may then invest in another home, thereby stimulating the housing supply sector while offering an affordable option for an incoming homebuyer. Just from the sale of the 90 858 properties, over R12 billion in new value was generated (FinMark Trust, 2011). To facilitate these sales, 50 000 mortgage bonds were disbursed, of which about 30 000 are still active. Still others may decide to invest in improving their home, adding fixtures or extending the space. Aside from mortgages linked to sales transactions, a further 120 000 government subsidized properties have leveraged roughly R20 billion in mortgage finance (FinMark Trust, 2011). Further investments not financed with mortgages are visible: households have invested significantly in their houses; those that have not invested are a clear minority.

The dynamic of a property market that is newly dominated by entry-level housing and first time homebuyers is only beginning to be understood by property economists.[11] As the market grows and matures, however, increasing activity and demand will force the players – analysts, economists, lenders, and developers, as well as policy makers and development financiers, to revise their paradigms and products to accommodate and support the further growth of this new and dynamic market.

Hidden multipliers in the housing sector

While the housing construction and consumption process stimulates wider economic activity in the various backward and forward linkages, less immediately apparent multipliers can be found in the house itself. Housing is an important physical base around which to target small enterprise promotion. In this way, De Soto's 'dead capital' finds life in the way the homeowner or resident uses it to realize an income.

Research in support of the house as a productive or income-earning asset has found that households use their homes productively in two ways (see Shisaka, 2006; or Gardner, 2010).

---

[10] According to the South African housing subsidy policy and the National Housing Act, there is an eight-year resale restriction on government subsidized houses, during which time the State reserves the right of first refusal to purchase a government subsidized house. If a household does wish to sell their property within the eight year period, they need to motivate this to the Provincial government department, which is empowered to grant an exception and permit the sale.

[11] The Affordable Land + Housing Data Centre is working intensively in this space in South Africa, seeking to understand and quantify the affordable housing market, which it defines as areas where the average property value is less than R500 000. The goal of the al+hdc is to expand investment in the affordable housing market through the dissemination of efficient, timely and accurate market intelligence. www.alhdc.org.za

A household may rent out a portion of their home –a room perhaps – as rental accommodation, or may construct an additional dwelling on their property for rental purposes. In 2006, it was found that small scale landlords in South Africa were offering well located, affordable rental housing to over 1,8 million low income people with an average income of R1800 (about US$250 at the time) per month, and collectively earning an estimated R420m (about US$58,3million) per month or just over R5 billion (about US$694 million) annually (Shisaka, 2006).[12] More recent research in the City of Johannesburg confirmed that homeowners providing backyard rental accommodation were the dominant housing suppliers in the city.

Micro and small-scale enterprises are also very commonly rooted in the home. FinMark Trust's FinScope Small Business Survey found that 70% of all small, medium and micro enterprises in Gauteng[13] had at least one component of their business based in their home. Shisaka (2006) found that home based entrepreneurs in South Africa were estimated to be generating about R476m (US$ 66 million) per month, operating in residential areas, enhancing access to services and products to resident low income households. Their activities contribute back to economic growth as working individuals become consumers with their additional income, creating greater demand for goods and services, and so on.

This then leads to a further hidden multiplier: the role that housing plays in the production and maintenance of sustainable human settlements. While the home-based enterprise generates an income for its owner or operator, it generates a service for the neighbourhood. A small variety store in someone's home can mean that neighbours in the area don't need to travel by bus to buy milk; a crèche in the neighbourhood means that parents can seek work without worrying for the care of their children; a shop front on residential property suggests pedestrian traffic throughout the day, increasing security; and so on. Further, when housing is well integrated with the services and functioning of municipalities it serves both to integrate individuals into the community (social inclusion) and as a point of engagement with governance structures (citizenship). Residents in sustainable neighbourhoods pay rates and taxes and contribute to their municipality's capacity to deliver more services.[14]

The quality of the housing in which households live have impacts also beyond shelter and income. Many authors have demonstrated the effects of poor housing: poorly built

[12] Contrary to popular belief, 53% of all small-scale rental units were found to be formally constructed (houses, flats, or rooms), with the balance (47%) being shacks. The research notes that the small-scale rental sub-sector achieves this with no direct state support, and at times in contravention of a hostile policy framework. Interestingly, the fastest-growing sub-sector within the small-scale rental sector was found to be houses, flats and rooms built on existing properties, with a growth rate of 83% between 2002 and 2006. The average delivery of formal, small-scale rental units in South Africa, between 2002 and 2006 was 33 500 units per annum.

[13] Gauteng is one of South Africa's nine provinces, and economically the most dominant. While it occupies only 1.4 percent of South Africa's land area, it contributes 33 per cent to the national economy and 10 percent to the GDP of the entire African economy. Source: http://www.southafrica.info/about/geography/gauteng.htm

[14] Or not: in South Africa, beneficiaries of subsidized housing are exempt from paying rates and taxes to the municipality. This has created substantial and growing long-term pressure on municipality finances as they struggle to service a population that is not giving them any revenue. In failing to recognize the impact that housing has on the sustainability of human settlements, South African policy has created a situation in which subsidized housing settlements are ultimately a drain on municipal resources, undermining municipal capacity to do the kinds of infrastructure investment and maintenance that growing populations require.

structures that do not protect their occupants from the elements or are poorly ventilated, and which offer poor access to water, sanitation and energy, are unhealthy. Dirt floors contribute towards a higher rate of parasitic infestations in young children (Cattaneo et al, 2007). Informal settlements without sanitation services are at further risk of parasitic diseases, and this is exacerbated when these areas flood. Poor ventilation can contribute towards the risk of infection, especially when the household occupies a single room and one or more family members are sick. In winter, when households burn coal or wood to keep warm, the incidence of fires and of respiratory illnesses increases. Poor access to water, sanitation and energy services, and poor quality housing also makes households much more vulnerable to the effects of climate change.

Slum living is also more expensive for residents. In Uganda, for example, it was found that slum dwellers in Kampala pay water sellers as much as three times what residents in formally planned settlements pay for their water. As a result, slumdwellers draw their water from rivers, which in urban areas are increasingly polluted, thereby contributing towards rising illness.[15] Residents in Kibera, Africa's largest informal settlement, which is in Nairobi, Kenya, pay over 25% of their income in rent for their shack made of mud, sticks, boards, plastic, or corrugated iron. Communal ablutions are financed with a user fee which can be anywhere between 2 and 10 percent the daily wage – or residents simply relieve themselves in alleyways, adding to the stench and unhygienic conditions in which they live. Water kiosks are available, though the price of water depends on its availability. Estimates suggest that 20 liters of water can cost anywhere from 10 percent to a person's full daily income. In some situations, women and children need to queue for up to four hours to purchase water.[16]

The impacts of inadequate housing extend beyond health and the cost of living. Cattaneo et al (2007) have established that the stress of inadequate housing – physical and social – translates into much lower levels of satisfaction and happiness, and that this undermines an individual's capacity to realize a sustainable livelihood and contribute towards GDP growth. Overcrowded housing, for example, creates distractions (sleep disturbances, family conflict, and so on) that undermine studying and school performance (Goux and Maurin (2005), cited in Bouillon 2011). The time it takes for a household member to collect water or firewood detracts from the time that could otherwise be spent on more economically productive activities or studying. Time taken travelling to employment robs children of important parenting time, and this has a host of other effects. The consequences of these stresses are self-reinforcing and further entrench inequalities. Thus a child growing up in inadequate housing which contributes to his or her poor performance at school and then undermines his or her access to gainful employment, is much less likely to rise out of poverty than is a child in adequate housing (with an unencumbered school experience and therefore better access to employment) likely to become impoverished.

---

[15] Report on a media workshop entitled "urbanization and health: key emerging challenges" held in Kampala. http://washafrica.wordpress.com/2010/04/08/uganda-water-costs-higher-in-kampala-slums/

[16] Kinyoda, M (2012) Blog on the Cost of Living in Kibera. http://pesatalk.com/2012/04/the-cost-of-living-in-kibera/

Good housing, on the other hand, improves heath and welfare, improves resilience against climate change, and can grow a household's asset wealth considerably, putting them in place to overcome inequalities. This point is not lost on households themselves: research conducted for International Housing Solutions, an equity investor working in South Africa (Viruly, 2012), among first time buyers who had purchased I H S homes, found that over 70% felt that their new home had improved conditions for their children and the overall health of their family. About 65% said it had improved their social life and leisure; just under 60% said it had improved their education prospects and just under 50% said it had improved their employment situation.

Rethinking the housing finance framework in support of greater access

The housing finance framework as it is currently structured across Africa is not working. While only 3% of the population might be able to afford a mortgage (Walley 2010), current mortgage markets are only reaching a fraction of that number. Beyond that, there's another 60% of the population who consume more than $2,00 per day and therefore may have some level of affordability to invest in their housing circumstances and participate in a solution to the growing urban housing crisis. But there is nothing to buy. They have affordability for housing, but cannot find housing that is affordable.

The frustration felt by households in this situation is considerable. In 2010, South Africa's largest public worker union held a three-week strike in which one of their key demands was for a housing subsidy. Workers were complaining that they were too rich to qualify for the national housing subsidy scheme, but too poor to afford the cheapest newly built house.[17] They requested government offer a R1000 housing subsidy on top of their wage demands to assist them afford housing. This point of disagreement was one of the reasons why the strike went on so long. Ultimately, the strike was called off as a result of a negotiated settlement in which the government promised to develop a policy to address the housing need of this target market. Since then, the South African Department of Human Settlements has implemented a new subsidy policy that may well work for this market – however, insufficient affordable housing supply is hampering the success of this initiative.[18]

The South African case is somewhat unique – housing affordability for the middle class is hampered by the distortive impact of the national housing subsidy. In other countries,

[17] In South Africa, households earning less than R3500 per month are eligible to apply for subsidized housing – this constitutes about 60% of the population, and to date, the government has built about 3 million subsidized houses. In terms of the policy, qualifying beneficiaries are given ownership of a $40m^2$ structure on a $250m^2$ plot of serviced land, entirely for free. The cheapest newly built house available on the open market costs about R250 000, and is affordable at current interest rates (assuming a 100% mortgage repayable over 20 years at 11% interest) for households earning about R9000. This means that about 20% of the population – those earning R3501-R9000 – fall into what has been termed the 'gap' market – too rich for a subsidy but too poor to afford housing.

[18] A further issue worth noting is the effect that the so-called 'gap' market in South Africa appears to be having on the wider credit situation. Rising debt levels in South Africa have occurred in concert with limited housing supply. Whether the relationship is direct or indirect is unclear, however the coincidence is striking. It is worth considering if the situation might be different if there had been sufficient affordable housing supply to meet the potential demand of new entrants into the labour market. With a sense that home ownership was a realistic and achievable vision, it might be the case that households would be less interested in short term consumption and more focused on saving towards housing.

where no such subsidy system exists, there are other constraints to the availability of affordable housing and housing finance (Walley, forthcoming; and Chiquier and Lea, 2009). A factor common to all, however, is that even entry-level housing is too expensive for households with affordability for credit – the AfDB's middle class. Of course, there are real macro-economic factors at work here, and these must be addressed. Mechanisms to bring mortgages down-market, and to make entry-level houses cheaper, must be developed.[19] In the meantime, however, there must be a solution that enables households now to meet their housing needs and aspirations with their own resources and whatever state support is feasible, and in so doing, benefit from (and contribute to) the various hidden multipliers that housing investment supports.

It is into this space that a new understanding of housing needs to fit and partner with a focused effort on appropriate and affordable housing finance. With the growth of microfinance across the continent, the use of microloans for housing is becoming prevalent, and an incremental housing delivery process that proceeds in line with a household's affordability becomes possible (Cain, 2007). In some countries, explicit efforts to build a housing microfinance sector are contributing to the trend, and the work of the non-profit sector has been particularly important.[20] A more recent development is that this activity is not limited to non-profits. Commercial enterprises are also entering the housing microfinance sector, recognizing the opportunities for a real return in meeting the needs of an underserved market.[21] A constraint facing all of these efforts, however, is the way in which housing policy understands housing delivery. The persistent focus on housing developments and the all-in-one delivery of a housing unit that is then offered for sale does

[19] It is worth noting that certainly from the South African experience, mortgage loans extended to low income households are no less risky than mortgage loans to the wider market. Research being undertaken by the FinMark Trust is showing that mortgage loans extended to the Finacial Sector Charter target market between January 2004 and December 2008 have performed slightly better than all other mortgage loans extended in that period, with a lower level of accounts in arrears for more than 90 days, and better cure rates when accounts do default. While it is still early days in monitoring these loans, the prevailing assumption that the low income market is more risky is not borne by the evidence.

[20] For example, in Tanzania, Rooftops Canada has been working with the WAT Human Settlements Trust and the WAT Saccos to develop a housing microfinance product that targets the AfDB's floating class. The intention is to scale up to at least 1000 loans per year, providing both financial and housing support services, so that incremental builders have the necessary technical support to deliver a quality product. Also in that country, a number of housing micro lenders have together formed the Housing Micro Finance Working Group, to promote the development of the industry. Rooftops Canada is working with its partners to develop a regional support programme for Housing Micro Finance, that will promote the growth of the sector further, across Sub-Saharan Africa. Habitat for Humanity is also working in many countries, promoting Housing Micro Finance together with housing support services. Homeless International is similarly involved, with projects in Angola, Ghana, Kenya, Malawi, Namibia, Tanzania, Zambia and Zimbabwe. Working with poor peoples' organisations in each of these countries, mobilizing savings groups and connecting groups with the commercial sector, these initiatives are seeking to build a housing microfinance sector that mobilises the affordability of low-income earners for housing purposes.

[21] Select Africa Limited is a retail financial services group that targets the working poor, offering housing microloans to borrowers who then construct their housing incrementally. Pulse Financial Services in Zambia provides home improvement loans on a commercial basis. In Nigeria, Alitheia Micro Home Loans Facility (AMHLF) is a debt facility operated by Alitheia Capital Limited in Nigeria, that will provide capital to micro finance institutions (MFIs) for on-lending to the economically active poor (the target market) to finance a home improvement/completion/ extension project. This facility seeks to improve the production and management of the target market's own strategies – an initiative of "support" rather than "supply". Housing microfinance is a relatively new initiative in Nigeria. While majority of existing MFIs recognise the need to offer this product, there is a great deficit in capacity and resources.

not accommodate the affordability parameters of the majority. To match the incremental finance solution found in housing microfinance, housing policy must develop an incremental delivery solution (Ferguson, 2010).

The potential for such a focus that maximizes the financial capacities of the growing middle class by engaging with the realities of their affordability, is tremendous. Appropriate housing finance instruments and housing delivery processes could unlock latent housing investment demand, stimulating the construction sector in the economy and supporting the hidden multipliers. Already, there is evidence of local level practice by both end user consumers and the private and NGO sectors in promoting incremental housing approaches. This now needs to be brought to scale.

Factoring housing finance into a development finance agenda

The challenge facing the development finance agenda in Africa is how to harness the opportunities that housing and housing finance growth offer for wider economic growth and social development, in the face of rising urban pressures and capacity constraints. It is clear that Africa's cities cannot cope with the wave of urbanization they are experiencing and the demand for housing being expressed by their growing populations. UN Habitat estimates that two thirds of the more than 10 million people who join urban areas every year are forced to live in informal settlements and slum conditions. Existing housing supply can only meet the needs of one third of this move – an estimated 3 million people across the region – which then enables them to "act both as agents and beneficiaries of formal urban and economic growth" (UNCHS, 2010). The opportunity to shift this number in favour of broader economic growth and development is found in a housing finance policy that is connected with existing social and economic development policies. It requires the development finance agenda to widen its focus and understand (and promote) the linkages between housing and the real economy, to promote the opportunities to be found in hidden multipliers, and to nurture the housing investment capacities of the growing middle class.

References:

Bouillon, Cesar Patricio, editor (2011) Room for Development: Housing Markets in Latin America and the Caribbean. Executive Summary.

Buckley, R, L Chiquier and M Lea (2009) Chapter 1: Housing Finance and the Economy, in Chiquier, L and M Lea (2009) *Housing Finance Policy in Emerging Economies*, World Bank

Cain, Allan (2007) Housing microfinance in post-conflict Angola. Overcoming socioeconomic exclusion through land tenure and access to credit. Environment & Urbanization. Vol 19(2):361-390.

Cattaneo, MD, S Galiani, PJ Gertler, S Martinez and R Titiunik (2007) Housing, Health and Happiness. World Bank Policy Research Working Paper 4214, Impact Evaluation Series No. 14, April.

Centre for Affordable Housing Finance in Africa (2011) *2011 Yearbook: Housing Finance in Africa – a review of some of Africa's housing finance markets.* September 2011. Accessible from http://www.housingfinanceafrica.org/document/2011-housing-finance-yearbook/

Chiquier, L and M Lea (2009) *Housing Finance Policy in Emerging Economies*, World Bank

Eighty20 (2010) Assessing Access to and Performance of FSC loans. Paper prepared for FinMark Trust's Centre for Affordable Housing Finance in Africa.

Ferguson, B (2008) Housing Microfinance: is the glass half empty or half full? Global Urban Development, Vol 4, Issue 2, November 2008.

Ferguson, B (2010) An affordable housing delivery system for Africa requires joining Housing Microfinance with other support at massive scale: an Action Plan. Presentation given to the Second Annual Housing Microfinance Workshop

FinMark Trust (2011) Housing Subsidy Assets: Exploring the Performance of Government Subsidised Housing in South Africa. Pamphlet. Available from: http://www.housingfinanceafrica.org/projects/rdp-assets-study/

Gardner, D (2010) Small Scale Private Rental – A strategy for increasing supply in South Africa. Booklet prepared for Urban LandMark. Available from: http://www.urbanlandmark.org.za/downloads/small_scale_rental_booklet_2010.pdf

Goux, D., and E. Maurin (2005) The Effect of Overcrowded Housing on Children's Performance at School. Journal of Public Economics 89(5–6) June: 797–819.

Kihato, C (unpublished) Making African land markets accessible to the poor. Paper presented at the Pro-Poor Urban Development: China and Africa Workshop. 30 July – 1 August 2012, Nairobi, Kenya.

Kihato, M (2009) Scoping the demand for housing microfinance in Africa: Status, Opportunities and Challenges. Paper prepared for FinMark Trust's Centre for Affordable Housing Finance in Africa. September 2009.

McBride, B (2012) The Housing Bottom is Here. Calculated Risk: Finance and Economics Blog. Posted on Monday, 6 February 2012. http://www.calculatedriskblog.com/2012/02/housing-bottom-is-here.html

McKinsey Global Institute (2011) Lions on the move: the progress and potential of African economies.

Mubila, M and M Ben Aissa (2011) The Middle of the Pyramid: Dynamics of the Middle Class in Africa. African Development Bank Market Brief, 20 April 2011.

Napier, M (2011) Government policies and programmes to enhance access to housing: Experience from South Africa. Paper prepared for presentation to the Bank of Namibia Annual Symposium, 29 September 2011.

Renaud, B (1999) The Financing of Social Housing in Integrating Financial Markets: A View from Developing Countries. Urban Studies, Vol 36, Issue 4, April 1999.

Rust, K (2008) Access Housing No. 10. Newsletter published for the FinMark Trust, June 2008.

Rust, K (2011) Government policies and programmes to enhance access to housing: response to two papers. Prepared for the Bank of Namibia's Symposium on Housing in Namibia, 29 September 2011.

Shisaka (2006) Research Report: Consolidated analysis of research into Small Scale Landlords and Home Based Entrepreneurs. Paper prepared for the FinMark Trust, April 2006.

Shisaka (2011) Housing Subsidy Assets: Exploring the performance of government subsidized housing in South Africa. Overall Analysis. Report prepared for FinMark Trust's Centre for Affordable Housing Finance in Africa.

Tomlinson (2007) A literature review on housing finance development in Sub-Saharan Africa. Paper prepared for the FinMark Trust.

Viruly (2012) A Social Audit Conducted on I H S Residential Units: What are the derived social benefits of occupying affordable housing in South Africa? Presentation based on research commissioned by International Housing Solutions.

Walley, S (2011) Developing Kenya's mortgage market. Report No. 63391-KE. The World Bank.

Walley, S (forthcoming) Housing Finance – Chapter to be included in Making Finance Work for Africa, 2012. The World Bank.

Weru (unpublished) Community participation in urban planning: the role of slum dwellers' federations. Paper presented at the Pro-Poor Urban Development: China and Africa Workshop. 30 July – 1 August 2012, Nairobi, Kenya.