# Scoping study: overview of the housing finance sector in Zambia

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FINAL DRAFT

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For

FinMark Trust
and
Centre for affordable housing finance in Africa

## 1.0 Summary

This study was commissioned by FinMark Trust and its Centre for Affordable Housing Finance in Africa, (CAHF). It was undertaken to provide a comprehensive overview of the housing finance sector in Zambia, and is part of a series of studies commissioned by FinMark Trust on the state of housing finance across Africa. In Zambia this report follows on from "Housing Finance in Zambia's Informal Settlements" (2009) and the earlier "Access to Housing Finance in Africa - Exploring the issues: Zambia 2006/2007".

The objectives were to provide a holistic review of the housing finance mechanisms that are presently utilised, including in particular the informal sector, and how housing finance operates in the wider financial market. The main area of the study identifies and deconstructs the housing finance value chain; considering the actors involved, conventional and non-conventional products that are available, and importantly how, and by whom they are used across the population.

### 1.1 Overview

The residential mortgage sector in Zambia is enjoying rapid growth. Between 2008 and 2012, the commercial banks mortgage portfolio grew from ZMW 698 million, ($139.6 million), to ZMW 1.208 billion, ($241.6 million); a 256% increase. This is only part of the picture of the housing finance landscape. Conventional (i.e. secured) mortgage finance remains comparatively expensive, with interest rates averaging 18.8% (2011), and leading to most groups seeking alternative, cheaper options. The most common route to homeownership is the incremental self-build route, often with individuals using cyclical loans to reduce the overall cost of borrowing. Our study reveals that there are a multiple of supply-side actors engaged in the sector, from public, private and tertiary spheres, with non-conventional products, reaching even the low-income sectors[1].

Access to finance is by no means universal, with individuals across all income groups subject to constraints of varying degrees. Sector risk and market constraints have limited the channelling of funds towards housing finance, and kept borrowing costs high. Nevertheless, there is the potential for market expansion, and evidence of existing innovations with the potential to be scaled up to serve a wider cross-section of the population.

### 1.2 Macro-economy

The economy has enjoyed a decade of above 5% per annum real GDP growth, and the International Monetary Fund (IMF) projects annual growth of 6.9% up to 2015. Despite this growth, the economy remains dependent on the extractive industries, (especially copper); with a large proportion of this growth attributable to high commodity prices on the world market. Macro-economic policies have had success in reducing the rate of inflation to around 6% over the last two years and interest rates have also fallen by around 10% over the last five years. The 2010 census revealed a 3.1% annual population growth over the last decade, increasing from 9.9 million to 13.1 million. Based on an average household size of 5.2, this equates to a new household formation of 63,000 per annum over the period. The country also has a youthful demographic; over 50% being below the age of 18 years.

[1] Exact information on the scale and cost of finance from these groups were difficult to obtain.

Despite the positive economic figures, the rate of formal employment at around 750,000[2], represents only around 11% of the workforce. This is a key concern, impacting on income distribution, and the government's ability to raise taxes and implement social policy.

### 1.3 Policy and regulation

Expanding access to housing has moved up the political agenda, having been included as a right in the draft constitution[3], and being a strategic focus of the Sixth National Development Plan, (SNDP) (2011-2015), which has a target of 500,000 new housing units over the period. Despite this policy objective, little public funding has been made available. The 2012 budget for housing and construction, of the Ministry of Local Government and Housing (MLGH), was only ZMW 20 million, ($4 million). The emphasis of the policy, rather, is on private sector development, through public-private partnerships, and housing having been made a priority sector through the Zambia Development Agency, (ZDA); where investors can potentially realise tax benefits.

The policy focus of the finance sector is driven by the ongoing Financial Sector Development Plan, (FSDP), which includes housing finance as a focus area. Strengthening of the banking and microfinance sectors, as well as the Building Societies through regulatory reform, is seen as critical to the expansion of the financial sector. Relevant acts include the Banking and Financial Services Act[45], and Building Societies Act[67], which establish the framework for the operation and regulation of housing finance providers by the Bank of Zambia, (BoZ). Significant efforts have been made to liberalise and expand the sector; however it is worth noting recent policy interventions which have sought to introduce further well intended regulatory control. These include the Policy Interest Rate, interest rate caps, and prohibiting the use of foreign currency in domestic transactions; all of which have impacts on the housing and finance sectors.

### 1.4 Housing

With ongoing income inequality and a growing population there will be greater housing need, and an increasing gap between this need and new supply. In 2012, UN-Habitat[8] estimated a housing deficit of around 1.3 million units, although this may be conservative. Housing supply has traditionally been below the rate of new household formation. Between the 1990 and 2000 censuses there was an increase in housing stock of 111,000 units nationally, (some 11,100 per annum). The 2010 census data is yet to be published, but two other CSO studies[9], had total housing units at 2,110,640 (2004), and 2,283,211 (2006); representing an 86,000 unit per annum increase over this period. .

[2] Statehouse (2011)
[3] The relevant clauses in the first draft includes: section 44. (1) – A person has the right, either individually or in association with others, to acquire and own property; and section 62. (1) – A person has the right to (b) accessible and adequate housing.

[4] Banking and Financial Services Act 2006
[5] Banking and Financial Services Act 2006
[6] Building Societies Act 2005
[7] Building Societies Act 2005
[8] UN-Habitat (2012)
[9] CSO LCMS IV 2004 (p151) and LCMS V 2006 (p128)

Lack of financial access is a severe impediment to the development of a home ownership market. The reasons behind this relate to lending risks associated with the sector. This includes market risk, resulting from a limited re-sale market, due to the affordability gap between real incomes and housing costs. Price distortions in the main urban areas, driven by a large investor market, and high rentals paid by companies and organisations restricts access by increasing prices beyond what is affordable to the local market. There is also asset risk, where properties do not provide adequate security for lending; often due to informality in obtaining title deeds, or the required planning / building approvals, or poor construction quality. The latter risk tends to restrict lending to the high cost sector.

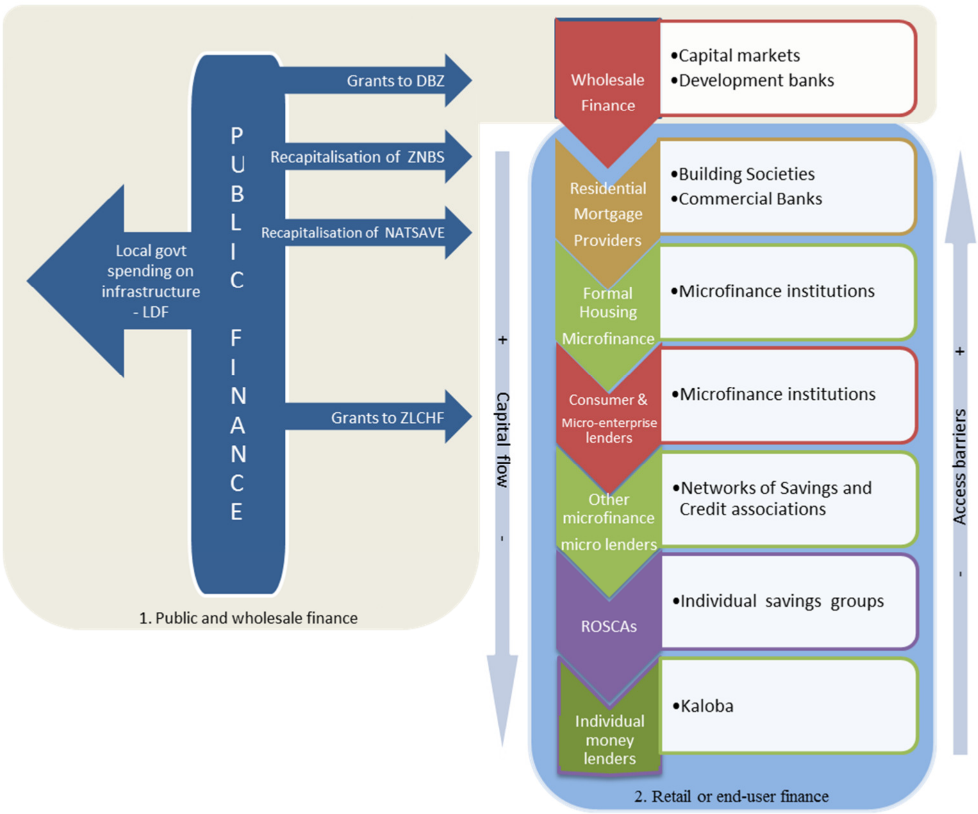
The housing construction sector remains dominated by informal, artisanal employment, contracted by individuals undertaking the 'self-build' construction route. Few private developers have yet been attracted to the market, and a lack of economies of scale, high construction inputs, and limited local supply of building materials, and local shortages combine to increase costs. A lack of public infrastructure is also a significant additional cost burden to the sector.

### 1.5 Housing finance

The housing finance value chain, (HFVC) is depicted in Figure 1. It is separated into public and wholesale finance, and retail / end-user finance. Public finance is quite limited, but has direct involvement in the HFVC through products provided by a number of state owned / controlled institutions. Retail finance institutions, (providing products directly to the market) obtain their funding from savings mobilisation and, the capital markets, and lines of credit from other financial institutions. Capital market sources in Zambia include the Lusaka Stock Exchange (LuSE), Securities and Exchange Commission (SEC), and the newly established Bonds and Derivatives Exchange (BADex). The study found that these provided a relatively limited source of long term finance, suitable for mortgage lending – and this is an area where strengthening is necessary. Development Banks are also currently a limited avenue for the sector. Shelter Afrique, the sister organisation to the African Development Bank and focused on housing finance, has been the exception and has been involved in financing the National Housing Authority (NHA), and Finance Building Society (FBS).

**Figure 1 Housing financevalue chain**

Housing Finance Value Chain – Supply side actors




In 2012, there were nineteen registered commercial banks and three building societies. Some of these organisations have dedicated housing finance products, including conventional, secured mortgages, and un-secured products including home improvement loans. The latter tend to be the most popular, being for smaller amounts, and therefore more accessible. Slightly lower downstream the mortgage sector is the housing microfinance market; although only two of the 25 BOZ registered MFIs are offering dedicated housing products. The majority tend to be payroll lenders, concentrating on the relatively small formally employed group, at higher rates than offered through the banks, but better than on other MFI products. Interest rates can be in excess of 50%[10], and therefore most of their customers are either individuals who do not qualify for products from the commercial banks / building societies, or who find funding from MFIs generally more accessible.

The HFVC includes a category of intermediary micro-lenders who are engaged in housing finance. These are usually un-regulated by BoZ, but federated groups may be registered through the Societies Act[11][12]. The two main groups are Savings and Credit Cooperatives (SACCOs) – similar to credit unions, and Rotating Savings and Credit Associations (ROSCAS), (locally *chilimba*). These groups share similar characteristics in terms of being self-regulated, and run by individuals, who agree to contribute to a pooled fund for distribution to its individual members. Importantly, these groups

[10] These have had to reduce with the new interest rate caps that have been introduced, (January 2013), which whilst offering more affordable rates to borrowers, may also significantly limit the potential applicants that can qualify for these products.
[11] Societies Act (Cap 119)
[12] Societies Act (Cap 119)

operate in the relatively un-served low income sector. However, size and capacity constraints limit the extent of lending and the size of the market sector served.

A number of examples of affiliated groups were noted, often with non-governmental organisations (NGO) support to build capacity and technical assistance to establish national networks. These include the Peoples Process on Housing and Poverty in Zambia (PPHPZ), Habitat for Humanity Zambia (HfHZ), and ABESU Housing Cooperative. These contribute to a formalisation amongst this sector, and could ultimately contribute to increasing linkages and channelling of funds from other parts of the HFVC.

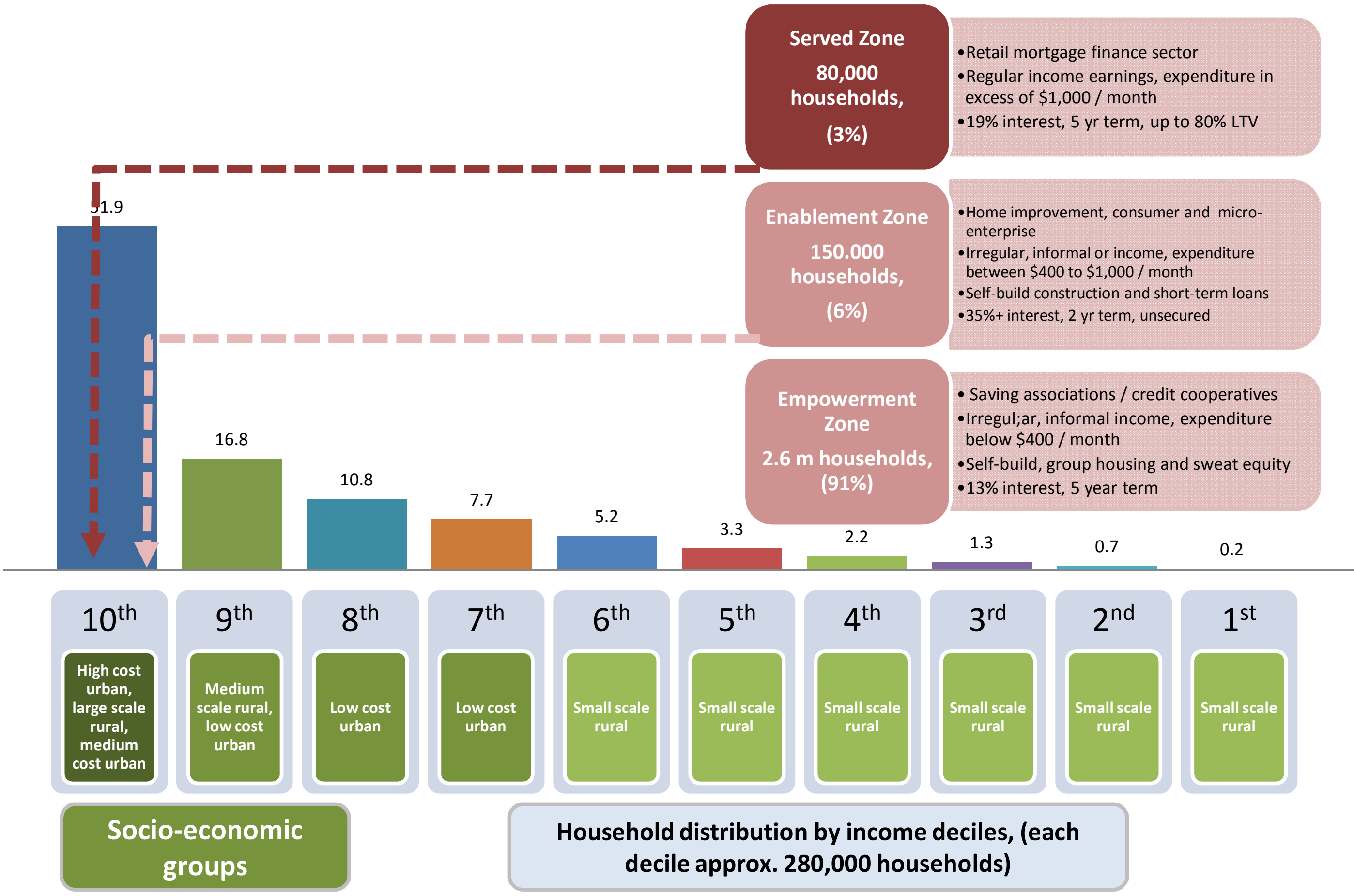
Finally, there are informal money-lenders, (locally *Kaloba*), which operate outside of the formal sphere, and tend to provide funding of last resort across all income groups. Interest rates are punitive, often around 100%.

1.5.1) Access

Figure 2 depicts access to the housing finance market[13]. Access to conventional mortgage finance from banks and building societies is limited to a small group of high income households in the Served Zone, (around 3% of the population, or 80,000 households). Comparatively lower interest costs, and higher loan amounts, (average ZMW 180,000 / $36,000) are available. Below this is the Enablement Zone, (comprising around 6%, or 150,000 households), these have access to finance products, (but not usually secured, or sufficient to cover the cost to buy a completed house), which they use towards house construction. Service providers include banks and building societies, but MFIs play a more important role for these groups. Interest rates tend to be higher, (from 35% per annum for home improvement loans), and smaller loan amounts can be borrowed, (around ZMW 35,000 / $7,000). The balance of demand, (around 91%, or 2.6 million households) is found within the Empowerment Zone. Whilst these have access to some financial products, (mostly from MFIs), interest rates (+50% pa), and small loan amounts, usually make these products impractical for housing finance. A more sustainable alternative is offered through local savings cooperatives and credit unions, which provide finance at lower rates, (from 13% pa), and larger amounts, (up to ZMW 8,000 / $1,600). This is more suitable to the self-build route, where cyclical loan funding can be obtained.

[13] Socio-economic groups are based on those adopted by the Central Statistical Office, and income deciles are established according to share of per capita income.

**Figure 2 Access to housing and housing finance across the population according to distribution of national income,**[14]




## 1.6 Recommendations

The study recommendations consider how access can be extended in both the housing finance and housing sectors[15]. The recommendations relate to public, private, and tertiary (NGO, and Community Based Organisations – CBOs), and require the interaction between these groups in order to be effective. The majority of the recommendations are interrelated, so a greater effect would be had if a systematic approach is adopted in their implementation.

For the housing sector, the recommendations focus on public sector institutions providing a better enabling environment for the housing market to expand, and in particular addressing some of the risks posed to secured lending. This includes a clear vision, and policy direction for meeting housing needs, and the creation of an overarching public / private platform with capacity to implement the necessary reforms. The study proposes regulatory reforms to land titling and planning / buildings

[14] Socio-economic groups are based on those adopted by the Central Statistical Office, with income deciles established according to share of national income, (GDP).
[15] To an extent, these recommendations reiterate some existing reforms that are being implemented.

approval regime to streamline the application process, and decentralisation of existing offices to make the system more flexible and accessible, particularly across all income groups. The study also recommends a multi-sector engagement, (i.e. private developers, the National Council for Construction (NCC), non-governmental organisations (NGOs) and community based organisations (CBOs), for promoting initiatives such as sustainable construction techniques using locally sourced and cheaper materials, and other product innovation that better meet needs.

In the housing finance sector, recommendations are made on the use of publicly owned / financed institutions such as the Development Bank of Zambia (DBZ), Zambia National Building Society (ZNBS), and Natsave to direct funding towards the sector, as an initial step towards expanding market size and capacity. It is also recommended that existing public funding of housing could be directed through strategic partnerships to tertiary sector housing groups, and used by them to leverage matched funding. We also suggest better targeting of Zambia Development Agency (ZDA) investment incentives by making the construction of low cost housing a condition, but also with the flipside where private developers who are required to construct public bulk infrastructure are compensated by means of a tax off-set, etc.

The study recommends a wider oversight by the regulator (or its nominee[16]) to monitor and measure the size and contribution of MFIs and intermediary micro-lenders, (in a similar way undertaken with commercial banks / building societies) which would enable a more quantitative assessment of the scale of lending on housing finance, and the type of products offered. A further recommendation includes better enforcement of the Building Societies Act to ensure that service providers comply with their traditional housing finance function. The study also suggests a combined role between all sectors in the expansion of support services, such as credit rating assessment, and insurance to help reduce risk.

Finally, the study advocates further market research, in terms of a quantitative analysis of the MFI and intermediary micro-lender categories to explore the market presently served, and the rate of growth. It also recommends a demand-side analysis, using qualitative life-cycle studies of individuals in accessing housing, and subsequent quantitative surveys to provide a better understanding of market potential, particularly in the informal sector.

[16] It may not be practical for BOZ to be expected to handle even more reporting from these small organisations, however there is scope for these powers to be delegated to sub-sector organisations, (e.g. Association of Microfinance Institutions in Zambia - AMIZ).

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Values are quoted in Zambian Kwacha, but converted to US Dollar equivalent, at a rate of USD $1.00 : ZMW 5.00, the rate of exchange at the date of the study, (Apr 2012).

**Acronyms and abbreviations**

| Definition | Term |
|---|---|
| Africa Housing Fund | AHF |
| Bonds and Derivatives Exchange | BadEx |
| Bank of Zambia | BoZ |
| Banking and Financial Services Acts (1996 / 2006) | BoZ Act |
| Brazil, Russia, India, China, South Africa | BRICS |
| Centre for Affordable Housing Finance in Africa | CAHF |
| Community of East and Southern Africa | COMESA |
| Community Based Organisation | CBO |
| Consumer Prices Index, (inflation measure) | CPI |
| Cost, Insurance, Freight | CIF |
| Credit Ratings Bureau | CRB |
| Central Statistical Office | CSO |
| Development Bank of Zambia | DBZ |
| Development Finance Institution | DFI |
| Democratic Republic of Congo | DRC |
| Enterprise Finance Centre | EFC |
| Environmental Impact Statement / Assessment | EIS / A |
| Free on Board | FOB |
| Food Reserve Agency | FRA |
| Financial Sector Development Plan | FSDP |
| GINI coefficient, measure of income inequality | GINI |
| Geographic Information Sciences | GIS |
| High Cost Urban households (socio-economic group) | HCU |
| Housing Finance Value Chain | HFVC |
| Highly Indebted Poor Countries Initiative | HIPC |
| Human Immuno Deficiency Virus / Acquired Immuno Deficiency Syndrome | HIV / AIDS |
| Housing Statutory Improvement Areas Act, (Cap ) | HSIA |
| International Monetary Fund | IMF |
| Local Authorities | LAs |
| Low Cost Urban households (socio-economic group) | LCU |
| Local Development Fund | LDF |
| Large Scale Rural households (socio-economic group) | LSR |
| Lusaka Stock Exchange | LuSE |
| Loan to Value | LTV |
| Ministry of Community Development, Mother and Child Health, formerly Ministry of Community Development and Social Services, (MCDSS). | MCDMCH |
| Medium Cost Urban households (socio-economic group) | MCU |
| Millennium Development Goals | MDGs |
| Microfinance Institution | MFI |

| | |
|---|---|
| Ministry of Finance, formerly Ministry of Finance and National Planning | MoF |
| Ministry of Lands | MoL |
| Ministry of Local Government and Housing | MLGH |
| Micro, Small and Medium Sized Enterprises | MSME |
| Medium Scale Rural households (socio-economic group) | MSR |
| National Pension Schemes Authority | NAPSA |
| National Council for Construction | NCC |
| National Development Plan | NDP |
| Non-Governmental Organisation | NGO |
| National Housing Authority | NHA |
| New Partnership for Africa Development | NEPAD |
| Norwegian Agency for Development and Cooperation | NORAD |
| National Water Supply and Sanitation Council | NWASCO |
| Pan African Building Society | PABS |
| President's Housing Initiative | PHI |
| Peoples Process for Housing and Poverty in Zambia | PPHPZ |
| Public Private Partnerships | PPP |
| Poverty Reduction Strategy Paper | PRSP |
| Roads Development Agency | RDA |
| Return on Investment | ROI |
| Rotating savings and credit associations | ROSCAs |
| Savings and Credit Cooperatives | SACCos |
| Securities and Exchange Commission | SEC |
| Sixth National Development Plan | SNDP |
| South African Development Community | SADC |
| Square metres | sq.m |
| Standard Chartered Zambia Ltd | SCZ |
| Small and Medium Sized Enterprise | SME |
| Small Scale Rural households (socio-economic group) | SSR |
| Sub-Saharan Africa | SSA |
| Value Added Tax | VAT |
| Zambia Homeless and Poor Peoples Federation | ZHPPF |
| Zambia Development Agency | ZDA |
| Zambia Electricity Supply Company | ZESCO |
| Zambia Environmental Management Agency, (formerly Environmental Council Zambia) | ZEMA |

## 2.0) Introduction

### 2.1) Scope

This study was commissioned by FinMark Trust and its Centre for Affordable Housing Finance in Africa, (CAHF). It was undertaken to provide a comprehensive overview of the housing finance sector in Zambia, and is part of a series of studies commissioned by FinMark Trust on the state of housing finance across Africa. In Zambia this report follows on from "Housing Finance in Zambia's Informal Settlements" (2009) and the earlier "Access to Housing Finance in Africa - Exploring the issues: Zambia 2006/2007".

It was prepared in accordance with the terms of reference to undertake a scoping study and overview of the housing finance sector in Zambia. The study objectives are to provide a holistic review of the housing finance mechanisms that are presently utilised across the population, including in particular the informal sector, and how housing finance operates in the wider financial market. The main area of the study identifies and deconstructs the housing finance value chain; considering the actors involved, conventional and non-conventional products that are available, and importantly how, and by whom they are used across the population. Amongst other things, the study intends to reveal market potential, and gaps and niches that are available to providers, in addition to making recommendations for how to extend the value chain across all socio-economic groups.

To achieve this wide brief, the study was prepared by a multi-disciplinary team, with specialisms in the housing market, finance sector, and the housing and finance mechanisms adopted by the informal sector.

### 2.2 Content

The first three chapters of the study provides a descriptive analysis, and the context for a more detailed analysis of the housing finance sector, and the housing finance value chain, (found in Chapter 6). They include macro-economy and demographic data, legal and regulatory, and a review of the housing market and construction sector. The housing market and construction sector are an important horizontal linkage with the housing finance value chain, and the dynamics of the housing market is analysed including, demand, supply, and price. For consistency, the authors have built upon the data gathered in earlier sections to explore access and affordability in relation to the housing finance section, (see the final part of Chapter 6).

In Chapter 7, future challenges and opportunities, we identify and summarise the main issues that have been identified through the earlier chapters, and set the context upon which our recommendations and conclusions, (Chapter 8), are made. Recommendations are categorised according housing / land markets and finance interventions.

### 2.3 Methodology

Research conducted for the study was undertaken between April and May 2012. It drew on semi-structured interviews with key players in the finance and housing sector, as well as focus group discussions with groups mainly excluded from formal housing finance. Semi-structured interviews were also used to draw up case profiles covering what is referred to as Served Groups, (those falling within high income earning sectors of the population), Enablement Groups, (those within middle income earning capacity), and the Empowerment Groups, (covering lower income earners). The quantitative data provided is from secondary sources, as the aim of the study was not to conduct a wide-scale quantitative survey of the housing finance sector. As such where the scale of the housing finance market is considered, it relies on either national statistical data, studies conducted and figures provided by housing and finance market players interviewed, or a general literature review. The study focuses on providing a comprehensive overview of Zambia's housing finance value chain and highlighting the key constraints and potential that exists within it as identified by sector players. In so doing the study highlights knowledge gaps where further research is recommended.

Most of the information gathered for this study was collected in the capital city Lusaka, which is headquarters to the majority of housing and housing finance related organizations. To counter this bias, group discussions and interviews with house owners across the income spectrum were conducted in the rural district of Mpongwe and the fast growing mining district of Solwezi.

### 2.4 Recent changes

A number of important changes to the regulatory framework have occurred since the research study was completed, which have had some effects on the operation of the housing finance and housing markets. In order to keep the study relevant, these changes are summarised here, and footnotes are included in the relevant sections. The main body of the report stays true to the position as at the time of the research, and reflects the situation ascertaining when interviews and stakeholder workshops were undertaken.

In May 2012, the Ministry of Finance introduced a Statutory Instrument, (SI 33), prohibiting the use of foreign currency in domestic transactions, and followed with SI 68, prohibiting indexation in contracts[17]. The measures intend to strengthen the use of the Zambian Kwacha, but it has impacted on the housing and construction sector, which relied on the lower interest rates available on foreign denominated loans to finance new development. The industry has now had to find new mechanisms to hedge against exchange rate risk, and has resulted in developers having to put a number of projects on hold.

Over the course of the research period, the Bank of Zambia (BoZ) introduced a Policy Interest Rate as a benchmark indicator against which retail financial institutions are expected to adjust their lending rates. Since then, in January 2013 BoZ has introduced interest rate caps, which determine the maximum rates which financial institutions can charge for borrowing. The cap for commercial banks was set at 9 % above Policy Rate which currently is at 9.25% (giving a cap of 18.25%). For non-bank financial institutions the maximum effective annual lending interest rate shall not exceed 42%. BoZ is yet to designate non-bank financial institutions qualifying under this measure. The maximum effective annual lending rate that will be charged by all other non-bank financial institutions (e.g leasing companies) will not exceed 30%.The interest caps of 42% and 30% have been arrived at by multiplying the commercial bank cap, by factors of 2.302 and 1.644, respectively.

[17] Indexation relates to the use of a reference to the exchange value for another currency / commodity to determine the value in Kwacha payable under the contract.

This measure is likely to ensure that financial institutions will adopt more rigorous credit vetting procedures, but is also likely to limit lending to more credit worthy groups. The issue appears more pronounced amongst low income lenders, (i.e. developmental microfinance institutions), who are seeking to extend lending beyond the existing finance frontier. They argue that the maximum interest rate cap of 42 %, does not adequately reflect the risk and the operating costs associated with serving the low income target groups

On 01 January 2013, the Zambian Currency was rebased, and a new currency symbol, (ZMW) was adopted. One Kwacha of the rebased currency is equivalent to one thousand 'Old' Kwacha. The intention is to strengthen the use of the currency by pegging its value at a more convertible rate with foreign currencies, and provide a more usable value for transacting on local goods and services.

The Bank of Zambia Amendment Bill (No. 1) (2013) came into effect in March 2013, and is an enabling act which provides BoZ the power to implement foreign exchange controls. This is intended to provide the Government with the powers to ensure that profits from the large agricultural and mining sectors are first banked in Zambia so an effective tax rate can be ascertained. However the powers relate to all sectors and has led to some private sector commentators[18] raising concerns over the trajectory of the present Government's policies, and the impact it might have on foreign investment.

[18] Mukanga, C (2013)

## 3.0 Macro-economy

Zambia is a landlocked country found within southern Africa, and borders Botswana, Namibia, Angola, Democratic Republic of Congo (DRC), Tanzania, Malawi, Mozambique, and Zimbabwe. It is part of the South African Development Community (SADC), and the Common Market of East and Southern Africa (COMESA). A sustained period of economic growth, on the back of strong commodity prices, especially copper, and market friendly macro-economic policies has created favourable growth prospects for the next five years, with some signs of economic diversification.

Like many other Sub-Saharan African economies, Zambia has witnessed close to a decade of growth, with strong demand for its primary export copper, which has helped to maintain a positive trade balance. According to the IMF[19], Zambia is forecasted an average 6.9 % annual growth between 2011 and 2015, making it one of the world's fastest growing economies. Despite this, the country remains dependent upon primary exports and is vulnerable to external commodity price fluctuations. This vulnerability is partially offset by a diversification in the number of trade partners, (i.e. emerging countries such as the BRICS countries), but these exports are still driven by growth in the mature economies[20]. The mining sector grew by 7.4 % in 2010. The agricultural sector is the largest contributor to Zambia's GDP, growing by an estimated 7.6 % in 2010, in part due to a bumper maize crop. The agriculture sector is estimated to drop in the next couple of years – still, more than 70 % of Zambians earn their livelihoods in this sector[21]. Growth in the domestic market is also helping to build some stability, with secondary and tertiary sectors achieving 7.1 % and 6.5 % year-on-year growth from 2007[22].

Post-2008, the country faced a number of real challenges. Zambia has been successful in bringing inflation down to single digits over the last three years (from 7.2 % in 2011 to a 10 year low of 6 % in the first quarter of 2012), and exchange rates have remained relatively stable. However, increased debt ratios and reduced foreign exchange reserves, may limit its capacity to respond to external shocks, and may require the central bank to tighten its fiscal policy. The Government is also impeded by a small tax base, and an informal sector comprising over 50 % of the economy[23].

[19] IMF (2011)
[20] Kahn, R (2011)
[21] CSO (2008)
[22] CSO (2012)
[23] ZIPAR (2011)

### 3.1 Economic indicators

Figure 3 summarises some key economic indicators[24] over the recent period:

**Figure 3 Zambia, key economic indicators, (2005 – 2011)**

| Indicators | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011[*1] |
|---|---|---|---|---|---|---|---|
| **GDP (USD $ billion)** | 7.3 | 10.5 | 11.5 | 14.6 | 12.8 | 16.2 | 19.2 |
| **GDP at market prices (ZMW billion)** | 32.5 | 37.9 | 46.2 | 54.8 | 64.6 | 77.7 | 93.4 |
| **Real GDP growth (%)** | 5.2 | 6.2 | 6.2 | 5.7 | 6.4 | 7.6 | 6.6 |
| **GDP per capita, (USD $)** | 624 | 875 | 935 | 1,169 | 993 | 1,241 | 1,432 |
| **GDP per capita, (ZMW million)** | 2,780 | 3,160 | 3,800 | 4,38 | 5,010 | 5,950 | 6,960 |
| | | | | | | | |
| **Exports (Free On Board) (FOB) (USD $ billion)** | 2.18 | 3.68 | 4.62 | 5.1 | 4.31 | 7.2 | 9.02 |
| **Imports (Costs, Insurance Freight) (CIF) (USD $ billion)** | 2.58 | 3.03 | 4.01 | 5.06 | 3.83 | 5.32 | 7.18 |
| **Trade balance (USD $ billion)** | -0.4 | 0.65 | 0.61 | 0.04 | 0.48 | 1.88 | 1.84 |
| | | | | | | | |
| **Exchange rate (ave. ZMW: USD $)** | 4.464 | 3.603 | 4.003 | 3.746 | 5.036 | 4.783 | 4.853 |
| **Consumer price inflation (ave. %)** | 15.9 | 8.2 | 8.9 | 16.6 | 9.9 | 6.5 | 6 |
| | | | | | | | |
| **Weighted commercial bank lending rate, (ZMK, %)** | 28.2 | 23.2 | 18.9 | 19.1 | 22.1 | 20.9 | 19 |
| **T Bills yield rates, (91 days) (%)** | 15.2 | 9.5 | 11.1 | 12.2 | 13.5 | 4.5 | 6.8 |
| **GRZ Bond rates, (3 year) (%)** | 22 | 13.9 | 14.1 | 15.6 | 18.4 | 10.8 | 12.9 |

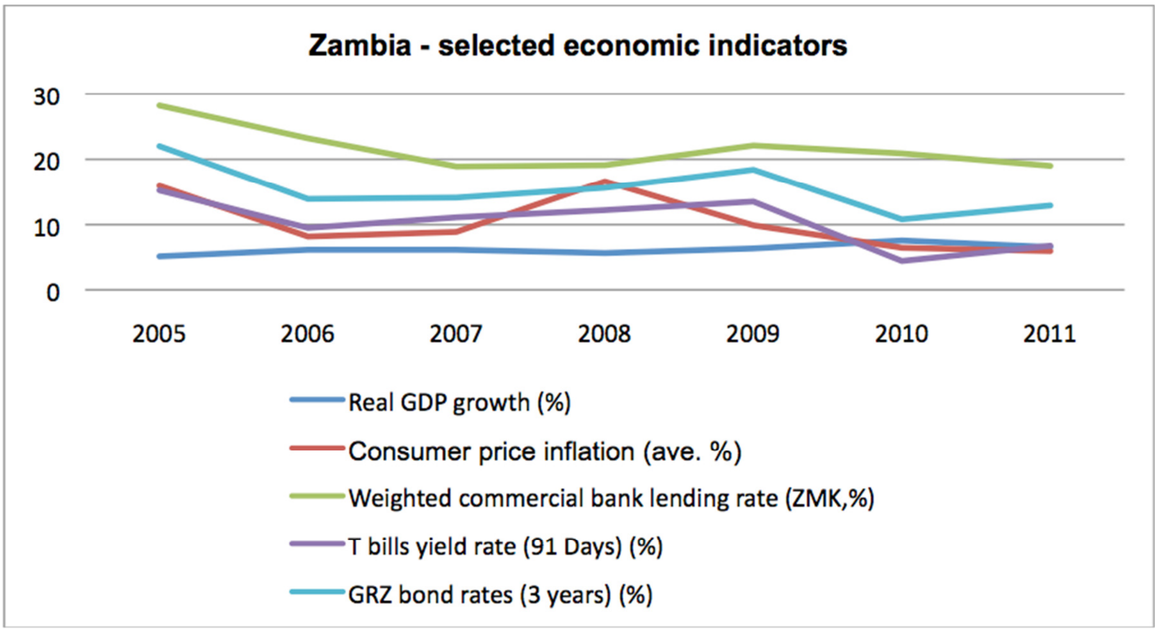
Note *1 denotes revised estimates (Sources: CSO, BoZ)

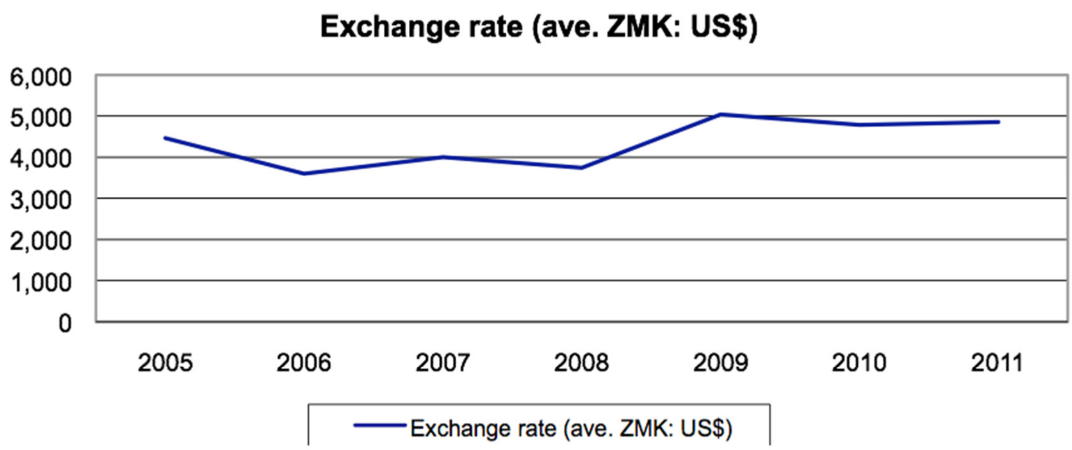
[24] For consistency, historic rates of the old Zambian Kwacha (ZMK) against the US Dollar have been rebased to the equivalent value of the new Zambian Kwacha (ZMW).

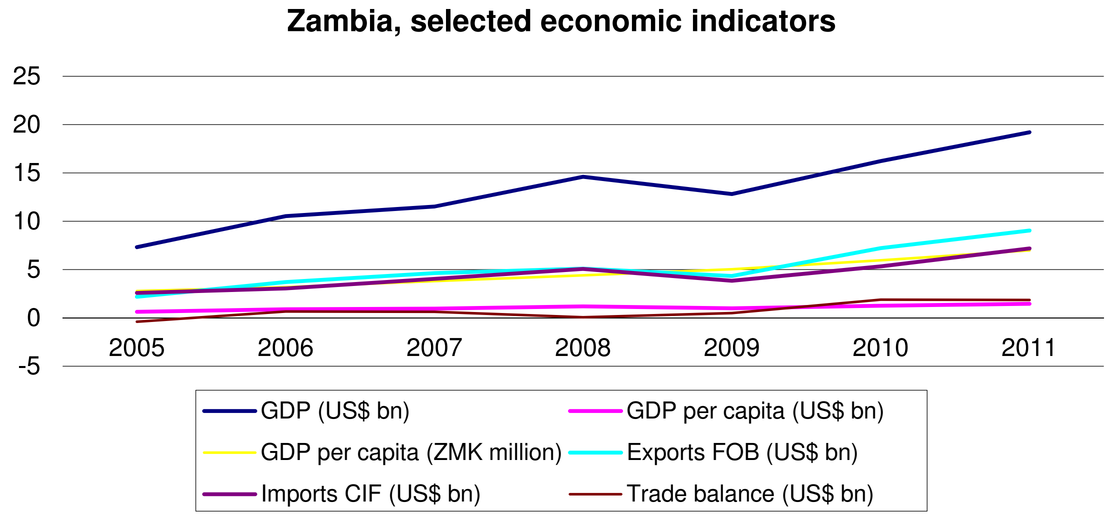
These macro-economic trends are depicted in chart form in

Figure 4.

**Figure 4 Zambia, key economic indicators, (graphical) (2005-2011)**






## 3.2 Demographics and income levels

The Fifth National Census of Population and Housing was undertaken in October 2010. At that time, Zambia had a population of 13,093,000, with 7,919,000 (61 %) residing in rural areas and 5,174,000 (39 %) in the urban areas, (see Figure 5).) It has one of the fastest growing populations in Sub-Saharan Africa[25], at an annual rate of 2.8 % over the last ten years. The greatest rate of growth is in the urban areas, which recorded a rate of 4.2 % over the same period. Urbanisation is undoubtedly an observable phenomena with the extent of peri-urban development taking place around the edge of towns and cities, reflected in UN-Habitat[26] estimates that the country will be 50 % urban by 2030.

**Figure 5 Zambia population statistics, (2005 to 2010)**

| | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| **Total population, (000s)** | 11,441 | 11,799 | 12,161 | 12,526 | 12,897 | 13,093 |
| **Growth rate (%)** | 3.1 | 3 | 3 | 2.9 | 2.9 | 2.8 |

(Source: CSO)

The 2010 Census provides the latest available figures for total households, (See Figure 6):

**Figure 6: Trends in number of households by urban/rural, Zambia, 2000-2010**

[25] CSO (2012)
[26] UN-Habitat (2005)

| Year | Total | Rural | of % | Urban | of % |
|---|---|---|---|---|---|
| **2000** | 1,884,741 | 1,241,534 | 65.9 | 643,207 | 34.1 |
| **2010** | 2,513,768 | 1,495,861 | 59.5 | 1,017,907 | 40.5 |
| **Increase (%)** | 629,027 (33 %) | 254,327 (20 %) | 40.4 | 374,700 (58.3 %) | 59.6 |

Source: CSO (2010) Census.[27]

A high fertility rate and marginally better infant mortality rate means that Zambia has, and will increasingly have a large proportion of children in its population. Over half (54 %) of the population, (6.98 million) is below the age of 18. This ratio is also influenced by the impact of HIV/AIDS; the country has a high prevalence as a percentage of the population, (around 13 %[28]). Zambia's age structure endows it with a potential benefit, provided that economic growth can be converted into employment for a larger working age population.

### 3.2.1 Employment

The majority of the population is still dependant on the informal sector for livelihoods, which is high even compared with other emerging countries. In 2008, only 11 % of the working population is estimated to be in formal employment, (around 500,000)[29]; although this has been reported to have increased to 750,000 in 2011[30]. This small number has implications on the government's tax base, and its ability to implement social programmes. It is also one of the key factors impacting on the ability of individuals to gain access to formal finance. The most recent FinScope survey[31] shows that 62.7 % of adults were financially excluded in 2008, (i.e. they were not using any type of financial product, formal or informal); whilst mostly relating to affordability, entry requirements which necessitate formal employment are also a barrier.

### 3.2.2 Income earnings and distribution

Real income gains can only be assessed by considering income distribution. According to the latest Central Statistical Office (CSO) figures[32], income inequality has increased, (GINI increasing from 0.57 in 2004 to 0.60 in 2006). Whilst there is a rising middle income group, this is from an extremely low base, and so remains quite small.

The availability of population and income data is relatively limited, however CSO does have some information which can be used to project income distribution across different socio-economic groups[33]. It classifies household groups according to the areas in which they reside, and the type of economic activity that they are involved in. Definitions for each group are not explicit, however, based on our analysis, they have been broadly defined in Figure 7.

[27] CSO (not dated: table 2.2)
[28] UN AIDS (2012)
[29] CSO (2008)
[30] Statehouse (2011)
[31] FinScope (2009)
[32] CSO (2004) and (2006)
[33] CSO datasets were interrogated and were compared against survey samples found for other studies, such as FinScope (2009), UN-Habitat (2012), and our own survey data gathered for this study.

**Figure 7 Households and income data**

| Group[34] | Household number, and percentage of population[35] | Residential location / tenure[36] | Employment group[37] | Household monthly expenditure[38] |
|---|---|---|---|---|
| **High Cost Urban, (HCU)** | 79,687, (3 %) | Titled plots either owned or rented. Low density, formal residential areas in towns and cities with high house prices and rental values. | Formal sector employers and higher level managerial and administrative employees. | In excess of ZMW 5,000, ($1,000). |
| **Medium Cost Urban, (MCU)** | 104,121, (4 %) | Mostly titled plots either owned or rented. Medium density, mostly formal residential areas, with mid-level house prices and rental values. | Mostly formal, but sometimes supplemented by informal sector trade. Medium-level employees engaged in professional, trade, manufacturing and services employment. | Between ZMW 2,500 and ZMW 5,000, ($500 to $1,000). |
| **Low Cost Urban, (LCU)** | 644,600, (23 %) | Mostly un-titled plots owned / held under licence, or rented. High density, peri-urban, informal residential areas, with low house prices and rental values. | Mostly informal, and from multiple income sources. Domestic production, small-scale businesses, petty trade, and employees within the informal sector. | Below ZMW 2,500, ($500). |

[34] LCMS (2004) and (2006)
[35] LCMS (2004) and (2006). Population data was adjusted to present based on 2010 Census, and by adopting a growth rate of 2.8 % per annum (pa).
[36] LCMS (2004) and (2006). A more detailed analysis of residential areas is provided in the housing market review, (section 5).
[37] LFS (2008)
[38] LCMS (2004) and (2006). Household expenditure patterns rather than incomes were used to provide a more accurate assessment of income distribution, with the results from historic surveys adjusted by the Consumer Prices Indices (CPI) annual average inflation over the period, (11.5 % pa) to provide an indication of present expenditure patterns.

| Group[39] | Household number, and percentage of population[40] | Residential location / tenure[41] | Employment group[42] | Household monthly expenditure[43] |
|---|---|---|---|---|
| **Large-scale Rural, (LSR)** | 1,232, (<1 %) | Titled plots usually owned. Large-scale commercial farms, over 100 ha. | Formal sector, large scale commercial agriculture. | In excess of ZMW 5,000, ($1,000). |
| **Medium-scale Rural, (MSR)** | 43,648, (2 %) | Often customary tenure. Medium-scale farms and large smallholdings, less than 100 ha. | A combination of formal and informal. A mixture of domestic production, with sale of surplus crops including to the Food Reserve Agency, (FRA) | Between ZMW 1,500 and ZMW 3,000, ($300 to $600). |
| **Small-scale Rural, (SSR)[44]** | 1,765, 118, (63 %) | Usually customary tenure. Smallholdings, rural villages and settlements. | Mostly informal, small-scale agriculture for domestic production and trade. Small-scale businesses, petty trade, and employees within the informal sector. | Less than ZMW 1,500, ($300). |

[39] LCMS (2004) and (2006)
[40] LCMS (2004) and (2006) Population data was adjusted to present based on 2010 Census, and by adopting a growth rate of 2.8 % per annum (pa).
[41] LCMS (2004) and (2006) A more detailed analysis of residential areas is provided in the housing market review, (section 5).
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[43] LCMS (2004) and (2006). Household expenditure patterns rather than incomes were used to provide a more accurate assessment of income distribution, with the results from historic surveys adjusted by the Consumer Prices Indices (CPI) annual average inflation over the period, (11.5 % pa) to provide an indication of present expenditure patterns.
[44] Includes non-agricultural employment.

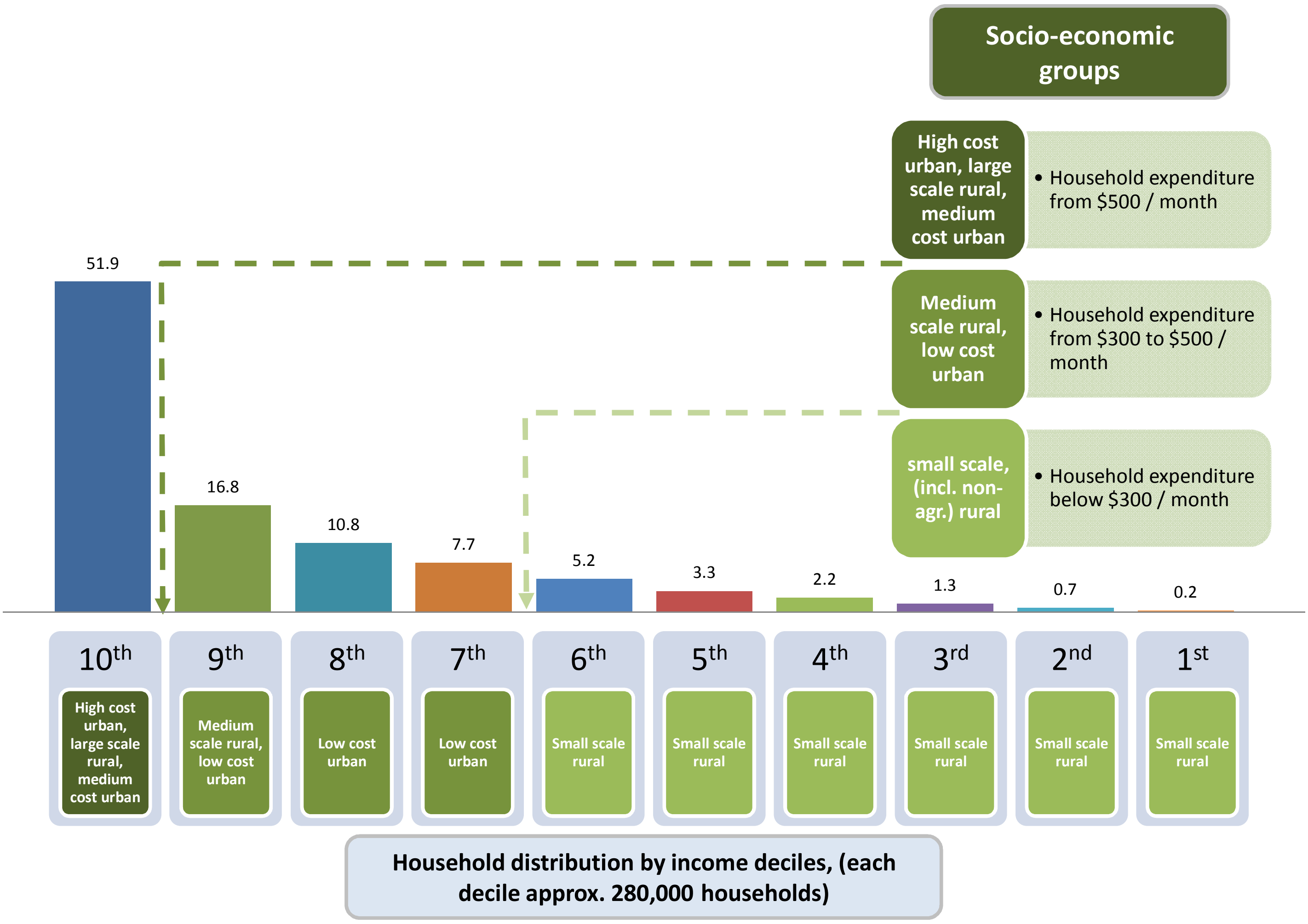
By ranking household groups by expenditure patterns, it is possible to plot their general position within the income distribution for the population as a whole[45]. Whilst there is some overlap, with household groups not fitting perfectly into each decile, Figure 8 shows the total projected households, (2.785m) split into ten income deciles, and ranked according to the share of per capita income. The ranking of economic groups can be presented graphically in Figure 9.

**Figure 8 Demographic analysis: Zambia household income inequality, sectors and expenditure levels**

| Household distribution by income deciles | | Population group by monthly household expenditure | | | |
|---|---|---|---|---|---|
| Decile | % share of per capita income, (2006) | Groups | Percentage of total population | Est. total households, (2012) | Projected monthly household expenditure, (2011/12) |
| 10th | **51.9** | **High cost urban & large scale rural** | **3%** | **80,919** | >$1,000 |
| | | **Medium cost urban** | **4%** | **104,121** | $500 - $1,000 |
| 9th | **16.8** | **Medium scale rural** | **2%** | **43,648** | $300 - $600 |
| 8th | **10.8** | **Low cost urban** | **28%** | **791,471** | <$500 |
| 7th | **7.7** | | | | |
| 6th | **5.2** | **Small scale, (incl. non-agricultural) rural** | **63%** | **1,765,118** | <$300 |
| 5th | **3.3** | | | | |
| 4th | **2.2** | | | | |
| 3rd | **1.3** | | | | |
| 2nd | **0.7** | | | | |
| 1st | **0.2** | | | | |
| **Zambia total** | | | | **2,785,278** | |

[45] 2005 income distributions as LCMS (2006)

**Figure 9 Household groups ranked according to income distribution and share of per capita income.**




The following broad relationship between socio-economic groups and income distribution can be drawn:-

- The high-cost urban, (HCU), large-scale rural, (LSR) and medium-cost urban (MCU) are found in the upper decile. They command over 50 % share of per capita income, with household expenditure starting at around ZMK 2.5 million ($500) per month.

- The medium-scale rural, (MSR) and low-cost urban, (LCU) groups are found within the ninth to seventh deciles, commanding around 37 % of per capita income, with household expenditure ranging from ZMK 1.5 million and ZMK 2.5 million, ($300 to $500) per month.

- The small-scale, (including non-agricultural) rural, (SSR) group make up the remaining lower deciles commanding around 13 % of capita income and are occupied, with household expenditure ranging below ZMK 1.5 million ($300) per month.

It is important to avoid over generalising small datasets, and presenting them as representative of the population as a whole. The expenditure ranges proposed for each group are broadly representative, and were compared with other indicators for validity. The analysis does however illustrate the small percentage of high and medium cost groups, (correlating with high and middle income) as a proportion of the total population, and the significance of a very large population with very low incomes.

## 4.0) Policy and regulatory framework

### 4.1 Introduction

This chapter initially outlines the government agencies engaged in housing and housing finance, and then goes on to consider the relevant legal framework which governs the housing finance and housing sectors. It is structured to first review national planning policy documents, depicting the Government's over-arching strategies, from which sector specific policies are based. Subsequent sections are divided into housing finance and housing, and include sub-sections on legislation, agencies, and an analysis of priorities by examining fiscal and tax budgets.

Whilst the legal and regulatory framework is an important factor in understanding the operation of the housing finance and housing sectors, or at least how these sectors should work, it is also important to reflect that it often has limited direct relevance in how the majority of the population, operating within the informal sector, gain access to available products and services. In this regard, it is important to consider this chapter in the context of the access section, (see Chapter 6). It has also influenced to some extent the depth of this chapter.

### 4.2 Agencies

The following agencies have a direct involvement in the housing finance sector:

Ministry of Finance (formerly Ministry of Finance and National Planning) (MoF), plays a central role in national planning, including determining the allocation of resources to housing and housing related infrastructure development through the budget allocations to the ministries and other public agencies.

The Bank of Zambia (BOZ) is the central bank with a mission to formulate and implement monetary and supervisory policies that achieve and maintain price stability and promote financial system stability. It also has a salient role of implementing policy to support the Government's developmental agenda. BOZ's interventions in the private market follow the principles of risk based supervision, and up until recently independent price discovery. This is no longer the case as evidenced by the introduction of interest rate caps.

The BOZ is the registrar and regulator for the banking and financial services sector which includes the microfinance and building societies sub-sectors. The housing finance sector in Zambia cuts across various financial sub-sectors, from capital markets, to retail mortgage markets and down to microfinance. In this aspect the BOZ is well positioned to play a leading role in fostering access to housing finance. The various regulations that BOZ is involved in enforcing will be discussed in a later section.

The Commercial Court, a relatively new division of the judiciary that has been established to allow civil claims for the enforcement of contracts, and is used by financial institutions over matters of foreclosure. The process is still seen as burdensome and bureaucratic by some industry commentators, and high case-loads leading to a lengthy process for mortgagees to take possession.

There are a number of different agencies involved in the provision of housing in Zambia, which are listed as follows in terms of sphere of influence:-

- Ministry of Finance, (as described earlier)
- Ministry of Local Government and Housing, (MLGH) – the parent ministry responsible for facilitating housing and housing infrastructure delivery;
- Ministry of Lands, (MoL) – responsible for approving and surveying the subdivision and amalgamation of land, and for issuing titles, (long leases) in the names of individuals;
- National Housing Authority, (NHA) – mandated to: monitor the housing market; assist in formulating new housing policy; and to meet housing needs of all income groups through direct housing construction;
- National Council for Construction, (NCC) and Zambia Weights and Measures Bureau (ZWMB) – NCC is a Government regulator, responsible for licensing construction firms, for approving new construction techniques in combination with ZWMB, and inspecting developments;
- Zambia Environmental Management Agency, (ZEMA) – mandated to safeguard the social and physical environment by inspecting and approving new developments and ensuring that developers mitigate impact;
- Zambia Development Agency, (ZDA), and the Ministry of Finance's, PPP Unit – responsible for promoting and executing public-private partnerships (PPPs) with private sector house builders;
- Local Authorities, (LAs) – responsible for: allocating plots and providing services; building permits; inspections and certifying buildings.

There are clearly many agencies engaged in both sectors, and the multi-agency approach has been criticised in previous reviews for creating inefficiency, and resulting in disjointed strategy, and misaligned policies[46]. Some of these agencies have also been criticised for the regulations and processes that individuals and companies have to follow to develop and own housing, which can be complex, costly and arcane. Examples are highlighted below:-

- NCC building regulations are not pro-poor. Approved construction technologies can be cost prohibitive, and result in a lack of exploration into cheaper alternatives. There is also a lack of accreditation of small-scale construction companies catering for low-income households.
- Environmental legislation requirements, (Environmental Management Act 2011) for housing developments over five hectares require a lengthy Environmental Impact Statement. The high costs tend to result in avoidance and a complete lack of regulatory control in informal development areas.

[46] This was referred to in the discussion paper, Beresford (2009) which accompanied the draft Urban and Regional Planning Bill.

- A centralised land administration process, and an outdated land information management system lead to practical difficulties and costs in obtaining title, and also errors and duplications.

The net result are greater barriers to access, and in the case of the housing sector, a high proportion of housing which has been built without the appropriate permissions, and on land without title[47]. Friction costs on transfers, (i.e. surveyors, legal fees and Property Transfer Tax (PTT), often results in low income groups transacting on land without formal title, and therefore without the ability to use the property as a security. It appears that from our workshop interviews carried out as part of the study, this was a relatively common practice.

### 4.3 National planning policy

The development and national planning agenda for Zambia in the last decade has to a large extent been driven by the Poverty Reduction Strategy Paper (PRSP), which was an output of the HIPC (Highly Indebted Poor Countries) Initiative that aimed to channel debt relief from multilateral and bilateral donors to poverty reduction programmes. The PRSP ran from 2002 to 2004, and a transitional national plan for the period 2002 to 2005 was also put in place focusing on poverty reduction. Following the end of the PRSP the national planning was addressed through a five year mid-term national development plan; Fifth National Development Plan, (FNDP) which ran from 2006 to 2010.

The FNDP, a home grown initiative, sought to build upon the PRSP, but with an emphasis on integration with other Government policies, plans and operations, recognising that too many planning instruments existed, which tended to confuse programme implementation and donor support. The FNDP included the domestication of various international initiatives to which Zambia is a signatory, including the Millennium Development Goals (MDGs) and New Partnership for Africa Development (NEPAD). Taking into account the foregoing the theme of the FNDP was to achieve:

- Pro-poor growth, job creation and development with equity;

- Rural development and technological advancement.

The objectives included:

- Regionally balanced rural development;

- Provision of accessible quality social services;

- Provision of affordable infrastructure;

- Advancement in science and technology;

[47] One particular difficulty that has been created is the length of time to issue title. This often takes around three months, and leaves developers having to wait for completion, resulting in negative impacts on cash-flow. Insurance bonds are being considered as a potential alternative to allow a mortgage to be arranged in advance of the title process having been completed.

- Achieving public safety.

Within this context, the priority had been on the economic sectors of agriculture, tourism, mining, manufacturing, transport and communication. In the social sectors, focus had been on, education, and public safety. Despite pronouncements by the Government at the time that provision of decent and affordable housing was one of its priorities, this was not adequately supported with resource allocation, evidenced by the fact that housing was not one of the themes in the FNDP.[48].

In contrast, the Sixth National Development Plan (SNDP) that runs from 2011 to 2015 contains an ambitious housing programme. In this plan, the vision for the housing sector is articulated as:

> "planned settlements with adequate, affordable and quality housing by 2030."

The sector goal is:

> "to facilitate the construction of adequate and affordable housing, increase the existing housing stock and enhance quality".

During the SNDP period, the strategic focus will be to increase the housing stock, improve the living environment in settlements and leverage the role of Public Private Partnerships, (PPPs).

The target of the SNDP is for the construction of 500,000 low cost houses over the five year period. What is not clear from the policy is whether it is Government's intention to deliver these units through direct construction, or subsidise the construction through PPP mechanisms[49].

The Draft Constitution, which was released for public consultation in 2012, includes the rights of Zambian citizens to access land, and for accessible and adequate housing[50]. This provision was negotiated by civil society groups such as the Civic Forum on Housing and Habitat, and Zambia Land Alliance. Since this is still a draft, there has been little direct response from Government agencies for how this commitment might be put in practice through direct policy or regulation. The revised constitution was one of the Government's election commitments and therefore, its completion and adoption is a priority.

### 4.4 Finance policy and legislation

An absence of any significant social housing schemes, and an emphasis of PPPs for the promotion of housing as espoused in the fifth and sixth national development plans, increases the need for the

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[48] It is worth noting that the MDGs which had a significant bearing on the FNDP also do not include housing as one of the goals – rather, the focus is on improved living conditions for slum dwellers.

[49] The Zambia Development Agency (ZDA) had requested proposals for a number of public private partnership (PPP) housing projects for civil servants in urban areas for up to 12,000 houses, but at present projects have stalled, because of amongst other things a lack of available mortgage finance, and external constraints on the Government in being able to underwrite the projects.

[50] The relevant clauses in the first draft includes: section 44. (1) – A person has the right, either individually or in association with others, to acquire and own property; and section 62. (1) – A person has the right to (b) accessible and adequate housing;

Government to ensure a regulatory environment that enables the housing finance sector to promote the development of a housing market with greater private sector involvement

Government has put in place enabling policy, regulations and institutional structures to address some of the market inefficiencies in the housing finance sector. As far back as the 1960's, regulation allowed for the existence of financial institutions such as building societies that provide housing finance. In the recent past, the Government has recognised through the Financial Sector Development Plan, (FSDP) housing finance as a priority area, and the current policy and regulatory review, (which includes The Building Societies Act and the Banking and Financial Services Act), aims to make the legislative environment for the financial sector more enabling with regards to housing finance. The comparatively higher growth rate of the residential mortgages sector would indicate that these interventions are increasing the access to housing finance even if currently only for the higher market segments.

### 4.4.1 Policies

In an effort to achieve the objective of becoming a prosperous middle income country by the year 2030 (Vision 2030) the Government of Zambia in collaboration with development partners has been implementing since 2004 the Financial Sector Development Plan (FSDP). FSDP II, an extension of the initial FSDP and which runs from 2010 to 2012[51]) has defined the following three priority areas as critical for the development of the financial sector:-

- Market infrastructure;
- Enhancing or increasing competition;
- Aligning access to finance with the real economy.

The third component includes among its areas of focus:-

- Strengthening the microfinance industry;
- Expanding access to development and housing finance;
- Enhancing and developing a buoyant secondary market in money and capital markets.

These are all cardinal to the development of the housing finance sector. Some progress has been made in translating these policies into increased access to housing finance and housing. Most notable are the following, although some still remain a work in progress:

- The harmonisation and modernisation of the Building Societies Act and the Banking and Financial Services Act which has provided a more robust regulatory framework for the Building Societies to operate within;

[51] The FSDP III framework is presently being worked on. An extension to FSDP II, which will run until December 2014, is in the process of being developed

- Re-categorisation and licensing of microfinance institutions to allow for deposit taking which has led to increased intermediation and introduction of new products including housing microfinance (home improvement) loans. MFIs that are now able to take deposits include CETZAM, EFC and Finca;

- Re-capitalisation and strategic turn-around of state-owned financial institutions (ZNBS and NATSAVE) which are involved in housing finance and increasing general access to finance. These changes are ongoing under the FSDP II with measured success to-date;

- Introduction and enhanced use of the credit reference bureau (CRB) thereby reducing the credit risk for all lenders. However perceptions from the market is that the CRB has had a limited impact on the market mainly due to the fact that only a small section of the financial sector submit their data consistently, hence its credit information is not reliable.

Arguably one of the successes of these reforms was evidenced in 2011, where Zambia was assigned a sovereign credit rating of B+ by two international rating agencies[52]. The implications of this are:-

- Government can diversify its financing to external sources. This will reduce the crowding out of private funds on the domestic capital markets which has been the case in the past due to Government domestic borrowing;

- Government successfully issued a ten-year sovereign bond in late 2012, worth ZMW 3.75billion, ($750m). This will help establish a pricing benchmark for future bond issuance by both the private and public sector;

- The visibility of Zambia as a favourable destination for investment is enhanced. This will attract international private sector investors and ease competition for domestic savings.

### 4.4.2 Legislation

The regulations and acts that intervene in the banking and financial sector that are enforced by BOZ are the Banking and Financial Services Act[53] and the Building Societies Act[54]. Interventions are usually through monetary and statutory instruments and at times through moral suasion. Recent interventions in the financial markets and policy announcements that impact on the housing finance sector include the following:

In April 2012, BOZ announced the introduction of a BOZ Policy Interest Rate[55]. A Policy Rate is used to influence monetary and credit conditions, and allows BOZ to signal an increase or a decrease

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52 The credit rating agency Fitch has subsequently downgraded Zambia's outlook from stable to negative, citing concern over inconsistency in the government's economic policy announcements, in addition to the impact that the sovereign bond will have on the country's debt burden.

53 Banking and Financial Services Act (1996)

54 Building Societies Act (2005)

55 The BOZ policy rate takes into account the cost of funds and market fundamentals and is linked to open market operations (economic conditions, market conditions and political risks) rather than the interbank or overnight facility rate which are less significant in the setting of the base rate by the commercial banks. The difference between the policy rate and the base rate of individual commercial banks is mainly influenced by the operational efficiency and the need for high returns on

in the price of credit in the market. To announce changes to the BOZ Policy Rate, BOZ will be issuing a monthly communiqué that explains its monetary policy stance. The first BOZ Policy Rate was 9 % for the month of April 2012¸ and has increased to 9.25% at the start of 2013.

The purpose of the Policy Rate is to introduce a certain level of transparency in the pricing of credit in the financial sector. BOZ expects that the following benefits, among others, will accrue:

- The increased reliance on interest rate policy-based instruments is expected to provide a relatively more transparent and efficient process through which the BOZ can better anchor inflation expectations;

- Following the reform, it is expected that the standard practice of quoting the price of loans and similar credit products by all commercial banks will be the BOZ Policy Rate plus a margin. The margin will be set by commercial banks on the basis of their risk premium assessments and operational efficiency.

However the introduction of the Policy Rate was received with mixed feelings by the financial sector at the time with many fearing that this was but a first step towards introduction of interest rate controls by BoZ[56]. The banks, building societies and microfinance institutions surveyed during the course of this study all put forward various reasons as to why the Policy Rate could not be used as a reliable proxy for pricing of their credit products. For mortgages in particular it was cited that pricing could not be anchored to the Policy Rate which would in any case be regularly reviewed and adjusted, whereas mortgage pricing had to take into account not only the cost of funds but the long term volatility of the financial and housing sector. The fear of the various financial institutions became a reality with the announcement of interest caps by BOZ for commercial banks and microfinance institutions in early 2013.

BOZ is also responsible for prudential measures for financial institutions. Regulatory policies brought in last year saw a significant increase in capital reserves required for commercial banks to operate within the country. Local owned banks are now required to have a capital base of ZMW104 million ($20.8m) whilst foreign owned banks are required to have a minimum capital base of ZMW520 million ($104m). These measures, which are effective from the end of 2012, are widely seen as a way of encouraging these institutions to increase their lending activities, although in the short term, we may see banks passing on the cost of raising the additional capital to their clients through high interest rates.

Regulatory restrictions also include the type and percentage of assets that can be held by funds and trusts, (e.g. pension and insurance). The present SI[57] restricts the total real estate investment to no more than 30 % of an institution's total portfolio. With some exceptions of former parastatals such as Zambia State Insurance Company, (ZSIC), however, relatively few funds have come close to this limit. This indicates scope for growth.

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shareholder's equity. The main factors considered in the cost of funds are the cash reserve requirements – the statutory reserve ratio, core liquid asset ratio and the BoZ supervisory fee; operational costs; and yield rates on Government securities.

[56] The position is likely to be further strengthened with the imposition of a maximum interest rate ceiling at 9 base points above Policy Rate in late 2012.

[57] SI 141 (2011) under the Pension Scheme Regulation Act (1996), and the Pension Scheme (Investment Guidelines) (2011).

In May 2012, Statutory Instrument No. 33 and No. 68 of 2012 that prohibits the quoting, paying or demanding to be paid or receiving foreign currency as legal tender for goods, services or any other domestic transactions came into force. Prior to this, it had been common practice in the real-estate sector to quote rental rate and property sale values in United States Dollars, as a means of hedging against inflation. It is yet to be seen what the effect of SI33 may have on the housing sector, although one can imagine it may lead to an increase in pricing as landlords peg prices at a level that covers any fluctuations that may arise from inflation and changes in the ZMK – USD exchange rate.

The Bank of Zambia Amendment Bill (No. 1) (2013) came into effect in March 2013, and is an enabling Act which provides BoZ the power to implement foreign exchange controls. This is intended to provide the Government with the powers to ensure that profits from the large agricultural and mining sectors are first banked in Zambia and so can be taxed effectively, however the powers relate to all sectors and has led to some private sector commentators[58] to raise concerns over the trajectory of the present Government's policies, and the impact it might have on foreign investment.

## 4.5 Housing policy and legislation

### 4.5.1 Fiscal / tax budgets

A review of the 2012 National Budget (Yellow Book) indicates that only ZMW 20 million, ($4 million) has been allocated to housing and housing infrastructure development under the MLGH. The housing development budget allocation of ZMW 20 million represents 6 % of the overall ZMW 3.04 billion ($608 million) budget for the infrastructure and support services for the department. The ZMW 20 million includes ZMW5.2 million, ($1 million) allocated for the construction of low cost housing and ZMW1 million, ($200k) for low cost housing funding through the Zambia Low Cost Housing Loan Fund, (ZLCHLF).

From the target of the SNDP to construction of 500,000 low cost houses over a five year period, this would require 100,000 low cost units to be constructed in 2012 from this total allocation of ZMW 5.2 million, presenting an average contribution of ZMW62, (c.$12) to each house. Whilst it is not clear on the housing delivery mechanism to be used, the current budget allocation clearly indicates a limited resource allocation from the public sector.

The Local Development Fund (LDF) is a central fund provided to local authorities (LAs) for infrastructure and servicing new development areas. The LDF for 2012 is ZMW 13 million, ($2.5 million), and yet despite the availability of funding, LAs rarely provide serviced plots.

Housing was made a priority area in 1996, and incentives have been made available for commercial developers of any housing project through the Zambia Development Act (ZDA) 1996. These include relief on corporation tax, VAT and import duties for developers up to a ten year period, usually from first declaration of dividends.

[58] Mukanga, C, (2013)

MoF budgetary policy measures which have been recently introduced, and which directly impact on the housing and housing finance sectors include:

- The 2010 budget saw the removal of tax relief on mortgage interest repayments, on the grounds that it was inequitable, supporting only high income earners. The allowance had enabled mortgagors to off-set their interest costs from future tax liabilities. Given the relatively small size of the mortgage market, the impact has been relatively small.

- The 2011 budget saw the introduction of VAT at the standard rate, (16%) on new housing developments, effectively increasing the cost of new housing to the end-user, compared to re-sale housing which is VAT exempt.

- All land transactions now attract a 5 % Property Transfer Tax, (PTT) increased from 3 % in the 2011 budget. This must be paid in order for the ownership of the title certificate to be transferred.

#### 4.5.2 Policy

There have been a few recent public policy interventions aimed towards improving access to land and providing public housing, to low income and vulnerable groups. The main interventions other than plot allocations, and ZDA incentives, have been housing projects for public sector employees, (e.g. police, Zambia National Service, etc.), and through the National Housing Authority (NHA) / Public Private Partnerships (PPPs) where private house builders have undertaken housing projects for upper-middle and high income groups, confined mostly to Lusaka.

The housing policy framework remains partly influenced by the transition from humanist doctrine pre-1991, (where housing was provided by the state and employers), however there has been a significant policy shift since the promotion of private market provision.

The National Housing Policy (1996) was seen as a landmark policy for addressing housing needs, particularly following the newly adopted private market principles of the time. However no effective implementation plan was put in place to translate the policy into action. It has been suggested that the policy was over ambitious, particularly because it would have required up to 15 % of the national budget allocated towards housing. The current policy vacuum makes it difficult to ascertain the Government's present position towards housing delivery. A new housing policy is to be drafted, to be more feasible for implementation, and to set out how the housing delivery targets identified in the SNDP can be realised. This will commence once a consultant has been commissioned.

#### 4.5.3 Legislation

The housing market is relatively lightly regulated. There are some older statutes, such as the Rent Act[59] which seeks to introduce controls, but following liberalisation from the early 1990s, these are now mostly ignored. There are some controls that do have an important impact on markets, such as a

[59] Rent Act (Cap 206) (1972)

general restriction on foreign ownership. Liberalisation reforms also involved a detachment of the requirement for employers to provide employee housing, which was once a common means of access.

Land ownership rights are determined under the Lands Acts[60]. All original freehold titles were transferred into long leasehold ownership in 1975, which still remains, although liberalising reforms now allow for the transfer of land between individuals at a value, establishing a private market. Land can be alienated to individuals under two separate mechanisms, depending on tenure. The first category is state land, granted by means of a 99 year lease, with a 99 year right to renewal. The unexpired term of the lease can be transferred between individuals at a value. Generally the title is considered secure, and can be used as collateral. The second category is customary tenure, granted by the local chief / headman. This covers over 90 % of the land mass. Generally this tenure is not considered as secure from a legal perspective, since tenures can be shorter, and there is scope for revocation.

The 1995 Land Act does however allow the conversion of longer customary leases to state tenure. An additional, but less secure form of tenure is available in areas covered by the Housing Statutory Improvement Areas (HSIAs) legislation[61]. These affect informal housing areas, where at present ownership rights are restricted to 30 year occupancy licences, with councils holding long leasehold title.

Legislation that has survived liberalisation includes the requirement that lessees have to develop land within an 18 month period, or risk having their lease revoked. Lease revocation is seldom undertaken for small land holdings, but strategic development parcels have been repossessed where a developer has failed to perform.

Land is zoned for residential purposes through the Town & Country Planning Act[62]. Local councils are responsible for planning and constructing roads, services and social facilities in new areas. Capacity constraints and ineffective building control has meant that the plan-making process and site servicing has been quite limited. These limitations are best illustrated in the environment of the new peri-urban areas in most cities.

Informal settlements have so far not been included under the ordinary planning ordinances, and where regularisation has taken place it has been under the separate HSIA provisions. A new Urban & Regional Planning Bill presently being drafted prior to a hearing before Parliament aims to address the shortcomings of the two tier process, although this does not address the ownership issues mentioned earlier.

Building permission from the Local Authority (LA) is required to develop state land. LAs are required to approve building plans and carry out stage inspections, prior to issuing an occupation certificate. Although scrutiny fees are not excessively costly, (less than $100), they do represent a significant burden for low income and vulnerable groups.

[60] Lands Acts (1975), ( Cap 184) (1995)
[61] Housing Statutory Improvement Areas Act (1991)
[62] Town and Country Planning (Amendment) Act No. 21 of 1997 (T&CPA), Town & Country Planning Act (1962)

Building regulations are based on colonial standards, and are generally not flexible to incorporate ‘low cost’ building techniques, (i.e. use of traditional / locally available materials, and prefabricated / composite construction methods). Space standards also remain generous, (i.e. a minimum 324 square metres for low cost plots), which promotes low density development, and ultimately increases the cost of servicing. There are also capacity issues amongst LAs in ensuring compliance. Insufficient inspections and certification leads to poor quality new construction and significantly increases the risk of lenders in using the asset as loan collateral.

## 5.0 Housing market

A housing finance sector cannot develop to its fullest extent without a functioning housing market. If the housing and construction sector is unable to meet existing demand by quantum, or at an affordable value, then the capacity of the housing finance sector to support the housing needs of a population is also limited. This section examines the Zambian housing market in terms of the lending risk posed. The dynamics of housing need and demand is also analysed, together with supply (existing stock and new development). Finally, the study provides a summary of the construction sector performance.

### 5.1 Lending risk

The existing housing market presents a number of risks, which restricts the extent of funds channelled to the sector, and increases the cost of borrowing. These risks include:

- a high asset risk, (i.e. in providing sufficient security for borrowing) particularly in informal housing markets, where houses are built without formal title. Even in formal housing markets, where title is obtained, however the self-build route (the most common construction approach) also increases the risk to the banks of lending due to uncertainty over building quality, and lawfulness of the construction in obtaining and following building regulations. From the interviews, it was found that most banks are reluctant to offer construction finance on self-build projects. They prefer to lend to house builders rather than individuals, but even there they have been exposed to risk by developers failing to build to plan, within committed timescales, or failing altogether;

- a high market risk, (i.e. the ability to recover the loan amount upon disposal on the open market) with affordability constraints leading to a limited resale market. The greatest area of activity for banks has been limited to the formal high cost areas within major urban centres, as these areas have the most viable sales market, where the property can be disposed of in reasonable timeframes, and loan amount can be recovered.

The small market size is a factor of demand which is limited due to a lack of financial capacity across the population. Whilst the affordability ratio between average incomes and house prices and / or the cost of construction remain acute, the potential for expanding the housing finance sector is limited by the lack of available product / market.

In general, the following factors are relevant in understanding the dynamics of the housing market, and the risks it poses to potential financers:-

1. Unsatisfied need, but limited effective demand due to affordability constraints as a result of low and informal income earnings across the population at large.

2. A limited re-sale market in the older housing areas with distortions in the value /rents of housing in the high-and medium-cost sectors through demand from company lets.

3. Informality in the new housing areas, with a housing stock characterised by developing without title and necessary/building approvals, poor build quality or construction types; poor or intermittent infrastructure and services/ limiting the suitability of this housing to provide security for lending.

4. A lack of segmentation in the housing market with a homogeneity in the available products, (i.e. 3 bed detached villa), which does not cater adequately for the needs of all socio-economic groups.

5. New supply from private developers, targeting the same, relatively limited to the upper medium cost and high cost sectors.

6. The construction sector is impacted by relatively high construction costs, due to input costs and lack of bulk services and infrastructure capacity which makes it difficult to supply affordable products to the low and medium cost markets where the majority of the population is found.

**5.2 Housing need / demand**

There is a lack of empirical data on housing supply and demand. Information on house construction in the informal sector is particularly scant due to the unregulated nature of its provision. The National Housing Policy 1996 had estimated the housing shortfall at one million, and had forecasted a construction requirement of 64,000 houses per year to meet the deficit. Since then, this target has not come close to being met, and there has been no recent update on the present housing backlog pending completion of a new housing policy[63].

A 2012 UN-Habitat study[64] projected an existing housing need of 1.3 million taking into account existing stock, new construction and demographic change. This may be a conservative estimate, as some projections place actual need over two million[65]. UN-Habitat indicated that housing need, created from population growth and new household formation, has consistently outstripped new supply over the last decade.

An acute area of housing need is found in the new mining areas of North Western Province and parts of Southern Province, where a number of mining houses have decided to promote their own housing initiatives. This was brought out through our own survey, but has also become increasingly apparent to employers who have found it difficult to retain staff in areas where a housing shortage exists.

Figure 10 adopts the same socio-economic groups that were outlined in Chapter 2. It shows the positions where these groups operate in the housing market by housing sector and cost. What is most striking is that the population found in the low-cost sector is over 90 % of the population.

[63] The lack of statistics was mentioned as an objective to be addressed in the SNDP (7.5(5)).
[64] UN-Habitat (2012)
[65] The annual estimate by the then Ministry Of Housing and Local Government Prof Nkandu Luo in a keynote address to Diaspora in US (Posted 25/04/12); suggesting a construction rate of over 200,000 per annum needed to be achieved across the country.

**Figure 10 Socio-economic groups categorised according to their operation within the housing market**

| Socio-economic group | Approx/ household number and % of total | Income group by share of GDP | Household expenditure ZMK | Housing sector | Housing costs ZMK | Monthly expenditure on rent |
|---|---|---|---|---|---|---|
| **1.) High-cost urban**<br><br>**2.) Large-scale rural**<br><br>**3.) Medium-cost urban** | 7 %, 185,000 | 10th | >ZMW 2,500<br><br>>$500 | High cost<br><br>Medium cost | >ZMW 400,000<br><br>>$80,000 | up to 50 % of monthly income |
| **4.) Low-cost urban**<br><br>**5.) Medium-cost rural**<br><br>**6.) Medium-scale rural** | 30 %, 835,000 | 9th -7th | ZMW 1,500 - ZMW 2,500<br><br>$300-$500 | Low cost | ZMW >100,000<br><br>>$20,000 | up to 40 % |
| **7.) Small-scale rural** | 63 %, 1.765m | 6th – 1st | <ZMW 1,500 <$300 | Low cost | <ZMW 100,000<br><br><$20,000 | up to 40 % |

### 5.3 Supply

5.3.1 Existing housing stock

Preliminary results of the 2010 census of population and housing indicate that the population of Zambia increased from 9,885,771 in 2000 to 13,046,508. Of the total population of 13,046,508, 61 percent (7,978,508) live in rural areas while 39 percent (5,068,234) live in urban areas. Housing supply has traditionally been below the rate of new household formation. Between the 1990 and 2000 censuses there was an increase in housing stock of 111,000 units nationally, (some 11,100 per annum). The 2010 census data is yet to be published, but two other CSO studies[66], had total housing units at 2,110,640 (2004), and 2,283,211 (2006); representing an 86,000 unit per annum increase over this period. Although this is only a short time frame for comparison, this can be contrasted against a projected household formation of 62,000 per annum[67] over the decade.

With a construction rate only marginally ahead of new household projections over the last ten years, this would suggest that new construction has only a marginal improvement on the existing housing. The housing market is private-market driven, and the key factor which has resulted in the under-supply is a lack of effective demand. This is due to the high cost of housing relative to income earnings, (i.e. lack of affordability).

The majority of construction activity is in the form of incremental 'self-build' projects in urban and peri-urban, (low and medium cost) areas that have grown over the past twenty years. As an example the latest Urban Development Plan for Lusaka indicated that the developed area of Lusaka increased from 18,400 hectares to 27,000 hectares between 2000 and 2007[68], (i.e. around 50 % increase) mostly as a result of this activity. This is around 1,200 ha, or 9,000 plots per year assuming that this is through peri-urban development[69]. This suggests that the UN-Habitat projection may be an underestimation of the rate of new supply rationally.

The existing housing stock serves different segments of the population. The following tables provide a brief analysis of existing housing stock by area, and also by construction type.

[66] CSO LCMS IV 2004 (p151) and LCMS V 2006 (p128)
[67] New household formations projected based on the average 5.2 inhabitants per dwelling; and 2.8 adults, (over 15), per dwelling.
[68] Lusaka City Council, (2009)
[69] (i.e. based on an 800 sq.m medium density plots and 60 % coverage).

**Figure 11 Description of the older housing areas**

**Older housing areas**

- In urban areas, the older housing areas form the high cost and medium cost market sectors, serving the corresponding socio-economic groups.

- These are usually former colonial and post-colonial housing stock which are ageing and often in need of modernisation. They are on large plots, often over 2,000 square metres (sq.m).

- With relaxed zoning regulations, well located housing, (i.e. close to central business districts, with good accessibility, and services provision) are being converted to office use, which depletes existing stock.

- Council and institutional housing stock situated in these areas was mostly sold off with liberalisation in the mid 1990's; providing a windfall to sitting tenants, but seriously eroding council revenue streams and their ability to provide new housing. It has also created a situation of owners who are 'asset rich but cash poor', (i.e. who cannot finance the on-going maintenance costs for housing). The market contains a number of private and institutional landlords holding housing for the private rental market. CSO reports that over 50 % of housing stocks in urban areas are rented, and this included older housing areas.

*Affordability*

- Rental values, and therefore prices tend to be distorted as a result of demand from employees of companies, NGOs and diplomatic missions, who are paid a housing allowance. This has a significant impact on affordability, in the market overall.

- As an indicator of housing costs and affordability in these older housing areas, average house prices in some of the most popular locations are provided in Figure 12. House prices were compared against average income earnings[70] for high-and medium-cost urban households.

[70] Average earnings for the high cost group was based on income earnings for employment categories in the CSO (2006) **Labour Force Survey**, with income inflated by 11.5 % per annum, the rate of CPI inflation over the duration. The employment category for high cost employees was taken as the managerial and administrative group, with the highest income earnings of any other employee group. Average income earnings for the medium cost urban group was adopted from chapter 2 (figure 5).

**Figure 12 Housing stock type and price by selected areas**

| Centre | District | Classification | Housing type | Price (ZMW/USD) | Affordability ratio by sector *1 | Rent (ZMW.USD/month) |
|---|---|---|---|---|---|---|
| Lusaka | Kabulonga | High cost | 3 or 4 bed detached, large plot | 250 m plus | 1 : 0.05 | 12,500 plus |
| | | | | (c.$500,000+) | | (c.$2,500+) |
| Lusaka | Avondale | Medium cost | 3 bed detached on small plot | 500,000 | 1 : 0.05 | 2,500 |
| | | | | (c.$100,000) | | (c.$500) |
| Kitwe | Parklands | High cost | 3 or 4 bed detached, large plot | 750,000 | 1 : 0.17 | 5,000 |
| | | | | (c.$150,000) | | (c.$1,000) |
| Kitwe | Riverside Extension | Medium cost | 3 bed detached on small plot | 500,000 | 1 : 0.05 | 2,500 |
| | | | | (c.$100,000) | | (c.$500) |
| Ndola | Northrise | High cost | 3 or 4 bed detached, large plot | 625,000 | 1 : 0.21 | 4,500 |
| | | | | (c.$125,000) | | (c.$800) |
| Livingstone | Hillcrest | High cost | 3 or 4 bed detached, large plot | 500,000 | 1 : 0.26 | 3,300 |
| | | | | (c.$100,000) | | (c.$650) |

| | |
|---|---|
| Notes:- | *1 High cost sector average annual earnings of ZMK 130 m (c.$26,000) based on managerial / administrative employees of ZMK 10.8m (USD $2,100) / month |
| | *2 Medium cost average annual income ZMK 26 m, (c.$4,800), based on $400 / month median for the 'medium cost' urban in the demographic analysis. |

- The affordability ratios, particularly for the capital Lusaka, illustrate the fact that irrespective of housing finance availability, the capacity of individuals to gain access to housing, based on average wages is extremely limited.

**Figure 13 Description of informal settlements**

## Informal settlements

- Informal settlements, (known colloquially as compounds), have a colonial legacy, where the black population was not permitted to settle in the urban areas being developed by the colonial administration and white settlers. The informal settlements tended to be located close to commercial centres or high cost areas, often due to proximity to employment for the black settlers.

- Most of the urban growth in Zambia has taken place in informal settlements, (i.e. unplanned and without formal title) and according to UN-Habitat[71], this sector dominates the housing stock. Land is more readily available for housing development in informal settlements through informal and illegal channels, such as through political patronage of illegal occupation. For example, in Lusaka, about 70 percent of all housing is informal; it accommodates about 90 percent of the population but only occupies 20 percent of the residential land[72].

- The housing market is also less structured in these areas, making projecting house prices more complex. The majority of property owners in informal settlements do not have occupancy licenses or title deeds. Even where mechanisms exist to provide some security, like the Housing Statutory Improvement Areas Act (HSIA)[73], they are not intended to offer title.

[71] UN-Habitat (2012)
[72] CSO (2004)
[73] Housing Statutory Improvement Areas Act 1992

Within informal settlements in the main urban areas, the cost of building a new two to three room dwelling of basic materials, (i.e. concrete block, sheet steel roof, etc.), without services and formal title, prices can range from ZMW 20,000 to ZMW 25,000, ($ 4,000 to 5,000), based on construction inputs.

- House prices in these areas are more affordable relative to income earnings for medium-and high-cost socio-economic groups. If annual expenditure from the lower income groups in the demographic analysis is taken with an annual expenditure of around ZMW 10,000 ($2,000), then this provides an affordability ratio of around 1:10.

**Figure 14 Description of newer housing areas**

**Newer housing areas**

- In urban areas, new housing areas tend to contain pockets of low-, medium-and some high-cost housing, therefore serving a cross section of income groups. These newer housing areas are sometimes informal settlements, created by illegally occupying and building upon land, but are more often a result of un-serviced or part-serviced plots being sub-divided and allocated or sold and peri-urban development around the periphery of the city.

- Compared with informal settlements, the characteristics of the newer peri-urban areas are recognised as housing areas on planning ordinances and are more structured in terms of access and provision of services. However, access and services are poorer and less reliable, plot sizes are smaller, and coverage greater, using greater area than the older housing areas. There is differentiation between areas, with places with better access, levels of servicing, type of construction and having obtained title and building permission. This is also reflected in differences in prices, and variances in the socio-economic groups found therein.

- In peri urban areas, prices can be in excess of ZMW 500,000, ($100,000) for a good quality construction, with services and title in a 'semi-formal' area.

### 5.3.2 Construction types and ownership

In general, only modern construction techniques are considered as acceptable collateral for conventional mortgage finance, which tends to exclude the majority of the existing stock in informal areas. The CSO[74] survey data also provides some useful household characteristics, (i.e. in relation to construction types between household groups, and urban and rural settings).

Figure 15 shows the contrast in construction methodologies:

**Figure 15 Urban / rural construction techniques**

[74] CSO (2004)

| Group | Construction type: Traditional hut (%) | Improved traditional house (%) | Other, conventional housing (%) |
|---|---|---|---|
| | | | |
| **Urban** | **8.9** | **12.7** | **78.4** |
| Urban Low Cost | 11.1 | 15.8 | 73.1 |
| Urban Medium Cost | 2.4 | 5.5 | 92.1 |
| Urban High Cost | 3.9 | 2.9 | 93.2 |
| | | | |
| **Rural** | **68.5** | **22.5** | **9** |
| Rural Small Scale | 70.2 | 22.6 | 7.2 |
| Rural Medium | 42.9 | 30.9 | 26.2 |
| Rural Large Scale | 14.6 | 5.6 | 79.8 |

Source LCMS (2004)

In rural areas over 90 % of housing stock is either traditional or improved traditional housing, (i.e. pole and dagger huts with thatched roofs) or improved traditional housing, whereas this comprises a little over 20 % in urban areas.

Form of ownership is also essential in determining whether a property can be used to lend against. The 2004 LCMS[75] indicated that in rural areas, around 91 % of housing units are owned, which contrasts with only around 50 % in urban areas. Whilst in rural areas, owner-occupiers made up a high percentage, the form of ownership, (i.e. traditional title) and house construction both limit the security offered by the housing to potential lenders. One other statistic common across both urban and rural groups was that only 12 % of households had purchased their housing, which also reflects a relatively limited sales market.

## 5.4 Construction sector

The construction sector remains relatively small-scale and predominantly informal. A major inhibitor is high construction costs, which appears to be a result of; a lack of economies of scale, high construction inputs, local shortages and a lack of existing services and infrastructure. Despite this there is evidence of improvement with increased demand resulting in more building materials being locally produced.

There are a limited number of formal private housing, (as opposed to contractors); speculative developments tend to be small-scale and limited to the capital city. There are public sector institutions involved in housing provision, although more recently these are commercially driven, focusing on the upper-middle/ high-cost sectors.

One common factor affecting private and public sector developers is the lack of existing services and infrastructure. Developers are subject to high upfront costs, or alternatively fail to provide adequate services and infrastructure.

[75] CSO (2004)

These issues are explored in more detail under the following sub-headings: private developer; public sector; and; public infrastructure.

### 5.4.1 Private housing

Self-build is the route of choice across all demographic groups, both urban and rural principally because of improved affordability offered by this route. For most households, smaller, unsecured loan amounts combined with owner equity are the only means to finance development. Individuals in middle and higher income sectors engage contractors and local artisans in the construction projects, and in general the construction sector is dominated by small firms or individuals who are often informally employed on such projects.

There are few private sector house builders, with most speculative projects limited to Lusaka, or alternatively employer-backed projects tied with the mines in the Copperbelt and North Western provinces. Speculative projects tend to be boutique small-scale developments of up to 50 units. Prior to 2008 there had been some supply through to the high cost sector, mostly to private landlords and institutions using these properties as a rental investment. With the economic crisis, the size of the rental market in this sector has decreased, resulting in a fall in rental values due to the present over-supply.

There is a growing number of developers interested in supplying the medium-cost sales market, principally in Lusaka. These developers are targeting a ZMW 200,000 to ZMW 400,000 ($40,000 to $80,000) house price ranges and come with low cost housing solutions adapted from elsewhere. A major viability hurdle to overcome at present is to have adequate mortgage finance in place, since their development model is dependent on a high sales rate.

### 5.4.2 Public housing

Public housing projects such as the President's Housing Initiative (PHI), back in the early 2000, have brought some new supply to the market, importantly by providing housing estates with sealed roads and services, although access was largely limited to civil servants at the time when houses were sold. Recent NHA projects have involved smaller developments of between 50 to 200 units principally around Lusaka, one being funded by the National Pension Schemes Authority, (NAPSA). NAPSA have also been involved in financing and constructing a large urban extension of over two hundred units in Kalulushi, near Kitwe.

If anything, public housing projects have scaled back over the last ten years in terms of their ambitions of meeting need for adequate housing across all income groups. NHA housing units are mostly marketed in excess of ZMK 350 million, ($70,000), which place them out of reach of most of the population. The NHA has a mandate to provide housing to a cross-section of the population, but does not receive any direct funding from the Government for its activities, and therefore has to act on a commercial basis[76]. There are a number of reasons why NHA has been unable to deliver low cost housing, relating to high construction costs, (materials and use of labour), inefficient housing units /

[76] In August 2012, the Minister of Local Government and Housing signed a statutory order to dissolve the NHA board of directors after discovering that the institution had been misapplying resources and not pursuing its mandate to build affordable and low cost housing.

layouts, expensive servicing costs from other public utilities, in addition to demand constraints in lower income sectors due to a lack of financial access. It is arguable that NHA has not been motivated through political will to expand its product range beyond the more profitable upper-medium cost sector.

In 2011 the Zambia Development Agency (ZDA) requested proposals for a number of public private partnership (PPP) housing projects for civil servants in urban areas for up to 12,000 houses. However, at present, projects have stalled, due to amongst other things, a lack of available mortgage finance and unwillingness on the part of the Government to meet private developer's requests to underwrite the projects[77].

### 5.4.3 Public infrastructure

A general limitation on the capacity and coverage of public utilities and infrastructure is one of the reasons for the high cost of new construction, when compared with other Sub-Saharan African countries. The rapid peri-urban expansion in main urban centres has made it difficult for public utilities to extend and maintain existing services and infrastructure. Capacity constraints and lack of revenue collection has created a two tier system for provision, with older housing areas, and suburbs being relatively well served, and informal settlements and newer peri-urban expansions, being without, or with only intermittent service provision.

Where public infrastructure programmes have been expanded to informal settlements, residents are meant to pay rates to fund this infrastructure, but many struggle to do so. The payment of rates is also a prerequisite to obtaining an occupancy license under HSIA Act, (see 4.4.4). This creates a complex situation where local residents are often reluctant to see their areas upgraded through fears that rates, values and rents will increase, and price them out of the market. Local authorities are equally reluctant to undertake these projects, particularly where there is likelihood that limited revenues will be achieved from the provision.

The following table, (Figure 16) provides an analysis of existing services by public utility companies.

**Figure 16 Public utilities service providers and extent of provision**

| | |
|---|---|
| **Roads** | ▪ The provision and maintenance of trunk roads is carried out by the Roads Development Agency, (RDA) and local roads by the local authorities, (LAs). LAs are also mandated to provide water and sewerage services. Piped water and sewerage is generally limited to the major urban areas and provincial towns, and even there, it is mostly supplemented by private boreholes, septic tanks, and soakaways. |
| **Power** | ▪ The state power provider, (ZESCO) is mandated to provide new electricity connections. ZESCO will offer some subsidies on connection charges to private individuals, however connection costs can still remain prohibitive, at a |

[77] Developers sought a guarantee from the Government behind each of the civil servants mortgage applicants.

| | |
|---|---|
| | minimum connection charge of ZMW 700 ($140) when a pole is available adjacent to the property. |
| **Water & Sanitation** | ▪ In rural areas the availability of services is limited, particularly water and sewerage. According to NWASCO there is a rural electrification programme, which has seen some new roll-out of supply; however low population densities, (average of 7.3 per kilometre[78]) makes commercial provision of services unviable. Accessibility in urban areas is estimated at 86.1 percent whilst in rural areas it stands is 29 percent. With regard to sanitation, the estimated coverage is 4 percent for rural areas. Real coverage is much lower and varies considerably from one place to another due to non-functioning facilities, and poor usage. In the peri-urban areas, water supply and sanitation services are poor, inadequate and unreliable; at least 56 percent of the population do not have access to safe water supply, and as much as 90 percent do not have access to satisfactory sanitation facilities. |
| | Figure 17 provides a summary of water and sanitation coverage nationally, and extension coverage undertaken by the service providers between 2008/9 and 2009/10. At present coverage is limited to urban areas. |

**Figure 17 National water supply and sanitation coverage**

| | 2008/09 | 2009/10 |
|---|---|---|
| **Total urban population** | 5,161,450 | 5,423,722 |
| **Total urban population serviced** | 3,737,703 | 4,006,810 |
| **National urban water coverage** | 72.4 % | 73.9 % |
| **National urban sanitation coverage** | 34.0 % | 36.6 % |

For new housing areas, developers are expected to design, construct, and transfer infrastructure onto water and power service providers, without subsidy or cross-payment[79]. This also applies to NHA, who advise that servicing costs for each plot are around ZMW 60,000, ($12,000). The NHA claims that costs are due to high infrastructure charges levied by public service providers.

[78] CSO (2011)
65 NWASCO (2011)
[79] It might be expected that the state utility providers would be willing to contribute towards infrastructure costs. (i.e. to reflect future revenue that the utility can receive).

# 6.0) Housing finance

## 6.1 Introduction and methodology

This chapter presents and discusses the Housing Finance sector of Zambia in detail and how it fits into the larger banking and finance sector. To collect the information for the study, two approaches were used; key informant interviews for the supply-side, and case studies to profile the demand-side.

In understanding the supply-side key informant interviews were conducted with representatives of financial institutions representing a cross-section of service providers engaged in the provision of housing finance value chain. These included CEOs of sector associations like the Association of Microfinance Institutions in Zambia (AMIZ) and Bankers Association of Zambia (BAZ). This was followed by interviews with the CEOs of a sample of MFIs and Heads of Housing Finance/Loans departments in a sample of commercial banks and all the three building societies. Relevant persons from the Bank of Zambia and the development banks were also interviewed so as to gain insights into the full housing finance supply value chain and policy and regulatory environment.

The demand-side case studies profiled three potential users of housing finance in Zambia to exemplify the choices and options that Zambians at different income levels are faced with in accessing housing and housing finance. The case studies also served as a means of obtaining information on the lower end of the housing finance value chain which operates under the regulatory radar.

### 6.1.1 Structure of the chapter

The structure and outline of this chapter follows the various stages and sections of the Housing Finance supply value chain, as illustrated in Figure 21. The first section gives the context or high-level overview of the sector and key statistics and main players. The chapter then introduces two broad sections of the chain, first the public and wholesale section and secondly the retail or end user section. A large portion of the chapter is dedicated to the different types of institutions that make up the various stages of the housing finance retail supply chain, from top to bottom and the different products and services on offer and their features. The detailed description of the products and services and the institutions offering them are provided is separate text boxes which are intended for readers interested in gaining a detailed insight into the players within the value chain. The final part of the chapter considers these service providers and products in terms of financial access, examining which socio-economic groups form the target markets for the products on offer, and exploring existing gaps and niches that exist.

## 6.2 Context

The Zambian real estate finance sector is but a small portion of the Zambian economy. As of December 2011 the total sector stood at only ZMW1.4 billion[80] ($280m) representing only 1.4% of the 2011 GDP of ZMK 101.5 billion, ($20.29 billion). By May 2012 the sector had grown to ZMW1.9 billion with housing finance forming the highest proportion of this at ZMW1.2 billion, with mortgages held by the three building societies and commercial banks. The total residential mortgage portfolio of the building societies stood at approximately ZMW 140 million, ($28m) compared to the total residential mortgages market mainly dominated by commercial banks that stood at ZMW 1.35 billion, ($270m). The above structure of the real estate portfolio is presented in Figure 18.

Other than mortgages, the housing finance sector also includes home improvement loans, which are provided not only by the building societies and commercial banks but increasingly by microfinance institutions. This patchwork of providers target different market segments, although lower cost dedicated housing finance tends to be limited to higher income groups. Community based and member run associations often referred to as SACCOS (savings and credit cooperatives) dedicated to providing low cost credit are also a source of financing for self-built housing for lower income segments.

**Figure 18 Summary of total real estate portfolio as at 31st May 2012**

| | All real estate (ZMW '000) | Percentage of total | Residential mortgages only (ZMW '000) | Percentage of total |
|---|---|---|---|---|
| Commercial banks residential mortgages | 1 208 093 | 88% | 1 208 093 | 90% |
| Building societies | 160 997 | 12% | 140 150 | 10% |
| Total | 1 369 090 | 100% | 1 348 243 | 100% |

Source: BOZ

The housing finance space competes for funding and resources not only with the commercial real estate market but also with other sectors such as micro, small and medium sized enterprises (MSME), agriculture, consumer finance, and to some extent insurance. Housing is deemed to be a comparatively riskier sector, hence attracts less liquidity from the capital markets. A primary reason for the lack of funding for housing is that few recipients of loans have fungible assets that lenders can rely on to hedge their credit risk, especially for long term borrowing. This underdevelopment of the sector has in turn led to even higher costs of credit for the few that do qualify for housing finance.

Figures from BOZ indicate that for the last four years the housing finance sector has been growing at a higher rate than the other sectors. From June 2008 to June 2012 the loans held by commercial banks grew overall by 65% whereas the residential mortgages held by the same banks grew by 256%. While this may sound like an impressive growth this is due to the very low base that the growth has taken

[80] Based on public reports submitted to BOZ by the three building societies and commercial banks. As other entities such as pension funds and microfinance institutions also do provide financing for real estate but are not required to report these to BOZ, the actual size of the sector might be larger.

place from. Figure 19 shows the growth of the residential mortgages portfolio held by the commercial banks for the period December 2010 to May 2012.

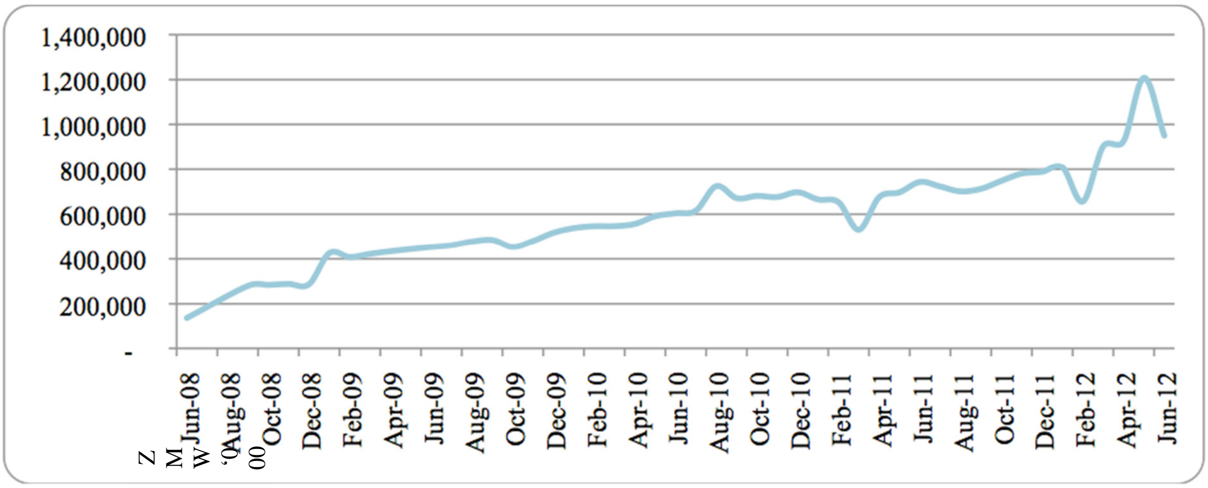
**Figure 19 Summary of residential mortgages portfolio by commercial banks**

| | Dec' 2010 | Dec'2011 | May'2012 |
|---|---|---|---|
| Portfolio size (ZMW' 000) | 697,545 | 788,845 | 1,208,093 |
| No of loans ([81]based on estimated average loan size of ZMW500,000) | 1,395 | 1,578 | 2,416 |

Source: BOZ

An analysis of the trend for the same period indicates that despite an overall growth in the residential portfolios year-on-year, there is a drop in the first quarter of each year with the peak being reached around the mid- year point as illustrated in Figure 20. This can be explained in part by the housing construction cycle that is influenced by the rainy season from October to April each year. From December to March the rain is at its peak, and there is least construction taking place, and consequently a smaller requirement for housing finance.

**Figure 20 Size of residential mortgages portfolio by commercial banks from June 2008 to June 2012**




## 6.3 Housing Finance Value Chain

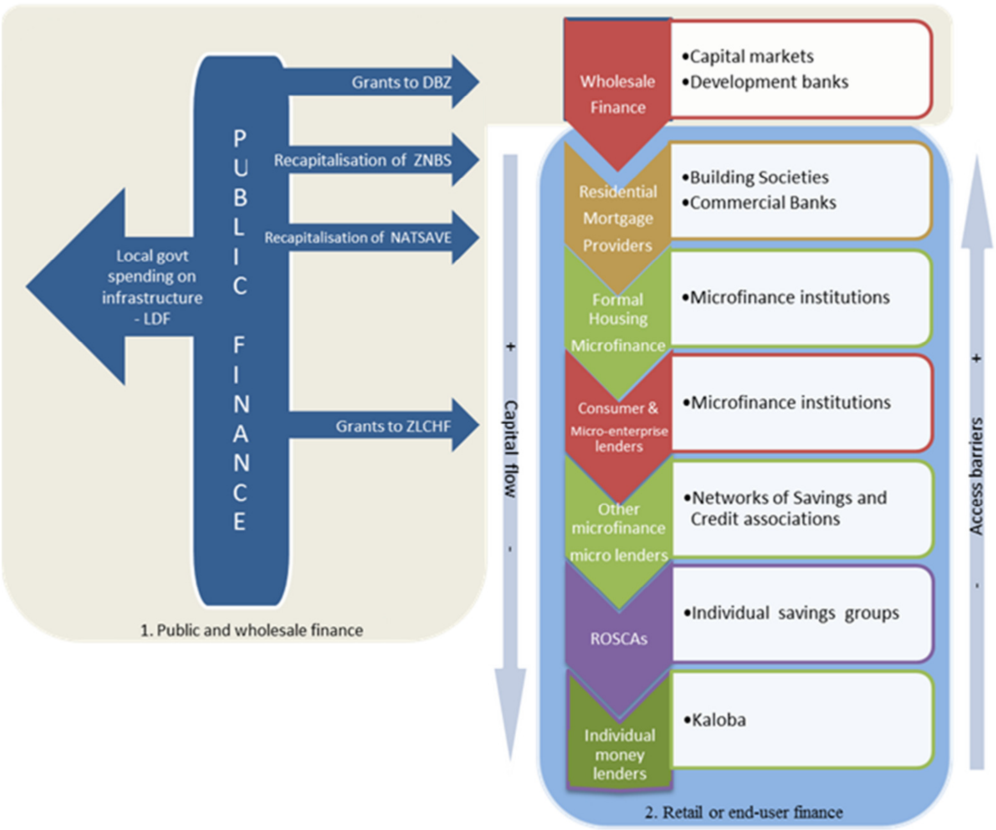
The Zambian housing finance landscape can be divided into two parts, as illustrated in the graphic at Figure 21.

1. *Public and wholesale finance* which meets the financing needs of retail financial institutions and large scale developers, and the market regulatory infrastructure that is prerequisite for an efficient housing and housing finance sector.. Public finance also includes the funding from the central government to local authorities and dedicated housing agencies;

[81] Estimate of average loan size based on key informant interviews and not BoZ data.

2. *Retail or end-user finance* that provides the financial products and services that consumers access for housing finance. These could be dedicated housing finance products or other finance and credit facilities which are not specific for housing but do none-the-less end up being used for housing.

**Figure 21 Housing finance value chain**




The housing finance value chain represents the movement of funds from a relative surplus source at the wholesale level, by way of debt and equity financing, down to a deficit towards the bottom of the value chain where retail finance institutions satisfy demand for only a small segment of the market. The dis-functionality of the chain as it exists at present means that at the bottom of the chain, demand outstrips the supply of housing finance, and consumers resort to other sources of finance other than dedicated housing finance, such as the intermediary micro-lender, to meet the housing finance needs. As the supply of finance reduces as one cascades down the value chain, the price or cost of funds rises represented by an increase in interest rates and transaction costs relative to the financing.

## 6.4 Value chain sectors

6.4.1 Public and wholesale finance

*Public Finance*

Public finance for housing from central and local government is either channelled directly towards development of new housing stock or to housing related infrastructure and support services such as roads, sanitation and utilities. The funding from government can take the form of subsidies and grants or loan financing directed through appropriate institutions for onward lending in the form of revolving funds. The public financing in Zambia is currently limited to funding of the MLGH. Even this is limited as illustrated by the allocation of only ZMW 20 million, ($4m) in the 2012 national budget to housing and housing infrastructure.

Government funding can provide an important enabling role for the housing finance value chain, creating an environment where the private sector can provide housing and housing finance products and creating an effective market for housing finance to operate. The Zambian government has been making policy and regulatory changes in the financial sector implemented under the FSDP II discussed in section 4.3 aimed at creating a more conducive environment for private sector participation. The Government, through the MLGH also plays a minor role within the end-user supply value chain by funding the Zambia Low Cost Housing Loan Fund (ZLCHLF) which provides access to low cost housing finance through a revolving fund for low income segments.

| Direct public financing | |
|---|---|
| Zambia Low Cost Housing Loan Fund (ZLCHLF) | Formerly the Africa Housing Fund (AHF), the Zambia Low Cost Housing Loan Fund (ZLCHLF) [82] started its operations in Zambia in 1996 as a two-year pilot programme initiated and supported by the Norwegian Agency for Development and Cooperation, (NORAD). It was part of a multi-country project to deliver a three-component self-help programme under poverty reduction to assist the poorest of the poor to:<br>(a) construct and reconstruct houses;<br>(b) provide small loans to improve water reticulation; and to<br>(c) provide small-scale agriculture and business loans under micro-credit in 5 selected areas being: Lusaka (Linda), Mazabuka, Mongu, Solwezi and Kasama. Since 2005 ZLCHLF has operated through intermittent funding from the MLGH.<br><br>During its formative years, the achievement of AHF / ZLCHLF included:<br>-Low cost houses constructed– 2,489 in 5 districts<br>-Micro business loans – 2930 in 9 districts<br>-Micro agriculture loans – 292 in 6 districts<br>-Boreholes/wells – 40 in 5 districts<br>-Low cost houses constructed– 2,489 in 5 districts<br>-Micro business loans – 2930 in 9 districts<br>-Micro agriculture loans – 292 in 6 districts<br>-Boreholes/wells – 40 in 5 districts |

[82] In June 2000, the AHF Pan-African body in Nairobi, Kenya was officially dissolved as a legal entity creating a legal and institutional vacuum for the Zambian programme which up to June 2005 had been managed as a country programme. The decision by the government to allow ZLCHLF (AHF-Zambia) to continue to operate as a national programme was made following the successful implementation of the pilot programme. However, since AHF was part of the Pan African body from the beginning, the dissolution of the main body affected funds mobilization and hence the financial challenges which the programme has gone through has resulted in low results. On the advice of the MLGH, arrangements were put in place, to protect the programme as a local initiative by transforming AHF to a Trust. This concluded with the registration of the Zambia Low Cost Housing Development Fund Trust in June 2005.

*Wholesale Finance*

| Institutions making up the wholesale finance and capital markets | |
|---|---|
| Development Banks | The Development Bank of Zambia (DBZ) is a Development Finance Institution (DFI) established in the early 1970s by an Act of Parliament, as a joint venture between the Government of Zambia and public sector financial institutions on the one hand, and local private sector and foreign bilateral and multilateral institutions, on the other. DBZ has played a pivotal role in promoting Zambia's economic development[83]. Its priority sectors are influenced by Government policy, and currently include among others SME development, rural, and agriculture finance, but not housing.<br><br>Whereas DBZ has no particular policy or products targeting housing finance it remains open to discussions on providing lines of credit to the financial institutions involved in housing finance. However in the absence of dedicated product(s) with longer maturity and flexible terms, it is doubtful that such debt financing would be ideal wholesale financing for the mortgage providers such as building societies and commercial banks.<br><br>[84]Shelter Afrique and Africa Development Bank: Africa Development Bank is involved in various development projects in Zambia including provision of lines of credit to commercial banks and other housing development agencies such as the NHA. It is a major shareholder in Shelter Afrique which in turn has significant investments in the housing finance sector in Zambia. In particular Shelter Afrique has provided lines of credit to Finance Building Society of up to $4m for onward lending since 2009 to be repaid over 10 years.<br><br>Shelter Afrique has partnered with the NHA and the private sector to develop a 1,000 low and medium cost housing estate at a cost of over ZMW344 million ($68.8 million) in Lusaka. |
| Capital Markets | The main institutions involved in the capital market in Zambia are the Lusaka Stock Exchange (LuSE) and the Securities and Exchange Commission (SEC). Their main role has been for LuSE to act as source of capital through floating of shares on the secondary market and SEC as the regulator. Of the 22 companies listed on the LuSE only three are commercial banks (Zanaco, Investrust and Standard Chartered Zambia). None of the financial institutions directly involved in housing finance are listed on LuSE. Equity finance may not be the most attractive form of financing of loan capital when compared |

[83] In its mandate to provide medium and long term development finance, the DBZ invested extensively in the primary and secondary sectors. Between the 1970s and early 1990s, the Bank held its place as the most significant financing institution providing medium and long term finance for fixed assets to medium and large scale enterprises in Zambia. Following high delinquencies in the 80s and 90s that led to DBZ becoming undercapitalised it underwent financial, organisational and operational restructuring under the auspices of the Development Bank of Zambia Amendment Act No. 11 of 2001. The restructuring widened the scope of DBZ business to include financing for infrastructure and provision of short term finance. The Government has retained a controlling share in DBZ to ensure that while its operations remain commercially sustainable, it maintains its developmental focus and finances priority sectors that would otherwise not be adequately funded by the private commercial sector

[84] Shelter Afrique is a Pan African financial institution dedicated to the development of housing and Housing related infrastructure in Africa. It is jointly owned by 44 African countries, including Zambia and the African Development Bank. Zambia is currently represented on the Board by the Minister of Local Government and Housing

| | |
|---|---|
| | to debt financing that can be better structured to meet the specific capital needs without diluting the shareholding and control of the financial institution. Currently, the primary source of funds for on-lending by commercial banks is intermediation of savings. However savings usually have short term maturities hence are not an effective source of funds for longer term instruments such as mortgages. It is due to the limited source of long term capital that commercial banks and building societies are able to serve only a small segment of the market.<br><br>Similarly the bond market has not been a reliable source of long term capital for retail institutions as the maximum term, seven years, has been insufficient for the long-term financing required for mortgages. Also high inflation rates and volatile interest rates pose a challenge for pricing of long term instruments such as bonds on the capital market. However a recent 15 years Government bond provides renewed confidence in the stability of the financial sector and will give an indication for pricing of similar long term bonds that may follow. Also recently a new institution, the BADEX (Bonds and Derivatives Exchange) has been licensed, and when operational will play a central role in developing the bond market, and be a potential, and more suitable source of capital, for both financial institutions and developers involved in the provision of housing finance and housing in Zambia. |

Wholesale finance provides the debt capital in the form of long term credit lines for onward lending for mortgages, incremental housing construction and home improvement, by a financial institution to retail financial institutions such as banks, building societies, MFIs or other financial institutions, (or developers in the case of development finance). Potential sources of whole financing such as the Development Bank of Zambia and Africa Development bank currently do not have any credit lines on the market dedicated to housing which the commercial banks and MFIs can access. The Zambian finance sector and in particular the capital market remains relatively underdeveloped, hence the retail finance institutions and real estate developers struggle to access the required long term financing which impedes their ability to provide mortgage loans and develop real estate respectively. Reduced availability of funds has meant that only the highest income segment of society (high net worth individuals) are able to access formal housing finance through the building societies and commercial banks. The FSDP recognizes the lack of long-term development and housing finance, and the limited number of monetary policy instruments as major weaknesses of the financial sector.

### 6.4.2 Retail or end-user finance

The retail section of the Zambian housing finance landscape is segmented into six categories of finance providers as illustrated previously in Figure 21.

*Residential mortgages*

The residential mortgages sector in Zambia is dominated by commercial banks and the three building societies and to a lesser extent a few microfinance institutions that have recently started offering home improvement loans. As of May 2012 the sector stood at ZMW1.3 billion, ($260 million), 90% of which was held by commercial banks and 10% by the building societies[85]. The size of the sector is constrained by the low proportion of Zambians who can afford mortgage finance and who satisfy the risk requirements of the mortgagors, (i.e. are in formal employment and receive a monthly income). Those who are self-employed or in the informal sector can seldom provide proof of a regular income on which they can qualify to access credit, let alone mortgages which require significantly larger levels of monthly income. The survey of both banks and building societies indicates that on average a minimum monthly income of ZMW6,000 ($1,200) will be required for a mortgage[86] since most institutions will on average not exceed 35% to 40% instalment to income. The average minimum instalment from the institutions surveyed was ZMW 2,000 ($400) per month.

When home improvement loans and incremental self-build housing is considered, a lower income bracket is served as the loan sizes are as low as ZMW 1.500 ($300) and with the instalments being more affordable.

*Formal Housing Microfinance*

As of January 2012, there were 25 MFIs licensed by the Bank of Zambia. There are two main types of microfinance providers: payroll based consumer lenders and 'developmental' microenterprise lenders ("conventional" microfinance). Of the licensed microfinance providers at the beginning of 2012, 21 (84%) were payroll based consumer lenders and accounted for 92% of the microfinance sector's total assets. Only four MFIs (16%) were microenterprise lenders. Six MFIs (24%) were licensed as deposit taking financial institutions. A number of other microenterprise lenders are not necessarily under the direct supervision of the Bank of Zambia, as some of them fall into the Tier III category (non-deposit) taking MFIs with paid up capital less than ZMW 25,000 ($5,000), which are not required to obtain a licence.

Formal housing microfinance refers to the access of low-value, short term loans from formal financial institutions (licensed and regulated) which are used for self-build housing over several loan cycles. The loans are mainly unsecured loans but backed by a salary or a stable source of income. The main difference between the housing loans that banks and building societies provide and the ones that MFIs provide is that the latter are not able to rely on the property being developed for collateral due to lack of enforceable title and/or the value of the property being too low. This generally increases borrowing costs. Provision of housing loans by MFIs is a relatively new practise with a couple of MFIs first testing the waters by providing home improvement loans. At the time the research for this report, MFIs providing home improvement loans were EFC and Madison Finance.

*Other intermediary micro-lenders*

Other intermediary micro-lenders include NGOs or community based, member-run associations with membership ranging from hundreds to thousands. These actors and credit routes are those most commonly available to the informally employed, and groups within informal settlements (compounds). Due to the fact that they are member owned, relatively small in size (members and asset

[85] Source: BoZ
[86] Variations depending on the mortgage amount and term

base) and do not mobilise savings from non-members, they pose less of a systemic risk to the financial sector, and the general public hence are not regulated nor licensed by BOZ under the BFSA. However as some of these associations have grown, in order to operate more efficiently they tend to formalise their existence by registering with the Ministry of Community Development[87] and consequently appoint and elect an executive or management team, put in place a constitution, and open a bank account.

Whilst, it is possible for these groups who are presently excluded from traditional retail lenders, to gain indirect access to formal credit lines through micro-finance and micro-enterprise loans, access is still limited. In addition, in focus groups and interviews conducted for this study, low-income earners said they were made to feel unwelcome when they visited premises of mainstream commercial lenders and felt they got a poor service. This has resulted in local, community based and member owned intermediaries being established to fill the gap. There are two main types of these member owned financial structures; SACCOs (Savings and Credit Cooperatives) and ROSCAs (rotating savings and credit associations – locally referred to as *Cilimba*).

One major distinction between credit accessed from these institutions and other retail sources higher up in the value chain is that rarely is the purpose of the loan specifically for housing. The loan would typically be accessed for microenterprise lending purposes and then the proceeds of the micro-enterprise would be channelled towards incremental self-built housing. That said there are a few savings associations that have been setup specifically to provided low cost credit for members using a revolving fund to use for housing construction. The largest ones of these in Zambia is the Zambia Homeless and Poor Peoples Federation (ZHPPF), which has a nationwide presence.

*Individual / informal money-lenders – Kaloba*

Informal money-lenders are individuals who are found in most urban areas and are known by the locals to have excess cash which they are willing to lend. These are lenders of last resort charging 50% to -100% interest for short periods of time and fill a financing gap in the market mainly for emergency loans. These types of loans are locally known as *Kaloba.* Those most exposed to these market gaps are people working in the informal sector and living in informal settlements. This group is often unable to produce payslips and other documentation required to open a bank account and subsequently access credit.

Housing finance loans from informal money-lenders would normally be used to cover rental arrears as a very last resort to avoid eviction. Individuals do not seek loans through *Kaloba* for buying land and building materials due to the high risk of default from the high interest rates. Property can be used as collateral for those seeking large loans from informal money-lenders where pre-signed contracts of sale allow the money-lenders to dispose of the property. Money-lenders in this sector also sometimes operate as informal sector estate agents.

[87] The Societies Act, (119) outlines the guidelines for formal registration of an association which requires amongst its criteria, the groups guiding constitution and a letter of recommendation, normally from a Government line ministry such as Community Development, provision of copies of national identification and payment of a fee which can be up to US$600 if the association has an advocacy component such as a lobby for land for the poor.

### 6.5 Individual service providers, products and services

The tables below provide details of the various institutions along the retail value chain, from top to bottom and the products and services that they provide:

| Institutions providing residential mortgages and home improvement loans | |
|---|---|
| Building Societies | Finance Building Society (FBS) – A private building society established in 2004 to provide the housing financing needs of average Zambians. Also provides mortgages to Zambians who are residing outside the country but wish to own property in Zambia.<br><br>Pan African Building Society (PABS) – A privately owned building society offering mortgages and non-mortgage loans to all income segments, with a bias towards those with a regular monthly income to buy or improve property. To be considered for a loan one needs to have a savings account with PABS through which the salary is paid or be in employment with an organisation that has agreed to deduct at source (through payroll) the monthly loan instalment. The minimum balance for the account is ZMW 60 ($12). Loan amounts start from ZMW 5,000, with the maximum being determined by income. Madison Insurance Company and African Life Assurance Company provide credit life insurance.<br><br>Zambia National Building Society (ZNBS) – A state owned building society and was established by the Building Societies Act of 1968. The primary objective of establishing the ZNBS was to increase housing stock in Zambia by providing house loans and undertaking housing construction projects. In addition to property finance ZNBS also provides banking services throughout Zambia in its 19 branch network. The society also provides real estate services to the general public.<br><br>*Sector background* |

**Figure 22 Summary of mortgage portfolio size for building societies as at 31st May 2012.**

| Year | Portfolio size (ZMW' 000) | Average interest rates |
|---|---|---|
| **May 2012** | 160,997 | 24.7% |
| **Dec 2011** | 122,639 | 27.7% |
| **Dec 2010** | 108,438 | 37.6% |

Source: BOZ

**Figure 23 Market share of building societies as at 31st May 2012.**

| [88]Institution | Portfolio size (ZMW '000) | % share of portfolio |
|---|---|---|
| **Building society X** | 146,079 | 64% |
| **Building society Y** | 35,948 | 16% |
| **Building society Z** | 47,667 | 21% |

Source: Individual building societies

[88] For competition reasons the institutions requested anonymity in presenting their market share

*Products and services*

Mortgages: The three building societies are all offering mortgages which seem to target the high to medium segments of the markets only, although they all purport to serve the low income segment too. While the maximum loan tenor is between nine and 15 years, the average tenor hovers around five years, making these extremely short-term mortgages. The lowest average mortgage size is ZMW 80,000 ($16,000), and the highest average ZMW 250,000 ($50,000), with the maximum amount being around ZMW 700,000 ($140,000) across the three building societies. The amount an applicant can qualify for depends on a number of variables which include:-

- The disposable income of the applicant indicated by the basic pay on ones payslip or other regular verifiable income as indicated in a bank statement
- Age of applicant, especially in the case of employed applicants as the retirement age (55 years) will be taken into account.
- The value of the property to be purchased. None of the three building societies finance 100% loans; the maximum loan-to-value offered is 90%

The interest rates charged on the mortgages vary from one building society to another but are mainly linked to the cost of funds and the operational efficiency of the individual institution. As of May 2012 the average interest rates ranged from 20.7% to 22.5%.[89]

**Figure 24 Residential mortgage features of building societies as at 31st May 2012**

| [90]Institution | Average | | | | Max tenure |
|---|---|---|---|---|---|
| | interest rate | loan size ('000) | Installment ('000) | Tenure | |
| **Building Society X** | 20.7 | ZMW250 | ZMW4 | 5 | 9 |
| **Building Society Y** | 22.5 | | | | 15 |
| **Building Society Z** | 21 | ZMW80 | ZMW1.8 | 3 | 10 |

Source: BOZ

A critical review of the documents, upfront fees and charges required to obtain a mortgage, by default excludes access for the average Zambian. Administrative requirements, valuation report of property to be financed, and loan administration fees increase the upfront costs to amounts outside the affordability of most Zambians. This is because these administration costs are disproportionally higher for smaller loan amounts, making a low value mortgage the less cost-effective to obtain.

[89] One of building societies cited a default rate of 4-5 %. If this can be taken as industry standard, (as others were reluctant to provide a default rate) it is another reason for the high interest rates as the cost is inevitably passed on to the consumers.
[90] For competition reasons the institutions requested anonymity in presenting their market share

| | |
|---|---|
| | Typical upfront costs that are included are:<br><br>▪ Administration//processing/origination fees: 1%<br>▪ Attorney fees: 1 – 2.5 %<br>▪ Mortgage lodgement fees: 1 – 2.5%<br>▪ Valuation charges: 1.5 – 6 %<br><br>Home improvement loans: are accessed by individuals that have a stable source of income but who are not able to qualify for a mortgage primarily because they are not able to provide titled security, hence resorting to taking the more expensive option of home improvement loans, (which in essence are just large 'consumer' loans). Despite being more expensive than traditional mortgages, home improvement loans (or in this case incremental housing constructions loans) are popular as they enable the most popular home ownership route which is self-build housing.<br><br>Home improvement loans, and variations of the same such as home extension or home renovation loans, are primarily assessed based on the applicants' capacity to repay and less-so on the intended purpose or actual value of the intended use. Loans in this category typically range from ZMW 3,000 to ZMW 150,000, ($600 to $30,000) and with terms of up to 36 months.<br><br>The three building societies all offer variations of a home improvement loan which also serve as financing for self-built housing. As the loan amounts are lower and the requirements for qualifications are less, more people are able to qualify for these loans, and over multiple loan cycles are able to acquire a plot and self-build their houses. |
| Commercial Banks | There are currently 19 commercials banks licensed to operate in Zambia. Seven of these are foreign banks and only started operating in Zambia in the last five years. It is envisaged that the new banks will lead to increased competition which will in turn create innovation in the sector and reduce interest rates. The commercial banks have varying levels of involvement in the housing finance sector. Of the 19 banks on the market as of May 2012 only six were offering residential mortgages. The total portfolio stood at ZMW 1.2 billion, representing 90% of the residential mortgages. The market segment that the commercial banks are currently serving is no different from that of the Building Societies; the high-end and upper middle segments comprising high net worth clients and salaried individuals in senior and management positions earning high salaries.<br><br>Overall the commercial banks have been able to offer slightly lower interest rates than the building societies. This can be explained in part by the fact that the commercial banks have more intimate financial relationships with their clients due to the wide range of product offering, hence are able to offer customised rates. The commercial banks, which are larger than the building societies, and have wider branch networks, are able to leverage economies of scale which allow them to serve the clients more efficiently than the building societies. This would explain why the bulk of the residential mortgages portfolio is held by the commercial banks and not the building societies. Following the introduction of the Policy Rate it is yet to be seen whether or not the banks will be adapting their pricing mechanism to link it to the policy rate. Currently the interest rates range from prime +1% to prime +8% with the final rate being |

determined by the specific risk profile individual applicants.

**Figure 25 Average mortgage lending rates for commercial banks over the last 4 years**

| | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| **Average interest rate (%)** | 18.9 | 19.1 | 22.1 | 20.9 | 18.8 |
| **Average Prime lending rate** | 18.9 | 19.1 | | | |

Source: BOZ

*Products and services, (commercial banks)*

The mortgage accessing requirements of the banks are the same as the ones required by the building societies. The housing loans include a combination of mortgages and pension-backed lending[91]. Due to uncertainty around the resale value of properties the banks prefer that applicants not only provide security of the property being financed but confirmation that they are also in pensionable employment. As a consequence the commercial banks by default exclude the lower income segments due to income levels and those in short term, contract employment.

Of the six banks interviewed only three had dedicated housing finance related products while one was in the process of developing a house loan product. Despite the market being seemingly risk adverse to housing finance, there was a move by a couple of other banks to increase this product line in response to a growing and more affluent middle class.

Housing finance bank product options currently on the market by the banks includes:

- Ordinary home loan or outright purchase – buying a completed house;
- Re-financing – financing a home loan held with another financial institution;
- Equity release – converting part of the value of the house to cash in order to renovate the house;
- Vacant land / plot purchase;
- Upfront bond – preapproved certificate indicating how much a client qualifies for and can be used as a basis for 'shopping' for a house.

Of these products the ordinary home loan and upfront bond preapproval make up the largest portion of the banks' housing portfolios and are deemed least risky by the banks and hence promoted more.

Variations in the product features with the different banks mainly had to do with the loan to value ratio (LTV) depending on whether one is buying a full completed house, partially completed house or an undeveloped plot. A full completed house had the highest LTV of up

[91] Pension backed lending enables those individuals who are close to retirement age and do not have sufficient years of employment remaining to still obtain a mortgage on the understanding that they will repay the mortgage upon retirement and receiving of the terminal benefits.

| | |
|---|---|
| | to 90% while undeveloped land had a LTV of up to 50%. None of the banks offered 100% financing for any of the housing products.<br><br>The geographical distribution of the housing products was concentrated in Lusaka and the Copperbelt provinces with one of the banks having 95% of its 400 clients in Lusaka only. Taking into account the differences in property values between Lusaka and other urban centres, some of the banks also have different parameters for housing loans originating from other regions compared to the ones originating in Lusaka. One bank offered a maximum loan term of 10 years for loans on the Copperbelt as opposed to 20 years in Lusaka, while another bank financed minimum property value of ZMW 200,000 ($40,000) in Lusaka and minimum value of ZMW 100,000 ($20,000) outside of Lusaka. Housing finance by the commercial banks is low to non-existent out of the major urban centre due to uncertain market or resale values of property in these locations.<br><br>The mortgages provided by the six banks interviewed range from ZMW 100,000 to ZMW 3 million, ($20,000 to $600,000) with the maximum term being twenty years. One of the banks also offered a home loan specifically for the acquisition of land. However for land acquisition the bank can only finance up to 50% of the value of the land with the applicant being expected to put up the other 50%. The same bank, unlike the others, also distinguished its product offering for Lusaka and Copperbelt provinces, the only two provinces where it had mortgages. This is in recognition of the major difference in the cost and the size of real estate market in the two provinces and the rest of the country. |

| | **Institutions providing housing microfinance** |
|---|---|
| a. Housing microfinance | Of the twenty-five MFIs registered in Zambia only two had dedicated housing products as of May 2012. Enterprise Finance Centre (EFC) and Madison Finance both had home improvement loans while the other MFIs interviewed all indicated that they intended to introduce housing products at some point in the near future. Following the amendment to the Banking and Financial Services Act (BFSA) in 2006, MFIs are now able to collect savings, (subject to meeting the license requirements) hence having increased liquidity which they are able to channel funding towards longer term liabilities such as housing finance services. This will allow the MFIs to provide more comprehensive products and services to their clients. One of the MFIs interviewed indicated that the other reason they are anxious to get involved in housing microfinance is that the longer loan terms will help reduce churn of clients who will be committed to the institution for longer, unlike with microenterprise loans which run for a couple of months only.<br><br>The loan amounts and loan terms that the two MFIs involved in housing finance are able to offer still remain relatively small as their target clients are not able to afford large loans or mortgages due to their low income levels. As a consequence the MFIs that are currently providing housing related loans are providing home improvement loans and other similar variations of the same that when accessed over several cycles can be used for self-built housing. |
| b. Consumer | For the purpose of this study, consumer microfinance in Zambia refers to the financial |

| | |
|---|---|
| microfinance – payroll based | institutions that provide payroll deduction based lending to low-to-medium income groups. These are individuals who are typically low and mid-level civil servants and those in blue collar jobs and receiving a monthly salary but because of its low level would not be targeted by commercial banks. This is a sub-sector that has seen tremendous growth in the recent years in Zambia driven mainly by financial service providers originating from South Africa where the sector is comparatively mature.<br><br>To qualify to access credit from the consumer lenders the main requirement by the MFI is that one provides proof of regular income as evidenced by most recent 3 months bank statement. The larger (consumer lending) MFIs have standing arrangements with the majority of major employers which include the civil service, parastatals and medium and large private companies where through stop orders the loan instalments are deducted at the payroll and remitted to the MFIs. The inherent risk of this model is that clients may obtain multiple loans from different MFIs or cancel the stop order, which leads to the lender not recovering their loans as either the instalment is no longer remitted by the employer or there is insufficient disposable income for the loan instalment. To mitigate this risk the consumer loans tend to be short term (up to 24 months) and of high interest rates (50% to 100%) with administration fees to cover the costs of default.<br><br>The consumer microfinance institutions are a reliable, but expensive source of credit for formally employed but low income earners who opt for the self-build route and are able to build through accessing successive loan cycles for incremental house construction. |

***Products and services***

Home improvement loans: These loans offered by some microfinance institutions tend to target the upper end of their target (low income) market. These are individuals who are in formal employment and earning a regular but low income. An applicant usually has to show proof of regular income by way of at least 3 month's payslip. In the case of self-employed applicants, they are required to provide proof of regular income as evidenced by activity on the bank account and at least more than one source of income. There are also more stringent measures put in place by the MFI to reduce the loss in case of default by requesting for security in the form of pledging collateral and third party guarantee.

The home improvement loans currently on the market range from ZMW 3,000 to ZMW 200,000 ($600 to $40,000), with maximum loan terms of 60 months. Interest rates by MFIs tend to be monthly rates, with one of the MFIs providing home improvement loans charging 2.5% per month.

Microenterprise loan: Another means through which MFIs are indirectly facilitating access to housing and housing finance is through the provision of microenterprise loans. These target individuals who are self-employed or have less regular and low levels of income generated from micro enterprises. Access to these loans follows the traditional tenets of microcredit which include solidarity group lending, hence lowering the access barrier to credit. From the interviews conducted, this appeared to be a common route for lower income groups to gain access to housing finance, despite not being the intended purpose of the loan. The individuals who access the microloans are able to use the funds to improve their business and generate sufficient surplus income which over several loan cycles they use to buy a piece of land, building materials and eventually build the house incrementally. Often a micro-loan is used to recapitalise a micro-enterprise after the owner of the business draws money from the business to fund certain high value stages of the house construction such as the purchase of a plot or putting up of a roof. Key characteristics of microenterprise loans are:

- Received by either groups or individuals. Amounts can range from as low as ZMW 500,000 ($10) per borrower in group lending to as high ZMW 100,000 ($20,000) for individual business loans;
- Borrowers normally engaged in informal activities;
- For smaller group loans no collateral is taken and instead group guarantee (peer pressure ) is relied upon to enforce repayment;
- Interest rates are high and can range from 35% to as high as 80% before the introduction of interest rate cap. They are usually quoted as monthly interest rates instead of an annual interest rate as is the case in the mainstream financial sector, (e.g. 4 % per month). However they are not as high as individual money lenders (*Kaloba* - described later) who are known to charge as high as 100% interest per month;
- Loan repayment periods are short and range from a couple of weeks to 24 months. The smaller groups loans typically have weekly or bi-monthly payments;
- Loans obtained for income generating activities, as well as the revenue made, are not used for the purposes applied for, and are instead diverted to purchase building materials, top-up on the cost of a plot of land or purchase of a property. This is most common among the more affluent microfinance clients that obtain individual loans.

| Other intermediary micro-lenders | |
|---|---|
| Savings and Credit Cooperatives (SACCOs) (which is the same as a credit union) | The biggest and most well-known savings and credit cooperative in Zambia is the Zambia Homeless and Poor Peoples Federation that is affiliated to Slum Dwellers International movement. The ZHPPF comprise of over 300 groupings covering all nine provinces in Zambia in both urban and rural areas. Group sizes range from 30 to 50 members. Though groups are relatively independent they are supported by a local NGO, the Peoples Process on Housing and Poverty who provide technical and financial support to the groups. Other more regional credit unions are the Mitengo Womens Cooperative who in 2012 formed ABESU housing cooperative.<br><br>Credit unions comprise of a group of individuals who come together and agree to save their money together and to make loans to each other at reasonable rates of interest. Interest[92] is charged on loans, to cover the interest cost on savings and the cost of administration. There is no payment or profit to outside interests or internal owners. The members are the owners and the members decide how their money will be used for the benefit of each other. It is owned, governed and managed by its members who have the same common bond or objective. Membership of SACCOs can run from a couple of hundreds to thousands of individuals. Depending on the size and complexity, regulations are put in place and a board of directors or management is elected by the members to oversee its operations.<br><br>At present credit unions represent the biggest potential for access to housing finance for populations in the empowerment zone. |
| ROSCAS (Rotation Savings and Credit Associations (*Cilimba*) | The scale of ROSCAs, (also known as *cilimba*) in Zambia has not yet been determined, but anecdotal views gathered in qualitative discussions in Lusaka, Mpongwe and Solwezi indicate that they are common. As noted by O'Reilly (1996) in a study of *cilimba* groups in Lusaka, the groups are mainly autonomous and exist to provide a channel for short term savings. O'Reilly noted that rarely did group members cooperate in business ventures. She also observed that the circulation of *cilimba* funds was largely invisible, even to the scrutiny of family members.<br><br>Typically ROSCA groups in Zambia comprise of a group of individuals, normally women who agree to meet for a defined period in order to save and borrow together. "ROSCAs" are the poor man's bank, where money is not idle for long but changes hands rapidly. Though discussions with middle and higher income earners in Zambia revealed that these also utilised ROSCA groups. Membership of a ROSCA rarely goes above 12 as the money contributed goes to a different member each month with each member benefitting at least once a year. If the group is too large members would have to wait too long before it is their turn to receive the contribution. Typical features of ROSCAS are:<br><br>▪ Run by group of individuals – self-regulated and unlicensed;<br>▪ Group number normally not so large, (e.g minimum of about 3 to a maximum of |

[92] Interest on housing loans for formally recognised SACCOs ranges between 10 – 13% per annum while interest on income generating loans for all other formally unrecognised groups maybe be up to 30%.

| | |
|---|---|
| | about 12);<br>▪ Group members agree to contribute a certain amount over a defined period of time to a collective pot of money that each member receives once over a savings cycle. For example, a savings cycle for a group of six, saving ZMW 50 ($10) on a monthly basis, with each individual member receiving ZMW 300 ($60) for one month within the savings cycle.<br><br>If the purpose of the ROSCA is for housing, the members use their share of the pot to buy building blocks, bags of cement or roof sheets that they save or use to build incrementally. This method of saving allows a member of a ROSCA to set aside money that would normally be spent on other everyday household pressures. While people could save individually, the group acts as an informal peer mechanism to support and monitor members investment aspirations.<br><br>However, savings made through ROSCAs unlike SACCOs could also be used for a variety of household expenditure items. For example this study revealed that they were used to meet the purchase of household items like stoves, to pay school fees, and rentals where landlords required rent paid three months in advance. Group discussions though, indicated that ROSCA savings were also being used to buy blocks, bags of cement or roof sheets as they built their houses incrementally. The scale of this use would have to be determined through a broader quantitative survey.<br><br>SACCOs and ROSCAs are similar in that they are both member owned, self-regulated organisations and serve the purpose of providing credit to the members through pooled funds. However they are different on several levels with regard to the purpose for which they may be formed, the number of members and the level of formalisation and internal operation rules. |

***Examples of housing intermediary micro-lenders currently operating in Zambia***

As the ROSCAs and SACCOs have become popular and grown, a certain level of formalisation has taken place with some groups being federated, especially with the support of NGOs to form regional and national networks dedicated to a particular cause such as improvement of housing, health or general economic empowerment. Some of these member owned structures and NGOs that have evolved to focus on improving the housing situation of low income communities in Zambia include:

- The alliance between the Peoples Process on Housing and Poverty in Zambia (PPHPZ) and the Zambia Homeless and Poor Peoples Federation (ZHPPF)
- A background is provided below:

  - Membership base: Savings groups in 42 districts in Zambia with a total membership of 46,000 plus as of March 2013;
  - Type: Saving schemes attached loans. Saving scheme members contribute different amounts for various types of savings. Each member contributes ZMW10 monthly towards the Swaliswano Urban Poor Fund (capital find) from which members acquire housing and building loans, ZMW4 per week for their health programme which works as a health insurance scheme and ZMW1 on a daily basis which goes towards income generation activities;
  - As of March 2013, ZMW 850,000 ($170,000) was saved in the Swaliswano Urban Poor Fund, ZMW 303,000 ($60,600) saved under daily savings, ZMW 22,000 ($4,400) saved under health savings and ZMW103,000 ($20,600) was saved but unbanked;
  - Loan size: averages of ZMW5,000 ($2,500) for housing loan and ZMW2,500 ($1,250) for sanitation loan. Business loans range from ZMW500 ($10) to ZMW10,000 ($500);
  - Loan uses: Incremental house construction starting with either one or two roomed that can be extended on application of further loan and once initial is fully repaid; construction of low cost sanitation facilities and business loans;
  - Loan conditions: Housing loans have a 1% per month interest rate calculated on a reducing balance system; sanitation facility construction loans attract a 10% flat rate interest for 1 year and business loans interest rates are 10% for a six month period;
  - Loan beneficiary contributions: Sweat equity, building material contributions (e.g. building sand), skilled labour provided by federation members who are trained as artisans;
  - Other benefits: Subsidised or negotiated free land acquired as savings group on secure title. HIV/AIDS care and support for members. Construction, agricultural, business and financial literacy training.

- Habitat for Humanity Zambia
- A background is provided below:

  - 2600 housing units built since establishment in 1984;
  - Membership base: As of March 2013 has 750 active clients paying mortgages in Lusaka, Central, Western and Copperbelt Provinces;
  - Type: Fully subsidised free housing for vulnerable populations and a mortgage product for rural and urban housing. The loan portfolio for the mortgage product was approximately ZMW 2.85 million ($570,000) as of March 2012 for 629 clients;
  - HfHZ target for its products for July 2012 to June 2013 are: Vulnerable Group Housing, (fully

subsidised) – 44 no.; Rural Housing Programme (mortgage product) – 15 no.; Urban Housing Programme (mortgage product) – 90 no.;

- Loan sizes: Loan amounts range from ZMW 1,000 ($200) to ZMW 12,500 ($2,500).
- Loan conditions: The mortgage is a non-collateral building materials loan for a period of 5 years attracting a flat interest rate of 6.5%, with loan repayments made monthly. A down payment ranging from ZMW 270 ($54) to ZMW1,250 ($250) is required to qualify and enrol for the mortgage and has to be fully paid before the house is handed over.
- Loan beneficiary contributions: Sweat equity, building material contributions (e.g. building sand), skilled labour if beneficiaries are trained as artisans.
- Other contributions by benefactor: Basic house maintenance skills, will writing and succession planning, financial literacy, livelihood linkages, training and sensitisation on HIV/AIDS and gender based violence.

- ABESU Housing Cooperative;
- A background is provided below:

- Membership base: a housing cooperative based in Chongwe, Lusaka formed in 2012 as an off shoot of Mitengo Women that was established in 2004 comprising just over 400 members organised in savings groups of 20 persons;
- Type: Housing cooperative with initial capital from a UK based charity towards a revolving fund from which members can access building material loans to construct their house. The target is to build 200 homes for members. As of October 2012, 96 houses had been completed;
- A housing cooperative with initial capital from a UK based charity towards a revolving fund with a plan to build 200 houses;
- Loan size: 90% of the total cost of the house. In 2012 the cost of each house was estimated at about ZMW 15,000 ($3,000);
- Loan conditions: A down payment of 10% of the total cost of the house which can be made in the form of contributions by the beneficiary towards sand and stones, making of their own burnt bricks as well as their labour;
- Loan repayments are made at an interest rate of 10% per annum;
- Other benefits: Communal farming activities and the construction of common public facilities like water boreholes, health clinic, community school and footbridge;

These funds also operate their own house construction programmes, to which their loan funding is often directed. These structured programmes help minimise the risk of lending, by ensuring that funding is directed for its intended purpose, and to achieve a more cost-effective construction through community engagement.

| Individual - informal micro-lenders | |
|---|---|
| *Kaloba* | *Kaloba* is a widespread form of access to short term credit in Zambia used across different access groups, including those who have access to formal housing finance. It is mainly informal and extra-legal. Though, *Kaloba* provides an alternative form of short-term finance, the use in housing finance is limited in Zambia, primarily to meet mortgage arrears where a client experiences a temporary financial setback. From the focus group discussion groups conducted in Lusaka for this study, it emerged that *Kaloba* is used as a last resort to meet rental arrears; minimally and occasionally to meet emergency housing development costs where land assets are threatened by repossession due to lack of development and in the case of one informant, a high income earner, it has been used as short term finance to meet a mortgage arrear. Because of its high interest rates, normally over 50%, *Kaloba* is considered a last resort form of finance in Zambia. Whilst *Kaloba* is relied upon across all market sectors, greater vulnerability of groups in the informal sector often results in greater dependence, and risk of default. |
| ***Features of Kaloba:***<br>▪ Normally run by individuals – unregulated and unlicensed;<br>▪ Collateral – assets more than the value of the loan amount requested (e.g. Household items like television sets, refrigerators, cars and title deeds);<br>▪ Pre-signed agreement transferring ownership of items on failure to settle loan in prescribed period. Loan period – days to months;<br>▪ Loan amounts – small amounts to meet every day needs (rent, food, school fees) to larger amounts to finance business ventures such as for tender securities;<br>▪ Interest rates - 50% to 100% per month. | |

### 6.6 Housing finance sector access

The final part in this section identifies market access to existing housing finance services across the population at a national level, projecting the size of the target market that is served by each retail finance service provider. It also identifies existing gaps in the level of provision, and market potential, (i.e. unsatisfied demand).

The housing finance value chain (HFVC) diagram, (Figure 21) depicts service providers operating at different levels in the chain. This positioning relates to the size and scale of participation of each service provider in the housing finance sector, and to an extent the sector of consumers, that form the target market for the products that are offered.

The target market is defined by affordability, (i.e. by quantum and monthly payment amount), and access barriers. Figure 26 (an Affordability and Access Matrix) identifies the access variables for the finance products offered in each of the retail finance levels identified in the HFVC, and therefore defining the target market which they serve. Access variables include requirements for security, income, facilitation costs, and other conditionalities, which limit market access. The relative costs of each product are also considered in terms of interest costs, and minimum, maximum and average loan amounts based on existing loan portfolios from these groups.

**Figure 26 Affordability and Access Matrix**

| Group / Service provider | | Service provider | Products | Access barrier | | | Average loan size | Cost(interest rates) | Average term |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Security | Income level | Other conditions | | | |
| 1 | **Residential mortgage providers** | • Commercial bank<br>• Building societies | • Mortgages | • Titled real estate<br>• Terminal benefits - Pension backed | • ZMW6,000+ | • Clean credit record<br>• Formal employment / regular income<br>• 50 % LTV on land<br>• Geographical coverage<br>• Age<br>• Insurance / arrangement fees | • ZMW180,000 (banks)<br>• ZMW80,000 (building soc) | • 19 % (banks)<br>• 21 % (building societies) | • 5year |
| | | | • Home Improvement Loans, (HILs) | • Terminal benefits - Pension backed | • <ZMW6,000 | • As for mortgage products | • from ZMW3,000 to ZMW150,000, (ave. ZMW35,000) | • 35 % (2.5 % per month) | • 24 months |

| Group / Service provider | | Service provider | Products | Access barrier | | | Average loan size | Cost(interest rates) | Average term |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Security | Income level | Other conditions | | | |
| **2** | **Microfinance institutions** | • MFIs (both consumer and developmental) | • Home improvement loans, | • Deduction from payroll<br>• Pledging capital, 3rd party guarantees<br>• Group pressure | • ZMW2,000 to ZMW10,000 | • Formal employment / regular income<br>• Clean credit record | • ZMW 3,000 to ZMW 20,000 (ave. ZMW 35,000, | • 35 % - 80 % | • 2 year |
| **3** | **Microfinance institutions, (continued)** | • MFIS (both consumer and developmental) | • Payroll / consumer loans | • As HILs | • <ZMW6,000 | • As HILs | • Similar to micro-enterprise | • 50 % to 100 % | • Similar to micro-enterprise |
| | | | • Micro-enterprise loans | • As HILs, but not payroll deducted<br>• Household goods | • ZMW2,000 to ZMW5,000 | | • ZMW 500 – ZMW 100,000, (ave.ZMW5,000) | • 50 % to 100 % | • 0.5 year |

| Group / Service provider | Service provider | Products | Access barrier | | | Average loan size | Cost (interest rates) | Average term | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Security | Income level | Other conditions | | | | |
| 4 | **Intermediary micro-lenders** | • Federated / Networks of ROSCAs[1] SACCOs<br><br>• SACCOS, (credit unions)<br><br>• Individual ROSCAS[93] (*Cilimba*) | • Housing microloans | • None – group pressure | • Any | • Level of commitment / sweat equity | • ZMW8,000 | 10 – 13 % per annum) | • 8 year |
| | | | • Microloans | • None – group pressure | • Any | • Level of commitment / sweat equity | • ZMW500 | Up to 30 % | • 1 month |
| | | | • Rotating savings | • None – group pressure | • Any | • Level of commitment / sweat equity | • ZMW300 | • N/A | • 3 – 12 month cycles |
| 5 | **Individual informal money- lenders** | • Shylocks | • Emergency loans (*Kaloba*) | Collateral (real estate, motor vehicles and household goods). | • Any | Personal referrals | • Any | 50 % - 100 %+ | • From 1 week |

[93] ROSCAs loosely defined as finance institutions

### 6.6.1 Analysis

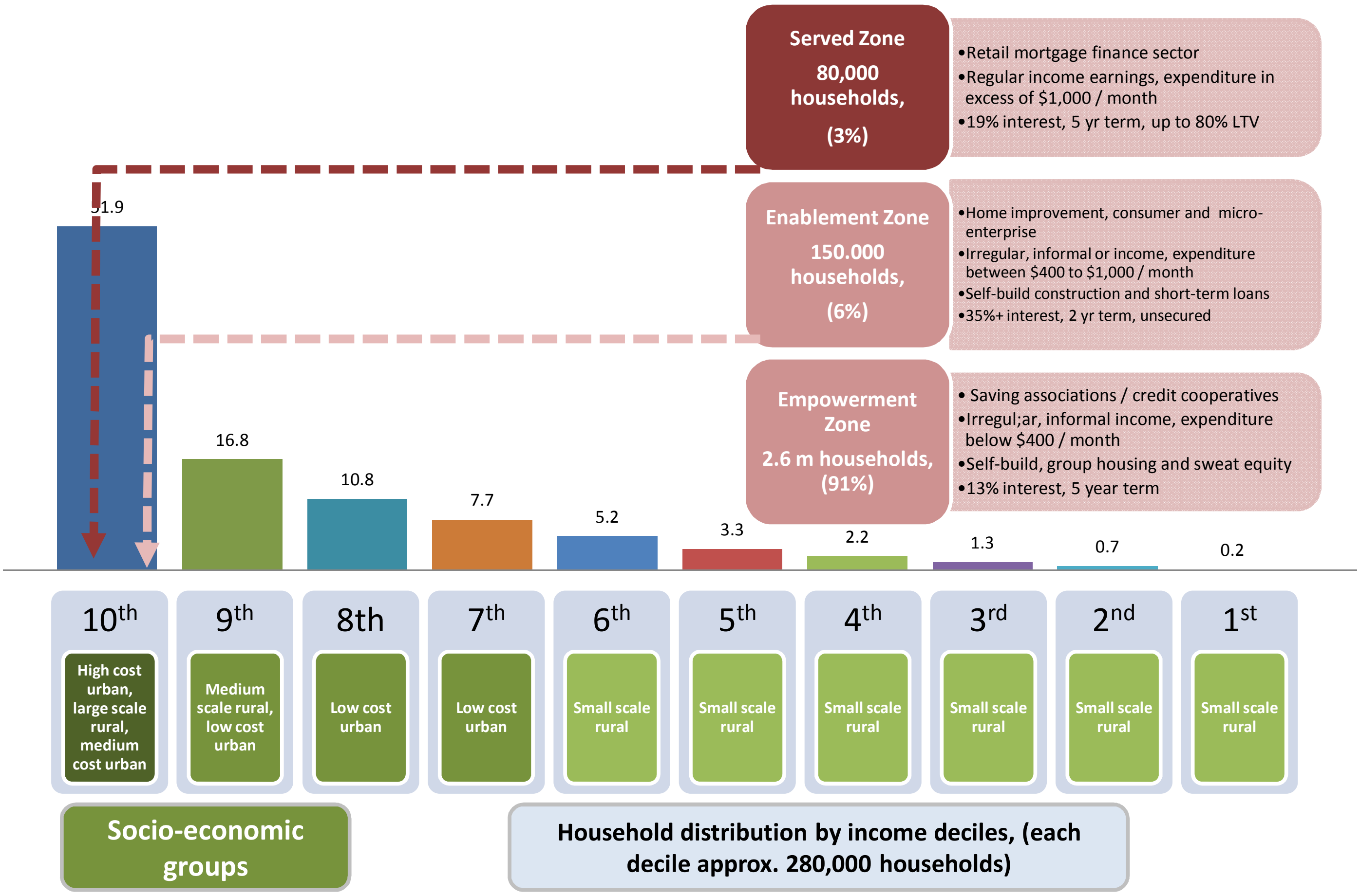
The cost of borrowing from conventional residential mortgage providers is much lower than other finance categories; however the access requirements are much more stringent. Conversely, products which are widely available carry the most punitive interest costs, (i.e. the cost of informal money lenders in acting as funders of last resort). The market can be subdivided into three broad access areas: 1.) Served; 2.) Enablement, and 3.) Empowerment Zones. These definitions are expanded upon in this section.

Households within these zones are defined by their degree of access to housing finance products, with households in the Served Zone having access to conventional, (i.e. mortgage backed) housing finance products, those within the Enablement Zone having access to general finance products, that are also used for housing, and those within the Empowerment Zone which are generally reliant on un-regulated, community based finance options, or have no access at all. This distinction based on access is relevant because households falling within a particular zone will have access to products with different finance costs, and for different loan amounts.

Households can also be defined by income and employment categories, (identified in Chapter 3), and by the housing market sector that they participate in, (identified in Chapter 5.). Access zones are defined by the principal access barrier to financial products, (i.e. affordability based on typical average instalment amounts), which can be demonstrated through an analysis of the required average monthly income to obtain a particular financial product.

A summary of access is presented in Figure 27. The illustration projects the population size and socio-economic groups that presently form the target market for the different housing finance products on offer, and the sectors and socio-economic groups of population that are not presently provided for, (i.e. market potential).

**Figure 27 Summary access to housing finance across population according to distribution of per capita income**




The remainder of this section provides a more detailed review of the three access zones that have been identified.

*1. Served Zone*

Households within this zone have access to most financial products including conventional residential mortgages although not all actually have mortgages. They form the target market for the conventional retail finance institutions, (i.e. banks and building societies) although from the size of the loan portfolio only a small group within this zone actually use mortgage housing finance[94].

[94] This suggests that access barriers also apply to this served group.

Data has been extracted from the Affordability and Access Matrix, (Figure 25) to estimate typical monthly income requirements[95] based on average loan amount, interest cost, and tenure. This is presented in Figure 28.

**Figure 28 Affordability analysis – products aimed at the Served Zone**

| Service provider / product | Average loan ZMW (USD) | Typical interest for product | Average monthly repayment ZMW (USD) | Maximum interest to income[96] | Typical monthly income required ZMW (USD) |
|---|---|---|---|---|---|
| **Bank / mortgage** | ZMW180,000 ($36,000) | 19 % | ZMW4,700 ($940) | 35 % | ZMW13,400 ($2,680) |
| **Building society / mortgage** | ZMW80,000 ($16,000) | 21 % | ZMW2,200 ($440) | 35 % | ZMW6,300 ($1,260) |
| **Home improvement loans** | ZMW35,000 ($7,000) | 35 % | ZMW2,100 ($420) | 35 % | ZMW6,000 ($1,200) |

Households with these income earnings are generally found within the upper tenth decile of the population, with household monthly income in excess of ZMW 5,000 ($1,000), and comprising around 81,000 households, (around 3 % of the total). They include the following socio-economic groups[97]:

- High cost urban
- Large scale rural

The socio-economic analysis suggests that these groups tend to be in formal sector employment and are either employers or are higher level managerial / administrative employees. They generally have regular and ascertainable monthly incomes.

The typical loan sizes for mortgage products suggests that the cost of finance is an issue for households within this zone, when compared with housing costs for middle and high cost housing, particularly within the urban areas. It might suggest that these groups leverage only a small element of a house purchase on the back of debt, or alternatively are also restricted to the self-build incremental route to home ownership using multiple loan cycles, (i.e. home improvement loans).

[95] Typical monthly income earnings are based on what would need to be earned in order to afford the monthly repayments for an average loan size. They do not represent average income earnings for the group.
[96] BOZ guidelines; generally lenders will not allow monthly repayments to exceed 40 % of monthly income.
[97] For definitions of socio-economic groups, see Chapter 3

In the case of the latter, the focus gap interviews revealed that home improvement loans were very popular due to smaller loan repayments  and the lower access qualifications attached.  These products play an important role in extending access housing finance products to a wider market.

The case study (Figure 29) is of an individual who was interviewed as part of this study and falls within this access zone, and assists in profiling the relevant socio-economic group, and housing market sector that form the target market for service providers operating within this sector.

**Figure 29 Served Zone – individual case study**

| | |
|---|---|
| **The respondents** | JN, in his early 30s, his wife and their two year old daughter live in a four bedroom house in Chalala, a relatively new low density residential suburb in the capital city Lusaka. For a few months in the year, they support three other extended college-going family members who are in their early 20s living with them. |
| **The house** | The N's own the house they stay in, plus another property in the city that they lease out. The land on which the house in Chalala is built on was acquired by the N's from the local authorities at a cost of ZMW 15,000 ($3,000) in 2008. The cost of getting a title deed for the property was about ZMW 5,000 ($1,000). Knowing that the process for acquiring title deeds was lengthy, the N's used their social network to ensure that their application was dealt with on time. The house was built by various builders contracted by the N's themselves. Most of the builders were paid in cash, but others in kind, through an exchange of household items they did not need. The house cost between ZMW 150,000 ($30,000) and ZMW 200,000 ($40,000) to build.<br><br>The N's are not happy with the quality of the house construction, saying that some of the walls are bent, and that the house plan that had been approved by the local authorities was not followed. It was not only the quality of the construction that the N's were dissatisfied with, they were also not happy with the quality of some of the materials used. They claimed that quite a number of building materials sold on the market are fake and as a result preferred to buy materials from recognised large hardware stores in the city. |
| | |

| | |
|---|---|
| |  |
| **Employment and earnings** | Mr and Mrs N both have university level education and are formally employed in the private sector. Their combined take home income is in excess of ZMW 15,000 ($3,000) per month. On this income they are able to support some of their extended family member's college education. They earn an extra ZMW 1,250 ($500) as a rental income from their second property. |
| **Lifestyle and poverty indicators** | The N's consider themselves comfortable, and claimed never to have failed meeting any of their household needs and expenses. They also appeared to be in good health, their healthcare was covered through their workplace by a monthly contribution to a private health scheme.<br><br>In addition to a second home, they had a car, computers, access to internet, satellite television, cellphones, stove and fridge.<br><br>The N's have no major risks to their financial stability and have paid of all loans on their house. They have a second property which brings in a rental income used quite often for family emergencies. |
| **Financial literacy[98] and attitude towards money** | The N's consider themselves financially stable, both having comfortably paying jobs within the private sector. They are aware of and can distinguish between various financial products on the market.<br><br>The money for the construction of the family house came from a combination of savings and loans from the ZANACO, Barclays Bank and from a few microfinance institutions. The longest loan period was two years from the major banks, and the shortest was three months from microfinance. While the N's have had no problems paying back their loans, they admitted that the loans were not always used for the stated purposes applied for. |

[98] Having a broad definition of being familiar with the financial products available and principles of borrowing.

*2. Enablement Zone*

Within this zone, households have some access to financial products, but are generally excluded from conventional mortgage products due to access qualifications, affordability and loan costs. They tend to form the target market for micro-finance institutions for consumer based products.

The typical monthly income earnings[99] for households falling within the Enablement Zone, based on average loan products available to this sector are provided in

[99] Typical monthly income earnings do not represent average income earnings for the group.

Figure 30.

**Figure 30 Affordability analysis – products aimed at the Enablement Zone**

| Service provider / product | Typical loan ZMW (USD) | Average interest for product, (assuming 5 yr tenure) | Average monthly repayment ZMW(USD) | Maximum interest to income[100] | Typical monthly income ZMW (USD) |
|---|---|---|---|---|---|
| **MFIs / Home Improvement Loans** | ZMW35,000 ($7,000) | 50 % | ZMW2,300 ($460) | 35 % | ZMW6,900 ($1,380) |
| **MFIs / consumer & micro-enterprise** | ZMW5,000, ($1,000) | 55 % | ZMW1,000 | 35 % | ZMW2,900 ($580) |

The access summary suggests that households falling within this income category, are found within the tenth decile of the population, with household monthly income between ZMW2,000 and ZMW5,000 ($400 to $1,000).

For the most part average loan sizes suggests that households in this zone are restricted to self-build incremental construction relying on cyclical loans and savings, rather than using housing finance to purchase a completed house.

There are overlaps with the Served Zone in terms of the service providers and products available to them, particularly in relation to the provision of non-mortgage backed products. However interest costs amongst MFIs are higher. Individuals choose MFI finance either because they are restricted by access barriers of the commercial banks / building societies, (e.g. regular and ascertainable income, and / or untitled land, or without planning/building approval), or they perceive MFI products to be more accessible[101].

Despite this, the group comprises around 150,000 households, (6 % of the total), and include the following socio-economic groups[102]:-

- Medium cost urban
- Medium scale rural

From the socio-economic analysis these households include formal sector employees, in employment groups other than the higher level managerial and administrative group. They generally have regular and ascertainable monthly incomes. This will also include individuals involved in informal sector employment, although financial access will be more limited.

[100] BOZ guidelines; generally lenders will not allow monthly repayments to exceed 40 % of monthly income.
[101] From the focus groups, MFIs were considered more accessible, due to the more proximate locations of branches, a quicker loan approval process, and a more welcoming environment.
[102] For definitions of socio-economic groups, see section 3.2.2.

A case study of a household in this access zone is provided in Figure 31.

**Figure 31 Enablement Zone, individual case study**

| | |
|---|---|
| **The respondents** | PM who is in his late 40's and his wife and their five children live in a four bedroom house which they own and built within the local authority high cost area of Mpongwe – a growing rural district on the Zambian Copperbelt. |
| **The house** | The M's own their house, but do not as yet have title deeds. They bought the land in 2008 for ZMW 350,000 ($70) from a private seller. They have however tried to get title deeds, but were unwilling to pay the ZMW 5,000, ($1,000) required to bring in a surveyor from Ndola. In addition, they were discouraged by the lengthy bureaucratic process and the trips to Ndola and Lusaka, the only centres with a lands administration. Building permission though for the construction of their house was acquired from the local authority on submission of drawing plans. The M's house was built by a small-scale contractor who charged them about ZMW 13,000 ($2,600) for the labour costs. The walls of the house were built using locally burnt brick, sold to them by small-scale, self-manufacturing suppliers. Mr M said it would have been more time consuming and costly to make his own bricks. Other materials for the construction of the house were bought from the nearby mining town of Luanshya. |
| |  |
| **Employment and earnings** | PM is self-employed, with college level education. His take home pay is about ZMW 5,000 ($1,000) per month, of which about ZMW 600,000 ($120) is spent on food. Like many other residents of Mpongwe, they have a farm where they grow maize and other garden produce for sale. PM's income comes mainly from a formally registered purchase and supply business, with his main clients being the region's mines; it also comes from farming. |
| **Lifestyle and poverty indicators** | The M's can be described as having a comfortable lifestyle, and are able to meet all household needs as well as the educational costs for their children. They have access to clean water and have a waterborne sanitation system for their home. Their house is also connected to the electricity mains, and they |

| | |
|---|---|
| | spend about ZMW 225 ($45) on their energy bill. Because the M's income depends on one-off payments from the supply business and farming, that are occasionally delayed, they rely on their savings to tide them through the other periods. These savings also see them through periods when Mr M cannot work due to illness.<br><br>Other assets they own, other than their house and farm, include a car, television, cellphones, stove and fridge. |
| | The main risks to Mr M's financial stability are downturns in the copper industry, delays on payment for services and goods supplied, as well as illness. These potential setbacks are often cushioned by their farming business. |
| **Financial literacy[103] and attitude towards money** | Though PM's supply business is formally registered and he has a bank account, he has not been able to get a loan from the bank due to the fact that he is not an employee, and does not have stable monthly earnings. Mr M is highly financially literate, and a decent saver.<br><br>The family house was built using a combination of savings earned from business. |

*3. Empowerment Zone*

Households in this zone have limited access to any formal financial products, (although some MFI products are available), and those which are available tend to be unsuitable for housing finance, (i.e. limited to small loan amounts, carrying high interest costs). In response to this, a number of (self-help) community based intermediary lending groups have been established to service their own members needs, providing finance at more accessible rates.

Intermediary micro-lenders share a similar market space as the MFIs, although a smaller required monthly income earning suggests that these products are more accessible to lower income groups. However, availability is restricted due to the lending capacity of savings groups, and the small number relative to the population size within this zone.

The typical monthly income earnings[104] for the Empowerment Zone, based on products available to this sector are provided in

[103] Having a broad definition of being familiar with the financial products available and principles of borrowing.
[104] Typical monthly income earnings do not represent average income earnings for the group.

Figure 32.

**Figure 32 Affordability analysis – products aimed at the Empowerment Zone**

| Service provider / product | Average loan ZMW (USD) | Typical interest for product, (assuming 5 yr tenure) | Average monthly repayment ZMW (USD) | Maximum interest to income[105] | Typical monthly income ZMW (USD) |
|---|---|---|---|---|---|
| **SACCOs / Housing focused** | ZMW8,000 ($1,600) | 13 % | ZMW400 ($80) | 35 % | ZMK1.1m, ZMW1,100 ($220) |
| **SACCOs / general** | ZMK0.5m, ZMW500 ($100) | 30 % | ZMW530 ($106) | 35 % | ZMW1,500 ($300) |
| **ROSCAS / savings group** | ZMW300 ($60) | N/A | ZMW50 ($10) | N/A | N/A |

Households falling within this income category, are found within the lowest nine deciles of the population, with household monthly income of below ZMW2,000 ($400).

Average loan sizes suggest that this group is restricted to self-build incremental construction relying on cyclical loans and savings, rather than using housing finance to purchase a completed house. It also suggests that this group is principally limited to the informal housing sector.

This comprises around 2.57 million households, and includes the following socio-economic groups[106]:-

- Low cost urban
- Small-scale rural

From the socio-economic analysis these groups include households mostly involved in informal sector employment.

This group incorporates a large section of the population, and the loan products identified in Figure 28 will not be available to the income range spectrum found within this sector. This is clearly an area of further research.

A case study of a household in this access zone is provided in

[105] BOZ guidelines; generally lenders will not allow monthly repayments to exceed 40 % of monthly income.
[106] For definitions of socio-economic groups, see section 3.2.2.

Figure 33.

**Figure 33 Empowerment Zone, individual case study**

| | |
|---|---|
| **The respondents** | The P's are a young couple in their early thirties and live in a two roomed house in Chawama an informal settlement in the mining boom town of Solwezi. They have no children, but occasionally have relatives stay with them for extended periods at a time. |
| **The house** | The P's own their house that was built on land acquired informally. They have faced threats of eviction from the local authority for failure to formalise their tenure. Their house was built with the help of a local bricklayer who charged about ZMW 1,000 ($200) for the labour, half of which was paid at the start of construction, and the other half at the end. To reduce the costs of construction the house was built out of earth brick with an earthen floor, materials which were made locally on site, and a roof made of iron sheets. No drawing plans were prepared for the house, nor did they seek building permission. |
| |  |
| **Employment and earnings** | Mr P is self-employed with a small shop in the town's main market. They earn approximately ZMW1,500 ($300) per month, of which about ZMW400 ($80) is spent on food monthly. While Mr P has some college education he has not been able to get a job in the formal sector. |
| **Lifestyle and poverty indicators** | The P's often do not have enough money to meet all their household needs and supplement their living by growing maize, beans and vegetables for consumption on the outskirts of Solwezi. They spend about ZMW80 ($16) on water, and ZMW200 ($40) on electricity, but have inconsistent supply of these services, and often resort to unsafe water sources, and charcoal for energy. Despite these challenges, they have been able to accumulate a few assets like a television, refrigerator, bicycle and cellphone. |
| **Income risk factors and coping mechanisms** | The P's financial stability is often affected by household size increases and requests for support from extended family members, especially when there is a funeral or illness. In spite of frequent setbacks, the P's believed that life was getting better. |

| | |
|---|---|
| **Financial literacy[107] and attitude towards money** | The P's are generally financially literate, with knowledge of banking terms and local banking institutions. While they understand the importance of saving, and the risks of carrying cash, they believe they could do without a bank, and indeed do not have a bank account. This they said was not because of a lack of trust in banks, but due to high banking charges. As a result they had never borrowed money from a bank, and carried out their financial transactions in cash and occasionally used electronic money transfers. |

[107] Having a broad definition of being familiar with the financial products available and principles of borrowing.

## 7.0 Future challenges and opportunities

The current HFVC structure provides only limited access to housing finance products. There are a number of barriers to overcome if the aim is to achieve universal access. The positive macro-economic conditions that Zambia has experienced over the last ten years have permitted only an incremental improvement in housing finance and housing access.

The factors which contribute to this are found between actors and activities found at different levels of the Housing Finance Value Chain, (HFVC), (i.e. intra-related), or relate to the wider macro-economic, policy and regulatory, or housing market context, (i.e. inter-related).

The extent of access is felt differently across sections of the population. In particular, access to different products is influenced by: income groups, (i.e. illustrated by the Served, Enablement, and Empowerment Groups); by employment sectors, (i.e. formal and informal); by geography, (i.e. urban and rural), as well as the housing sector which an individual participates in, (i.e. low, medium, and high cost).

The following issues, (Figure 34) have been identified in the various study chapters, and are factors which influence access in the Zambian context. They are presented as either challenges or opportunities to improved access.

**Figure 34 Housing finance access - situation analysis**

| Factor / chapter | Challenge | Opportunity |
|---|---|---|
| **Macro-economic** | ▪ Affordability gap between real incomes and housing costs, particularly for low and middle income earners, (i.e. in the Enablement and Empowerment Zones).<br><br>▪ A large informal sector, and irregular income sources (i.e. either wholly based on informal employment, or partly supplementing formal sector income); creating challenges for servicing conventional long term mortgage products. | ▪ Sustained economic growth, and macro-economic stability, allied with growth of the consumer market, and middle income sector presents an opportunity for product diversification and greater access.<br><br>▪ The situation remains similar to the analysis given in the previous study of 2006[108], and yet the positive economic context has allowed more to access housing albeit through less debt intensive financing routes. |
| **Policy and regulatory** | *Finance*<br><br>▪ Recent interventions such as the Policy Interest Rate and the ban on foreign currency transactions have | *Finance*<br><br>▪ Existing policies and regulatory approach extending aimed towards extending improved capital flows, |

[108] Gardner (2007)

| | | |
|---|---|---|
| | been criticised for the lack of consultation and has created uncertainty as to future policy shifts.<br><br>*Housing*<br><br>▪ A multi-agency approach complicates the effectiveness of policy delivery, often through a lack of integration between agencies, and a disjointed strategy. There still remains relatively limited public investment in housing, despite the recent policy focus.<br><br>▪ The regulatory framework remains burdensome, and disproportionally costly to low income groups. Land titling, environmental and building approvals process, although functional can be locally politicised, and can represent a significant time and cost to individuals and developers. | (i.e. the FSPD, and policies in the Fifth and Sixth National Development Plans)<br><br>*Housing*<br><br>▪ Some political will to address housing need, (i.e. housing policies in the SNDP and draft constitution), but this needs to be built upon, and made implementable. A more strategic focus can be developed through the proposed new housing policy to be commissioned. |
| **Housing sector** | ▪ Differences in ownership structure, house construction, services availability, and market size across different geographies, in particular rural and peri-urban environments.<br><br>▪ A lack of public bulk infrastructure and high import duties also add to the cost of production, and the housing affordability gap, and often deters private house builders from entering the market.<br><br>▪ A disconnect between demand and supply, and real constraints to effective demand. The housing 'backlog' falls anywhere between 1.3m to 2m.<br><br>▪ A small resale market, due to a lack of effective demand, which limits the potential for volume house builders to enter the market, and increases market | ▪ Home grown solutions to housing access restrictions exist, (i.e. self-build, peri-urban, utilising cyclical borrowing).<br><br>▪ A rapid rate of development around the periphery of urban areas shows that self-build has become a viable way for many households to satisfy their housing needs, demonstrating latent market potential. |

| | | |
|---|---|---|
| | risk to lenders.<br><br>▪ Peri-urban 'self-build' construction; cannot usually be used for loan collateral, because of poor access, inadequate services, and no title. | |
| **HFVC** | ▪ A continued lack of financial intermediation between levels of the HFVC, and the availability of long term finance from the capital markets, limiting the availability of capital for lending, and increasing costs.<br><br>▪ Limited access to long term credit also means that retail finance institutions tend to focus on short term products such as consumer finance, and whilst the conventional mortgage finance market, (i.e. commercial banks and building societies) are well established, their products only target a relatively small group of high income individuals.<br><br>▪ Access qualifications are often prohibitive and complicated, (e.g. security deposit, insurance, bank charges and legal fees); which excludes the average citizen. | ▪ The HFVC shows a breadth of service providers and housing finance products which provide some access across most market sectors, and access zones.<br><br>▪ MFIs extend access to some middle and lower income groups, however products are mostly not specifically tailored for housing finance, and high interest costs only permit an incremental self-build route to home ownership.<br><br>▪ The supply of financial products against potential demand from these groups is limited, and has precipitated local solutions, (intermediary microfinance) such as SACCOs and ROSCAs.<br><br>▪ There are some dedicated housing savings groups, (e.g. Peoples Process, ABESU Housing Cooperative). |

## 8.0 Conclusions and recommendations

### 8.1 Overview

Existing structural conditions in the housing and financial market which limit access are complex and multifaceted, and can only be addressed through the involvement and cooperation of all stakeholders, including public, private and tertiary, (i.e. NGOs, CBOs, civil society) spheres.

The components of the Housing Finance Value Chain, (HFVC), as they presently exist, shows that there is a network of suppliers who are to some extent, able to serve all access zones; even lower income sectors of the market. However the limited availability and high costs of finance tends to limit its usefulness. There is an important disjoint between commercial banks and building societies, and MFI service providers, who have greater access to external sources of finance, and community based intermediary micro-lenders who have to rely on their own pooled funds to offer housing finance at more affordable rates. Improved integration between the micro-lenders and the lower levels of the HFVC provide a clear area of potential for improved access to the Enablement and Empowerment Zones.

The focus of the recommendations is how to expand access to the different market access zones. Recommendations focus firstly on the opportunities available in each zone, and what roles might be expected for public, private and tertiary spheres, and secondly, how they might interact in order to improve access to housing finance for households in the Enablement and Empowerment Zones. Specific recommendations are made in response to the access challenges identified in Section 7, and are ordered according to the areas they are supposed to address, (i.e. housing / land and finance sectors).

### 8.2 Opportunities

8.2.1 Served Zone

While there has been real growth in the Served Zone over the past ten years, there is considerable room for expansion. There appears to be reasonable interest amongst the private market to expand the size of their existing secured lending portfolio; and yet there is a disconnect between the interest rates available across other asset classes, and the interest costs that can be achieved on longer term housing finance instruments, to adequately reflect risk, whilst also facilitating wider access through improved affordability.

The issues which contribute to this, requires the intervention of public and tertiary sectors to create an enabling environment, which makes mortgage lending more feasible. This approach necessitates continued macro reforms to the finance sector as a whole, to reduce interest costs, and increase access to long term credit lines; and also micro reforms aimed at the housing finance sector, which address how lending risk can be reduced.

### 8.2.2 Enablement and Empowerment Zones

The longer term aim should be for the private sector to be a source of commercially viable housing finance across the whole market. Yet whilst affordability remains an issue in the Served Zone, it is difficult to see how in the short term, expansion of secured lending to other zones can be achieved. A potential solution requires the development of alternative products and services appropriate to the capacities and challenges of the various market segments involved.

If this were achieved then the potential market is significant, representing over 90% of the market, and commanding around 50% of GDP. This is within a context of economic growth and expanding population, which is contributing to the size and capacity across all sectors.

The potential for improved interaction is an important part of our recommendations, and we include a background on the envisaged role for each actor in terms of the provision of services to these Zones.

Whilst acknowledging existing resource constraints, some direct intervention is necessary to improve access to finance for households, in particular within the Empowerment Zone since this group will remain subject to greatest exclusion from private housing and finance markets.

### 8.2.3 Recommendations

The recommendations are made on housing and land markets, and specifically the housing finance sector, and are summarised in the table below. A commentary is provided on the access zone(s) which the recommendation is intended to benefit, and the actors who would need to be engaged.

Note that the recommendations for the housing / land sector are intended to improve capacity and function of the market to better enable the expansion of housing finance across all access zones.

**Figure 35 Recommendations - housing and land markets**

| Housing / land markets | Access zone benefited | Actors |
|---|---|---|
| **1. A clear vision and strategy for housing to provide clarity and improve investor confidence**<br><br>This should build on the original vision in the Housing Policy (1996) towards establishing an inclusive private property market that can serve the needs of all. However, in learning from past mistakes, policy needs to be implementable, and be supported through adequate budget allocations, related to specific actions. It should also be integrated with existing policies such as the SNDP, and vice versa. | All access zones would benefit from a more reasoned policy approach to meeting housing need, and an up to date framework for how actors in the housing and housing finance sectors can be benefited. | MoLGH / NHA |
| **2. The promotion of one of the existing public sector housing agencies to lead reform and to provide an advocacy platform for housing**<br><br>With a mandate to review the effectiveness of the existing network of housing bodies, push regulatory reform to increase housing supply to all market sectors and strengthen public/private sectors links. To evaluate the effectiveness of existing bulk infrastructure provision, and how well local authorities utilise infrastructure funds provided through the LDF. It will also evaluate policy proposals to ensure they are grounded in resources and research. | Although by ensuring public intervention is geared towards excluded groups, this body should ensure access is focused on Enablement and Empowerment Zones, (including rural communities, and informal sector groups). | ZDA<br><br>Private sector<br><br>Govt. departments<br><br>NHA<br><br>Organised self-help housing groups |

| Housing / land markets | Access zone benefited | Actors |
|---|---|---|
| **3. Streamline land tenure to make the transfer process quicker and affordable to low-income earners**<br><br>Several actions would make the land transfer process quicker. For example, streamlining the applications procedures and having a one-stop shop. A transparent and cheaper land titling and building applications process for low income earners. Decentralisation of land administration to the Provinces to increase accessibility. To bring a vast majority of the urban populace into a sustainable land titled fold, existing squatter upgrading programmes must be implemented and the term of occupancy licenses granted under the Housing Statutory Improvements Area (HSIA) provisions made longer. | Enablement and Empowerment Zones, since the burden of existing land tenure and transfer process is greatest on these zones, and these groups also tend to be excluded from the housing finance sector, because they fall outside the existing land tenure / transfer framework. | MoL<br><br>MoLGH<br><br>Zambia Land Alliance<br><br>Organised self-help housing groups<br><br>Private sector property developers |
| **4. Expanded and responsive planning and building regulation to incorporate all urban areas, including informal areas[109] - and more proportionate development control**<br><br>In order to do this planning and building regulations to be less restrictive, and responsive to the needs and capacities of different groups, (e.g. reduced fees, the use of cheaper construction materials, and in determining what are statutory minimum space standards and densities), and also support for municipalities to build their capacity to enforce development control.<br><br>Low and medium cost housing projects planning approval should place greater weight on the social benefits. As such EIAs would need to be proportional to the scale of the development project, and standards to be established by a separate body to the regulator. This needs better regulation and accreditation of contractors, as well as training to ensure that construction standards are | Streamlining and enforcement will have the same effects as under 3.) | MoLGH<br><br>LAs<br><br>ZEMA<br><br>National Council for Construction / Zambia Weight and Measures |

[109] This policy is proposed under the draft Urban and Regional Planning Bill

| |
|---|
| maintained. |

| Housing / land markets | Access zone benefited | Actors |
|---|---|---|
| **5. Ensure ZDA incentives on private investment in housing are conditional on a proportion of low cost housing for low-income earners**<br><br>Including the requirement that all future private housing projects include a percentage of housing for lower income groups; and offering grants, (including land) to developers for its inclusion. This could reduce the costs of direct provision for low cost housing by sharing infrastructure and servicing provision.<br><br>Tax allowances offered for private investment in off-site bulk infrastructure provision, such as roads, power, water and sewerage networks, which become a public good. In cases where off-site bulk infrastructure is provided by a private developer, allow a tax off-set, (e.g. on VAT or duties). | Increasing the supply of low cost housing will help to expand access to the Enablement and Empowerment Zones. | ZDA<br><br>ZRA<br><br>Public utilities |
| **5. Construction product innovation**<br><br>Promoting green building through awareness campaigns and supporting carbon credit offsets could reduce the cost of participating in the housing market. Corporate Social Responsibility geared towards skills transfer and construction technical assistance[110] would address quality concerns and thus help financial institutions better understand the asset they are financing, its cost and value and by so doing better to mitigate their credit risk. | All, although reducing housing costs will have the greatest effect on groups within the Enablement and Empowerment Zones in terms of improving the existing affordability gap, | Building material suppliers<br><br>Construction and property development companies<br><br>Mortgage providers |

[110] This is already demonstrated in South America and can be in the form of modular solutions around planning, and construction technologies that can be delivered by the financial service providers or in partnership with third parties.

**Figure 36 Recommendations - housing finance**

| Finance | Access zone benefited | Actors |
|---|---|---|
| **1. Focusing the funds of apex institutions on housing lending**<br><br>Prioritise housing as an investment area by using development finance institutions (DFIs) such as DBZ to make housing more attractive. This should be included in the overall framework of the new housing policy.<br><br>Increasing intermediation and the direction of funds towards housing / housing finance by improving accessibility for commercial lenders to long-term funds. This could be achieved by promoting the development of secondary markets, (e.g. the new BadEx). | This would have the greatest effect on the Served Group to start with, since this is the traditional market for the retail finance institutions, (RFIs) although an increase in capital funds for housing finance should also expand access to the Enablement Zone, through increased access to funds to non-traditional lenders, (i.e. MFIs and intermediary micro-lenders), | DBZ<br><br>GRZ |
| **2.) Strengthening linkages between the HFVC to improve the flow of capital between levels, and improving access to the secondary markets**<br><br>This can be done by using existing financial institutions with a public stakeholding to focus some of the funds for on-lending by intermediary micro-lenders.<br><br>This can also be achieved by MFI regulation focussing on facilitating and strengthening developmental organizations and deposit taking institutions, (e.g local savings groups / cooperatives). Furthermore, developing the role of MFI / intermediary micro-lenders in providing housing finance and the informal sector by better integration with the HFVC. | Capitalising existing public RFIs would increase access in the Enablement Zone, by ensuring that lending policy is focused on presently excluded groups, but with capacity to borrow on a commercial basis.<br><br>The use of public organisations as a conduit for channelling capital flows to local intermediary micro-lenders and developmental organisations will establish a means of integrating lending institutions serving the Empowerment Zone in particular with the rest of the HFVC. The use of these groups as intermediaries should also help to reduce the risk of borrowing to this zone, and illustrate a potential mechanism that could be emulated by the private sector. | NATSAVE<br><br>ZNBS |

| Finance | Access zone benefited | Actors |
| --- | --- | --- |
| **3. Enforcing the Building Societies Act**<br><br>The enforcement of specific rules for building societies so that they perform their intended function in deposit taking and intermediation by providing funds towards housing construction and purchase.<br><br>Note, it was noted through the key stakeholder interviews that there was limited distinction between commercial banks and building societies in terms of the products which they provide and the relationships with their clients. | This would initially benefit the Served Zone by ensuring that capital funds from these organisations will be focused towards housing related products, and encouraging these organisations to better establish the relationship they have with their members, thereby reducing lending risk. This improved interaction would encourage these organisations to expand access into the Enablement Zone. | BoZ<br><br>(ZNBS)<br><br>(FBS)<br><br>(PABS) |
| **4. The creation of strategic partnerships between private and public sector actors and the tertiary sector. Matched funding to expand housing finance capacity in the tertiary sector, and on-lending to lower income groups**<br><br>The potential for grants and seed capital based on matched funding contributions provides an opportunity to build partnerships of trust with grass roots collective savings groups, to reduce the risk of lending, and provide a secure platform for intermediation within the informal sector[111]. These funds would extend housing loans to a wider population and finance public infrastructure. Local 'self-help' housing groups should be recognised as agencies for meeting the housing need of excluded groups[112] and funds from public and private sector could be pooled in a single organisation. | The aim would be to focus public and private social funds towards groups found within the Empowerment Zone. It follows a similar principle to recommendation 2, where funds are channelled towards intermediary micro-lenders and developmental organisations involved in providing finance to these groups; using grants or discounted capital to act as a multiplier for these groups to expand access. | MoLGH,<br><br>ZLCHDF |

[111] This is common practice for MFIs, but expansion particularly around savings and credit groups with a housing focus, could help to establish a viable housing finance product.
[112] For example replicating an existing approach by the Government in Namibia.

| Finance | Access zone benefited | Actors |
|---|---|---|
| **5. Build capacity in the housing finance sector**<br><br>For example, the expansion of support services such as credit ratings and insurance products for credit life, health insurance policies to help reduce the cost/risk of especially long term credit to lower income groups. It should also include an extended role for the regulator, (or its nominee[113]) in gathering sector specific data on MFIs and intermediary micro-lenders[114]. | This would initially benefit the Served Group, but by improving market knowledge and benchmarking, risk can be reduced on housing finance, which should encourage a reduction in interest rates, and encourage RFIs to expand access into Enablement and Empowerment Zones. | BoZ / AMIZ<br><br>Insurance / companies brokers<br><br>NGOs/ CBOs<br><br>CRB |
| **6. Market research for financial product innovation**<br><br>Enable market expansion by facilitating a better understanding of the potential market, which exists in the Enablement and Empowerment Zones. This would include both supply- and demand-side analysis, with a quantitative assessment of the MFI and intermediary micro-lender sectors, to provide a greater understanding of market coverage; and long term life cycle studies informed by both qualitative and quantitative data to gauge size of demand/ market, particularly in the informal sector. This information would widen the scope for financial product innovation, allowing their design to be based on sustainable income source and real construction life cycle for these sectors. It would also indicate areas for alternative approaches to assess credit worthiness and mitigating risk, taking cue from existing micro-enterprise lending methodologies[115] | Similar to recommendation 5, improved market knowledge and market potential, should encourage expansion into the Enablement and Empowerment Zones. | Research organisations, (e.g. FinMark Trust) |

113 It may not be practical for BOZ to be expected to handle even more reporting from these small organisations, however there is scope for these powers to be delegated to sub-sector organisations, (e.g. Association of Microfinance Institutions Zambia - AMIZ).
114 Commercial banks/ building societies at present provide this data that includes for example, total lending portfolios, average loan size, and interest rates.
115 For example group lending methodologies.

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## 10.0 Appendices

### Appendix 1. Household expenditure patterns

Household expenditure patterns rather than incomes were used to provide a more accurate assessment of income distribution. These were projected for each household group identified through the CSO's Living Conditions Monitoring Survey, (LCMS IV)[116]. These were based on three sources: 1.) LCMS IV[117]; 2.) UN-Habitat Urban Profile study[118]; and 3.) weighted averages from our own interviews and study groups. Figure 37 provides the consolidated expenditure patterns from these studies for urban households, and Figure 38 for rural households. The proposed expenditure patterns from each of the surveys are shown. As a cross reference, the amount spent on rent[119] for the urban groups was also provided.

[116] CSO (2006)
[117] LCMS IV (2006) data was inflated by the Consumer Prices Indices (CPI) to project current expenditure patterns
[118] UN-Habitat (2012) also adopted the same CSO household groups to project income distribution across the population.
[119] This was based on a broad rental range based on the type of housing areas that each group was most likely to reside in.

**Figure 37 Consolidated data sets of expenditure for urban groups**

| Population group | | | | | Expenditure bracket | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | LCMS (2006) | 2012 estimate based on CSO (2011) total households 2010, plus 2.8% annual growth rate | | LCMS (2006) | | LCMS (2006) subject to CPI, | UN-Habitat, UHSP Sample survey (2011) | | | | | | | Scoping study interviews, (2012) | Market rental bands, ($ / mnth) |
| Group | Cum. % urban population | Households | | Sub-group | Expenditure ($1: 3,600 echange) | % food | Expenditure | Lsk expenditure | Lsk sample | Ktw expenditure | Ktw sample | Liv expenditure | Liv sample | Weighted across sample | | |
| **High cost** | **8%** | 64 900 | 79 687 | n/a | $ 714 | 29% | $ 1 230 | $ 878 | 12 | $ 1 626 | 10 | $ 1 691 | 10 | $ 1 366 | >$1,000 | >$500 |
| **Medium cost** | **11%** | 84 800 | 104 121 | n/a | $ 453 | 32% | $ 781 | $ 510 | 8 | $ 488 | 5 | $ 742 | 10 | $ 606 | $500 - $1,000 | $200 to $600 |
| | | | | Site & service | | | | $ 542 | 40 | $ 1 069 | 35 | $ 868 | 35 | $ 813 | *$500 - $1,000* | $100 - $300 |
| **Low cost** | **81%** | 644 600 | 791 471 | Formal | $ 212 | 42% | $ 365 | $ 710 | 25 | $ 302 | 40 | $ 361 | 30 | $ 428 | <$500 | $100 to $300 |
| | | | | Informal | | | | $ 461 | 15 | $ 154 | 10 | $ 269 | 15 | $ 312 | <$500 | <$200 |
| **Urban total** | | 794 300 | 975 279 | | | | | | | | | | | | | |
| **National total** | | 2 268 400 | 2 785 249 | | | | | | | | | | | | | |
| Increase | | | 23% | | | | | | | | | | | | | |

**Figure 38 Consolidated datasets for expenditure of rural groups**

| Population group | | | | | Expenditure bracket | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | LCMS (2006) | 2011 estimate based on CSO (2011) Total households | | LCMS (2006) | | LCMS (2006) subject to CPI, (say c.11.5% pa) | Scoping study interviews, (2012) | Projected rental bands, ($ / mnth) |
| Group | Cum. % rural population | Households | | Sub-group | Expenditure ($1: 3,600 exchange) | % food | Expenditure | | |
| **Large scale** | **1%** | 1 004 | 1 232 | n/a | $ 680 | 49% | $ 1 457 | >$1,000 | >$350 |
| **Medium scale** | **2%** | 35 570 | 43 648 | n/a | $ 181 | 60% | $ 388 | $300 - $600 | $150 to $300 |
| **Small scale, (incl. non-ag)** | **98%** | 1 343 869 | 1 649 071 | Small | $ 82 | 67% | $ 176 | <$300 | <$150 |
| | | 94 570 | 116 047 | Non-agricultural | $ 97 | 49% | $ 208 | | |
| **Rural total** | | 1 475 013 | 1 809 998 | | | | | | |
| **National total** | | 2 268 400 | 2 783 569 | | | | | | |
| Increase | | | 23% | | | | | | |

Figure 39 and Figure 40 provides our projected expenditure ranges for each of the groups, taking into account the ranges from all three surveys.

**Figure 39 Demographic analysis: urban household sectors and expenditure levels**

| Population group | | | | Expenditure bracket | | | |
|---|---|---|---|---|---|---|---|
| Group | Cum. % urban population | Est. total households, (2012) | Sub-group | Projected household expenditure, (2011/12) | % food | Market rental bands, ($ / mnth) | projected % on rent |
| **High cost** | **8%** | 79 687 | n/a | >$1,000 | 29% | >$500 | c.50% |
| **Medium cost** | **11%** | 104 121 | n/a | $500 - $1,000 | 32% | $200 to $600 | c.50% |
| | | | Site & service | *$500 - $1,000* | | $200 to $400 | *c.40%* |
| **Low cost** | **81%** | 791 471 | Formal | <$500 | 42% | $100 to $300 | c.40% |
| | | | Informal | <$500 | | <$200 | c.40% |
| **Urban total** | | **975 279** | | | | | |

**Figure 40 Demographic analysis: rural household sectors and expenditure levels**

| Population group | | | | Expenditure bracket | |
|---|---|---|---|---|---|
| Group | Cum. % rural population | Est. total households, (2012) | Sub-group | Projected household expenditure, (2011/12) | % food |
| **Large scale** | **1%** | 1,232 | n/a | >$1,000 | 49% |
| **Medium scale** | **2%** | 43,648 | n/a | $300 - $600 | 60% |
| **Small scale, (incl. non-ag)** | **98%** | 1,649,071 | Small | <$300 | 67% |
| | | 116,047 | Non-agricultural | | 49% |
| **Rural total** | | **1,809,998** | | | |

Urban and rural data has been consolidated into a total for Zambia, (see Figure 41). Cumulative household numbers were ranked against decile groups provided through the LCMS IV income distribution. This provided a better illustration of expenditure patterns against income distribution from the total population as a whole, in order to show the potential depth of the housing finance market.

**Figure 41 Demographic analysis: Zambia household income inequality, sectors and expenditure levels**

| Household distribution by income deciles | | Population group by household expenditure | | | |
|---|---|---|---|---|---|
| Decile | % share of per capita income, (2006) | Groups | Percentage of total population | Est. total households, (2012) | Projected household expenditure, (2011/12) |
| 10th | **51.9** | **High cost urban & large scale rural** | **3%** | **80,919** | >$1,000 |
| | | **Medium cost urban** | **4%** | **104,121** | $500 - $1,000 |
| 9th | **16.8** | **Medium scale rural** | **2%** | **43,648** | $300 - $600 |
| 8th | **10.8** | **Low cost urban** | **28%** | **791,471** | <$500 |
| 7th | **7.7** | | | | |
| 6th | **5.2** | **Small scale, (incl. non-agricultural) rural** | **63%** | **1,765,118** | <$300 |
| 5th | **3.3** | | | | |
| 4th | **2.2** | | | | |
| 3rd | **1.3** | | | | |
| 2nd | **0.7** | | | | |
| 1st | **0.2** | | | | |
| **Zambia total** | | | | **2,785,278** | |

**Appendix 2 – Background on research method for case profiles and routes to accessing housing**

In order to understand sectoral need/ demand/ capacity for housing within the informal sector a qualitative scoping study was undertaken in an informal settlement in Lusaka, representative of the capital city Mpongwe, a growing rural farming district, and Solwezi a fast growing mining town.

Key study participants representative of excluded groups staying in Zambia's informal settlements were selected from the Peoples Process on Housing and Poverty in Zambia, a countrywide network of a poor people's housing movement, the Zambia Homeless and Poor Peoples Federation.

Case profiles and an indication of the various access routes to housing were established in focus group discussions, semi-structured interviews and the administration of a questionnaire to collect basic data on those interviewed.

Approximately thirty members of the Zambia Homeless and Poor Peoples Federation, staying in informal settlements in the selected districts where targeted as a poor vulnerable population to participate in focus group discussions. Focus group discussions were conducted in George Compound in Lusaka, Turbine in Mpongwe and Chawama Township in Solwezi.

Case study participants to illuminate the routes to accessing housing and finance where selected from an informal settlement, medium cost and high cost residential areas of the districts. Three participants were interviewed in each settlement of the selected towns.

| **District** | **Lusaka** | **Solwezi** | **Mpongwe** |
|---|---|---|---|
| **Informal settlement** | George Compound | Chawama | Turbine |
| **Medium cost** | Kamwala | Kandundu | Council medium cost |
| **High cost** | Chalala | Urban | Council high cost |

**Focus group discussion probes**

The following probes were used in focus group discussions that lasted approximately three hours. Participants were divided into smaller groups of ten and asked to present and discuss on questions of access to finance, land, materials etc. About 90% of the participants were women who reflected on their active role in trying to access housing.

| **Components affecting cost of house** | **Probes** |
|---|---|
| **Cost of land** | How do people obtain land from local authority/traditional authority/market?<br>What do they pay for it?<br>What are the costs they incur in getting title to it?<br>What are the problems with this process (how long does/ did it take)<br>Is the land serviced (water and sanitation)?<br>How much does it cost to service?<br>How long does it take to service land from local utility companies? |
| **Cost of financing** | How do people access finances for buying land, building etc.?<br>If from savings, how much and for how long do they save before they are |

| | |
|---|---|
| | able to get land or a house?<br>If people are borrowing funds, where do they go for credit, why there and not some other place?<br>What situations make it difficult for people to pay back loans? |
| **Cost of materials** | Are the building materials locally available? (What is the average cost of a concrete block, a brick)<br>If materials are not locally available where do people get them from, and what is their cost, plus the cost of transportation?<br>Are the materials processed on site? |
| **Cost of labour** | Who builds the house?<br>Self-build<br>Are the self-builders skilled in construction?<br>Is it a contractor – how much do they charge?<br>Is the contractor skilled, formally or informally trained? |
| **Cost of environment** | Do people in the area need energy (e.g. diesel, fire wood) to make most building materials?<br>In what ways does this need of energy compete with other needs (e.g. cooking)?<br>Do you have to transport building materials from far by car, oxen or some other means? |

**Semi-structured interviews for case studies: routes towards home ownership**

Semi-structured interviews lasting approximately two hours per participant were conducted at the residence of the case study participants established as head of households and having knowledge on how they got access to the house. Interview questions were drawn from probes established in the focus group discussion to ask directly how the participants got access to financing, land, building materials and labour.

Photos of participant's residence where taken for a visual comparison of size and quality of housing.

Case study participants also filled in a questionnaire established from the previous FinScope Zambia 2009 survey on housing finance, so as to collect demographics for each profile.

## Appendix 3 – Stakeholder interviews

An informal semi-structured interview technique was adopted for the key informant interviews. Interviewees were informed of the basis of the study, and provided a broad framework of the area of interest which would guide questioning. An open-ended interview approach was adopted, which allowed informants to provide a broad context of the issues involved.

Stakeholders were identified through the initial desktop study, with a snow-ball methodology to identify additional contributors.

**Figure 42 Summary of stakeholders interviewed**

| | Institution name | Short name | Interviewee | Position | Email |
|---|---|---|---|---|---|
| **1** | Association of Microfinance Institutions in Zambia | AMIZ | Webby Mate | Executive Secretary | web.mate@yahoo.com; amiz@mail.zamtel.zm |
| **2** | Bankers Association of Zambia | BAZ | David Chewe | CEO | david.chewe@coppernet.zm |
| **3** | Bank of Zambia | BOZ | Musapenda Phiri et al | Project Coordinator - FSDP | mjphiri@boz.zm |
| **4** | Development Bank of Zambia | DBZ | Caiaphas Habasonda | Chief Investment Officer | habasondec@dbz.co.zm |
| **5** | Africa Development Bank | AfDB | Christopher Banda | Senior private sector officer | c.banda@afdb.org |
| **6** | National Savings and Credit Bank | NATSAVE | Cephus Chabu | MD | chabuc@natsave.co.zm |
| **7** | FNB Zambia | FNB | Jane Mwila | Manager Home Loans | jmwila@fnbzambia.co.zm |
| **8** | AB Bank | ABB | Michael Barleon | CEO | michael.barleon@abbank.co.zm |
| **9** | Finance Building Society | FBS | Abha Chaturvedi (Mrs) | Deputy CEO | abha.chaturvedi@fbs.co.zm |
| **10** | Pan African Building Society | PABS | Mkuzo Kuwani | CEO | mkuzokuwani@pabs.co.zm |
| **11** | Stanbic Bank Zambia | Stanbic | Litrudah Chiti | Head Home Loans | chitil@stanbic.com |

| | Institution name | Short name | Interviewee | Position | Email |
|---|---|---|---|---|---|
| **12** | Barclays Bank Zambia | BBZ | Twaambo Hamusute | Head - Consumer Lending and Insurance | twaambo.hamusute@barclays.com |
| **13** | Cetzam | Cetzam | Dyson Mandivenga | CEO | dmandivenga@cetzam.com.zm |
| **14** | Finca Zambia | Finca | Thomas Lendzian | CEO | lendzian@finca.org |
| **15** | Microbankers Trust | MBT | Grace Nkhuwa | CEO | ceombt@mbt.com.zm; gracek@coppernet.zm |
| **16** | Enterprise Finance Centre | EFC | Alain Comeau | Credit Advisor | alain.comeau@hotmail.com |
| **17** | Vision Fund Zambia (Former Harmos) | VFZ | Nkosilathi Moyo | CEO | Nkosilathi_Moyo@WVI.ORG |
| **18** | People's process on Housing and Poverty in Zambia | PPHPZ | Memory Malimo et al | Community Liaison Officer | memory@peoplesprocess.org.zm |
| **19** | Swedish Cooperative Centre | SCC | Barbra Kohlo | Regional Programme Coordinator, Housing | barbra.kohlo@sccrosa.org |
| **20** | Zambia Low Cost Housing Development Fund | ZLCHDF | Gibson Shamambo | Micro Credit Operations | ahf@zamtel.zm |
| **21** | Unity Finance | Unity Finance | Charles Bernhardt | CEO | Charles@unityfinance.co.zm |
| **22** | Zambia National Building Society | ZNBS | Mwamba Chibuta; Margaret Musheke | Head Residential Mortgages | margaret.musheke@znbs.co.zm |
| **23** | Department of Physical Planning, Ministry of Local Government and Housing | MLGH | Ms Meembo Changula | Assistant Director of Planning | mchangula@mlgh.gov.zm |
| **24** | Department of Housing, Ministry of Local Government and Housing | MLGH | Mr David Tembo | Principal Housing Development Officer | dtembo@mlgh.gov.zm |

| | Institution name | Short name | Interviewee | Position | Email |
|---|---|---|---|---|---|
| **25** | National Housing Authority | NHA | Mr Maurice Chitondo | Chief Architect | m.chitondo@nha.co.zm |
| **26** | National Council for Constriction | NCC | Mr Ernest Zulu | Principal Architect | |
| **27** | Zambia Development Agency | ZDA | Ms Lomthunzi Mbewe<br>Ms Maureen Mulindwa | Investment Promotion Officer<br>Senior Privatisation Officer | lmbewe@zda.org.zm<br>mmulindwa@zda.org.zm |
| **28** | UN-Habitat, Urban Housing Sector Profile Co-author | | Mr Daniel Phiri | Housing, Urban Planning and Development Consultant | daphiri@gmail.com |
| **29** | Habitat for Humanity | HfH | Ms Musoli Kashinga | Programmes Manager | mkashinga@habitatzam.org.zm |
| **30** | Chartwell Financial Services | | Mr Gregory Connellan | Director | |

## Appendix 4 – Housing loan availability

**Figure 43 Institutions interviewed that currently do not have housing related products**

| | Name of Institution | Type of institution | Product availability |
|---|---|---|---|
| 9 | **Cetzam** | Microfinance institution | *No housing product. Low/limited access to long terms funds. Open to partnership with grassroots organisations.* |
| 10 | **Finca** | Microfinance institution | *No housing product. Low/limited access to capital. Would require TA in product design* |
| 11 | **Microbankers Trust** | Microfinance institution | *No housing product although do finance home improvements and self-build through group loans. Currently have staff housing loan that they would like to evolve into retail product. No access to long term funds* |
| 12 | **Vision Fund Zambia** | Microfinance institution | *No housing product. Low/limited access to long terms funds. Open to partnerships with grassroots organisations. Would require TA in product design* |
| 13 | **Unity Finance** | Microfinance institution | *No housing product yet. Currently developing a product which would be a complete turnaround solution.i.e. housing finance + housing unit. Aimed at medium segment. Estimated cost of K50m for a basic unit* |
| 14 | **Natsave** | Non-Banking Financial institution | *No Housing product. Low/limited access to long terms funds. Currently under discussion with pension funds to provide mortgages to the pension fund members and employees. Pension funds to provide the long term funds. Open to partnerships with grassroots organisations.* |
| 15 | **Bank ABC (Microfin)** | Commercial Banks | *No housing related products* |
| 16 | **Investrust** | Commercial Banks | *No housing product. Currently developing one* |
| 17 | **AB Bank** | Commercial Banks | *No Housing product. Low/limited access to long terms funds. None planned for the foreseeable future* |
| 18 | **Development Bank of Zambia** | Development Banks | *Provides line of credit to commercial banks of up to ten years maturity. Not designed for Housing - maturity mismatch* |
| 19 | **African Development Bank** | Development Banks | *Does not provide support in housing directly. Achieved through 'sister' organisation - Shelter Afrique* |