



Growing Housing Opportunities in Africa: Encouraging Investment / Growing the Market

8 – 10 October 2012 - Dar es Salaam, Tanzania

CONFERENCE REPORT

Africa's rapidly developing economies and cities offer tremendous opportunities, and challenges, for housing development and investment. Urbanisation rates in Africa are the highest in the world, and positive growth over the last decade has put many countries in a position to assertively address the housing situations of their populations. While the mortgage sector remains small, developments in many countries suggests that this is changing. Housing practitioners across the continent are beginning to grapple with and understand the opportunities available and are developing precisely targeted products and projects. Their work begins to chart pathways for new entrants into the sector, and this will contribute towards the growth of the housing sector across the continent. Governments, too, are recognising the integral role of housing in overall economic growth, and are addressing the regulatory and policy constraints to housing investment, opening up opportunities for growth.

To showcase and promote these opportunities, the African Union for Housing Finance and the Housing Finance Project of the Bank of Tanzania joined forces to offer a conference in October 2012, with the theme **"Growing Housing Opportunities in Africa: Encouraging Investment and Growing the Market"**.



Day 1: Encouraging Investment

The conference began on Monday, 8 October 2012, at the Bank of Tanzania in Dar es Salaam, with a distinguished panel of speakers. Mr Aidan Eyakuze, economist and founding director at Serengeti Advisors Limited, moderated the two days. The conference was attended by over 320 delegates from across the globe with a range of organisations, from bankers to micro- financiers and social housing institutions.

Opening the meeting, the Deputy Governor of the Bank of Tanzania, Mr. Lila Mkila thanked the conference organisers for creating the opportunity for delegates to come together. He welcomed visiting delegates and AUHF members to Tanzania, and also congratulated the AUHF for holding its AGM in Tanzania this year. The Deputy Minister of Lands, Housing and Human Settlements, Mr. Goodluck Ole Medey, gave special emphasis to the opportunities for investors in Tanzania, and highlighted the critical importance of housing microfinance.

Not only the poor but also a substantial proportion of the lower and middle income earners in Tanzania are unable to afford, or access mortgage finance and so need other products to grow their housing circumstances. He noted the under-development of real estate services in Tanzania, and hoped that this segment of the housing sector would grow.

Opening remarks were also delivered by Michel Noel, manager of non-bank financial institutions at the World Bank. He argued that housing finance was a perfect demonstration of the financial sector's capacity to serve real needs, offering a brick and

The African Union for Housing Finance was established as a member-based body of housing lenders and practitioners in 1984. Comprising 37 members from 16 countries in Africa, the AUHF seeks to support its members in promoting a housing finance agenda in Africa.

The main event of the AUHF is its annual Conference and AGM, held in the last quarter of each year in a different country where one of the members plays the host. Throughout the course of the year, members receive a monthly newsletter. In addition, members are invited to participate in local conferences or workshops, and courses. The AUHF also commissions research - at the moment we collaborate with FinMark Trust's Centre for Affordable Housing Finance in Africa. For more information visit www.auhf.co.za

mortar outcome as a representation of complex financial processes. Reginald Motswaiso, the AUHF chairman, also welcomed delegates and offered a brief overview of the African Union for Housing Finance. He encouraged delegates to join the AUHF and collaborate in promoting housing finance across Africa.



Keynote address

The keynote address was delivered by Professor Paul Collier, and was based on a paper by Prof Collier and Anthony J. Venables from Oxford University. The paper is titled [Housing and Urbanisation in Africa: Unleashing a formal market process.](#)¹ In his keynote address, Dr Collier argued the importance of housing in the process of economic development and capital accumulation in rapidly urbanising Africa. **He outlined five key impediments to functioning housing markets in Africa: affordability, legal rights, finance, inadequate supporting infrastructure, and unemployment and insufficient economic opportunity.** He described these as the main impediments that result in the failure of African cities. Prof Collier's recommendation for indexation as a tool to enhance housing loan affordability stimulated substantial debate among delegates.



Tanzania Housing and Mortgage Market Overview

The keynote address was followed by a tea break, after which delegates reconvened to consider the housing-related investment environment in Tanzania. [Revocatus Arbogust from the Tanzania Investment Corporation \(TIC\)](#) presented the range of incentives, both fiscal and other, that the Tanzanian government

offers- through investment policies- to stimulate investment in housing, both foreign and local. He also presented an overview of the housing investment projects under TIC.



[James Mutero from the consulting firm CPCS](#) provided an overview analysis of the Tanzania Housing Market, characterising the overall market, identifying the weaknesses and citing examples on actions taken. CPCS conducted a Housing Market Study in Tanzania as part of the Tanzania Housing Finance Project which is funded by the World Bank and implemented by the Bank of Tanzania. The study was to establish baseline indicators for the housing sector, to identify market gaps, and to identify underlying constraints and areas for reform to support the development of affordable housing.

The study revealed that housing supply in Tanzania is largely self managed by households through incremental construction. Formal channels account for only a small proportion of housing supply. Housing finance is also largely informally supplied, with only 12.4% of the population served by the formal financial sector. Further, the study showed that urban households in Tanzania are the main providers of key onsite infrastructure services, particularly sanitation.

Land and infrastructure services, finance and, a low income rental housing market were identified key areas for reform in Tanzania.

Housing microfinance (HMF) is a product that is increasingly being explored to address housing finance affordability. This product enables low income individuals to access finance to build or improve on their homes incrementally. [Eugen Doce from the Frankfurt School](#) presented findings from a survey conducted by the Frankfurt School of Finance and Management, on HMF in Tanzania. The study was funded by the Tanzania housing finance Project (with support from the World Bank), towards a HMF focus area.

The survey revealed that the majority of Tanzanians have volatile incomes. Borrowing activity was limited for various reasons, including high interest rates and lack of collateral. A strong savings culture, however, was also reflected in the findings: 90% of

¹ Prof Collier's paper, as well as all other presentations made at the Conference, are available for download on the AUHF's website: www.auhf.co.za

respondents said they save, and home construction was cited as one of the purposes for saving.

Only some microfinance institutions in Tanzania offer HMF; Tanzanian banks are not active in the sector. While Community Banks and many SACCOs are becoming more active in the sector, the current supply of HMF in Tanzania is limited; leaving a gap between demand and supply. Mr Doce presented some financial products which may be offered in this market and provided an example of how a Housing Microfinance Fund could be structured. Further examples of HMF products were presented on the second day of the conference.

The Role of Mortgage Liquidity Facility in Housing Finance

While HMF is one way of extending housing finance down-market- responding to the low income challenge- other interventions and mechanisms which assist banks and other mortgage lenders extend housing finance to the low income populations do exist and these are being explored in Tanzania.

The **Tanzania Mortgage Refinance Company (TMRC)** is a liquidity facility established by the Bank of Tanzania with support from the World Bank in 2010 as part of the Tanzanian Housing Finance Project. Acting CEO Oscar Mgaya, provided an overview, explaining that the TMRC is a private sector institution owned collectively by eleven shareholding banks with the purpose of supporting mortgage lending through refinancing banks' mortgage portfolios.

[Azania Bank](#) is a member bank of TMRC and therefore refinances some of its mortgage facilities through TMRC. Charles Singili, the managing director of Azania Bank provided a brief background on Azania bank and presented on the Bank's mortgage lending experience given the introduction of the TMRC. The mortgage liquidity facility has improved the capacity and performance of the bank by improving its liquidity. It has stabilised the banks' performance and grown the Bank's mortgage portfolio.

High interest rates, low disposable incomes, high structural costs, inefficiencies in land delivery, absence of appropriate incentives that can promote savings for housing, and value added tax on houses sold by institutional developers are some of the challenges still faced by the sector, listed by Singili.

[Chung Chee Leong CEO of Cagamas Berhad](#), in Malaysia, added some international experience to

the conversation. He presented on a Malaysian mortgage Liquidity Facility - Cagamas Berhad. Cagamas has three models: a Guarantee Model, a Liquidity Model and, a Securitisation Model and it has had a significant impact on the Malaysian mortgage market by increasing lending and strengthening the financial markets.



Capturing Investor Interest

After lunch, everyone reconvened to look at capturing investor interest. The session drew attention to the need for data and information in the housing finance market.



A credit reference bureau collects information from credit granters, on borrower payment information. It provides a bridge between lenders and borrowers, addressing information asymmetry. [Wachira Ndege, CEO of CRB Africa](#), a credit

reference bureau, illustrated how broad information extends credit, because the more information is available in the market, the better able are lenders to identify markets, price for risk, and make credit accessible.

[Chong Kwee Siong from RAM Holdings Berhad](#) presented on the role of credit rating agencies in the Malaysian Bond Market. He illustrated that there is a systematic relationship between credit ratings and yields.

Having noted the importance of information and data capturing to the development of the housing finance market, the meeting moved to explore an investment product and investor expectations. [Barbara Hewson, the managing director of the New Urban Finance Facility for Africa](#), presented the facility to the meeting. The New Urban Finance Facility makes catalytic investments in affordable housing and basic services in African cities. The fund's investments are made through local banking partners for housing microfinance lending programs and finance for affordable housing real estate development.

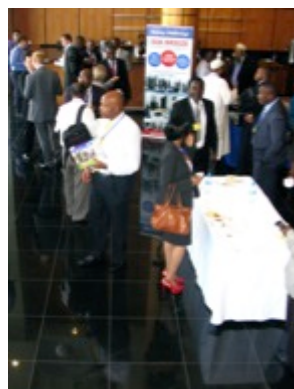
The fund presents the potential and opportunity that exists for investment in the HMF sector. Barbara Hewson emphasised a need to expand HMF for home improvement and other housing supply related options as the levels of activity in supply are much lower than the potential demand in Africa. She also emphasized working through local banking partners as a factor for success.

Finally, she expressed the need for more data to promote housing-related investments as too many funders see housing as a luxury good and misunderstand the critical social impact that investment in housing systems and processes can have. More data on the ricochet effect of investment in housing, on social, education and health.

[Britt Gwinner, of the International Finance Corporation \(IFC\)](#) also gave a presentation on investor interest. The IFC has invested over USD 3 billion in housing finance in over 40 countries since 2000. It invests in local banks and specialised mortgage finance companies and has deepened the market for mortgage backed securities in various countries. The IFC invests in housing construction and finance for two reasons: a) the value added of the housing sector can add 20% or more to GDP, thereby contributing towards national economic growth and b) shelter is one of the greatest needs in the developing world.

IFC invests where there is large potential for economic development and where the private sector is wary to invest. It seeks to realise development impact and financial sustainability.

Mr Gwinner argued that four key constraints undermine housing finance markets in even the most favourable countries in Africa: legal and regulatory issues, supply side capabilities, limited effective demand, and funding.



Panel Discussion: A growing track record of lending

A panel discussion followed the tea break and concluded the first day of the conference. Michel Noel of the World Bank was the moderator of the session and the panelists were [Akeem Akinfenwa from Abbey Building Society](#) in Nigeria, David Dansor Ninyikiriza from Housing Finance Bank Ltd., in Uganda, and Charles Bonsu from HFC Bank in Ghana. All three institutions offer mortgage loans.



Each panelist briefly profiled their respective institution, describing their mortgage lending activities and their mortgage portfolios. The panelists agreed that the emergence of credit reference bureaus were making it much easier and cheaper to lend because information was becoming more readily available. A good foreclosure law in Ghana has also improved the lending environment for Ghanaian banks. The panelists described how borrowing from international lenders carries a foreign currency risk, which can undermine product affordability and sustainability. High interest rates, informal sources of income, and unfavourable regulation, are also among mortgage lenders' and housing financiers concerns. Such challenges limit or restrict mortgage lending to the lower income populations.

Charles Bonsu reported that HFC Bank Ghana does have an indexed product such as Prof Collier had described. Indexed mortgages offered by HFC Bank are capped at about \$30k- \$40k. Mr Bonsu reported that the product was working very well for them.

In further discussion, it Prof Collier that dual indexation has been a useful and successful tool in high inflation environments such as those found in Africa. HFC Bank's experience was that the index schedule also has a lower default rate compared a standard amortisation schedule. That said, others argued that indexation had not worked in Latin America, so the model had to be considered and applied very carefully.

Panelists argued that the cost structure of banks is high and makes it difficult to serve the lower end of the market. As a result lenders focus on the higher and middle income markets. One way in which lenders can move down-market is by forming

partnerships with institutions that are focused on that market or, through forming subsidiary companies focus on microfinance.

Day 2: Growing the market

The second day of the conference was focused on growing the housing market. Introducing the theme for the day, [Simon Walley, the Housing Finance program co-ordinator at the World Bank](#), said housing has one of the greatest multiplier effects and is a critical tool in responding to urbanisation and demographic challenges.



Simon Walley also presented on the World Bank's new initiative "Housing Finance for the Poor" or HF4P. HF4P aims to expand the housing production and finance processes and support investors in creating a business model for affordable housing finance. The initiative is based on an experience in India where a multi-donor and trust fund targeting middle and lower income households is creating comprehensive projects, and bridging the gap between the financial sector and the housing sector by bringing together real estate developers, financial institutions and local/ national governments.

This introduction was followed by a housing developments "Marketplace". This session involved short presentations by various companies on diverse and innovative housing projects. It offered a broad range of ideas on the latest thinking and work being done on the ground on growing the housing market. The presentations took place simultaneously at different tables throughout the hall and participants chose which presentations to attend. The time allowed for delegates to attend four presentations over the session.

This was followed by a short break after which [Mark Weinrich from the International Union for Housing Finance](#) gave a presentation on sustainable Housing Finance, analysing the systems that exist and how they work. His argument was that a single model of funding is unsustainable. Housing financiers,



therefore, need to consider a range of funding models in order to endure that their housing finance system becomes sustainable.

Serving the needs of the low income population

The series of presentations that followed were focused on serving the needs of the low income population. The session, presented further, the opportunities and challenges of providing affordable housing. Issues of low income levels, nascent mortgage systems, lack of government budgetary support, high costs of building materials and VAT on sale of houses, were all raised as the critical challenges in Tanzania, and indeed throughout Africa.

Steve O'Connor, senior vice president of Public Policy and industry relations at the Mortgage Bankers Association, shared some key lessons which can be learnt from the U.S Housing crisis. The fundamental lesson being, monitoring and protecting the consumer by way of regulating the mortgage market in such a way that financiers do not put borrowers in riskier environments to make profits.

This insight highlighted the importance of the regulatory environment in making housing markets work. Further what emerged from this item is that a booming housing market may appear good and booming, however, without sufficient regulation and monitoring, it could lead to an economic crisis, as was the case in the United States.

[Nehemiah Mchechu from the National Housing Corporation](#) followed after Steve O'Connor with the experiences of Tanzania's National Housing Corporation. He outlined the opportunities and challenges of providing affordable housing, echoing some of the issues raised by other players at the conference. After a short break the conference reconvened on the topic of serving the needs of the low income population, with some case studies. [Judith Sando, the chairperson of the Housing Microfinance Working Group](#) provided some background and detail on how the working group promotes and advances the sustainable housing microfinance in Tanzania. The working group is involved in the development of the National Housing Policy to ensure its inclusion of a sound housing microfinance component. Judith Sando illustrated how housing microfinance can be used as a means to



address the housing needs of the low income populations. She noted that Mortgage Financing and Housing Microfinance operate in different markets and address different clientele needs.

The session also illustrated innovative ways of extending housing finance down-market. [A collateral replacement guarantee facility](#) was presented as a mechanism to extend access to mortgage finance further downmarket, by Ethel Mathenge -Sebesho.



These presentations stimulated debate on issues of land servicing for development and products that improve the quality of life of the poor. The discussions revealed that certain institutions work closely with NGO's in the provision of services. [Altemius Milinga, speaking about his NGO the Youth Self Employment Foundation \(YOSEFO\)](#), said he preferred not to use any government support for fear of politicisation of the process.

Drawing the day to an end was a lively panel discussion on growing housing opportunities in Africa. The panel discussion was moderated by Femi Adewole from Shelter Afrique and the panellists were lined up as follows: Dr. Mohamed Warsame, from Dhow Financial in Tanzania; Barbara Hewson, from the New Urban Finance Facility for Africa; Britt Gwinner, of the IFC and based in Nairobi, Kenya; and Prof. Lusugga Kironde from Ardhi University in Tanzania.



The panel covered the various issues that had been addressed in the two days. Slums present a challenge and an opportunity for the design of new products targeted at the bottom of the pyramid. In designing these products and including those at the bottom of the pyramid into the formal housing market, various obstacles needed to be dealt with and overcome. These obstacles included land markets and title registration and regulation. The panelists argued that feasible solutions, however, did exist: HMF, rental housing and financing, and various design and densification interventions could all contribute towards addressing the challenges. The collection of

data and the dissemination of key indicators were reiterated as critical issues for attention.

It was concluded housing and urbanisation challenges are complex and there as no one solution. The response must be incremental and contextual. Tanzania is a good example of this approach as they have a strategy in place to address each of these areas one at a time.

The conference was closed by AUHF Chairman, Mr Reginald Motswaiso. He thanked delegates again for attending and expressed his satisfaction with the matters covered. The conference opened up the opportunity for all parties to think critically about housing on the African continent and work out ways in which to address or deal with some of these issues through some innovative products.



Day 3: Site visit

Following the Annual General Meeting of the AUHF on the third day, delegates were given an opportunity to visit a range of housing developments in Kigamboni, a suburb of Dar es Salaam. Delegates visited projects by the National Housing Corporation, National Social Security Fund and by Mutual Developers. The projects were examples of various housing typologies from low-middle income to high income developments.

Twigga Cement and the National Housing Corporation sponsored the dinner on the first day of the conference and, the National Microfinance Bank sponsored a cocktail function on the last evening.





Members of the AUHF at their Annual General Meeting, 10 October 2012, Dar es Salaam, Tanzania.