



**SHELTER AFRIQUE**

Financing Affordable Housing for Africa



# Challenges and Opportunities for Mobilizing Construction Finance

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**AUHF 34<sup>th</sup> Annual General  
Meeting and Conference**

**Andrew Chimphondah,**  
Managing Director & CEO, Shelter Afrique

# Meet the Speaker



**Andrew Chimphondah**

Managing Director &  
CEO, Shelter Afrique

- Mr. Chimphondah holds a Masters in Business Administration degree from Durham University in the UK, he is a Chartered Accountant (SA), and is currently researching and writing a PhD dissertation.
- He has over 24 years diverse global experience in financial services with a focus on retail mortgage lending , wholesale lending , commercial lending , rental housing and strategic partnerships inter-alia
- He was Chief Executive for a fund management company called Housing Investment Partners (Pty) Ltd which is part of the Old Mutual Group of companies before assuming his current role to spearhead the turnaround and growth of Shelter Afrique . The only Pan-African Financial Institution dedicated to providing affordable house finance solutions to Africa.

# Background

## **The African Housing Finance Market has the following identifiers:**

- Housing Finance in Africa remains critically inaccessible for most people.
- Inaccessibility is defined by high interest rates and short loan tenors that make it untenable for mortgage seekers.
- Financial Institutions, Microfinance Banks and Commercial Banks find it difficult to raise cheap funds for long-term commitments like construction.
- The sector of the economy most in need of housing finance are unbanked.
- Property rights and security which are needed for a thriving housing finance industry are sorely lacking in Africa.

# Background (contd.)

- Most construction companies and developers in Africa are keen on the high-middle income housing market, leaving the low-income critically underserved and underfinanced.
- Governments are still in the process of digitizing and legitimizing land records and registration.
- Government policy itself is yet to catch up with the needs for Housing Finance.

# By the Numbers



**90%**

of Africans cannot afford to buy a house or qualify for a mortgage.



**3 billion**

people in the developing world will require housing by 2030.



**62%**

Sub-Saharan African currently lives in what can only be described as Slum Dwellings



**USD 2.5Bn**

is the minimum investment amount required by the Housing Industry annually

# By the Numbers (contd.)



**\$97 Billion**

The combined value of the housing shortage of Africa's first and second largest economy, Nigeria and South Africa respectively



**> 2 billion**

new urban residents are created annually with an annual increment of 35.1 million households



**> 40%**

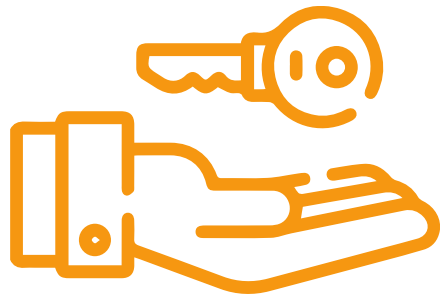
of Africa's population are living in urban areas now



**51%**

of urban dwellers live in slum accommodation

# By the Numbers (contd.)



**66402**

mortgage applications were made in 2015 in Nigeria to the Nigerian Mortgage Refinancing Company, just **0.039%** of the entire population



**55% (\$261 M)**

of the mortgage industry's 94 billion naira of loans last year were classified as non-performing, according to Nigeria's Deposit Insurance Corp



**24,085**

mortgages loans were marked as active in Kenya in 2017, just 0.06 of the population



# Challenges

Some of the general challenges of raising construction finance are known:

- Government Policy and regulation
- High cost of Finance
- Prohibitive Loan Tenor



# The Shelter Afrique Experience

- In 2016 Shelter Afrique conducted a deep dive survey in six-member countries in Africa, namely Democratic Republic of Congo, Ghana, Ivory Coast, Nigeria, Kenya and Zambia. The rationale behind this was to provide Shelter Afrique with an understanding of the challenges in the construction space.

- Developers have difficulties accessing financing despite financially attractive projects and existing guarantees.
- Restrictive process for obtaining financing.
- Short payment deadlines required by banks can be a challenge.
- Existing state insurance is designate for loans, but not operational in practice.
- Many funding proposals exist but are confronted with excessively high-interest rates and short repayment periods established by banks.

- Land issues are frequent because of poor land titling
- Very high prices of materials and housing
- Political Constraints
- Bureaucracy and length of Processing

# Ghana

- Currency Volatility
- High Interest rates
- Developer focus on high-end market
- Low mortgage penetration

# Zambia

- Developers are constrained by the lack of infrastructure (roads, power, water, sewer solutions).
- Developers believe government should provide infrastructure at low or no cost.
- Adding the cost of infrastructure makes house prices much higher than people can afford.
- Only one bank will lend for infrastructure.

# Approaching Construction Finance Mobilization

## Governance/Legal Frameworks

- Improve registration of land titles and digitization of records.
- Financial Institutions need to improve creditworthiness, and improve credit rating.
- Governments need to make housing policy and housing projects a front of mind issue.
- **Transportation & Infrastructure Policy** - This has a knock-on effect on housing as when land is accessible.
- **Incentivize Developers and Developments** - Reduce the administrative bottlenecks, some of which we mentioned in land use acts, registries etc. Money tends to follow government interest and direction

# Commercial Approach

## Commercial/Market Approach

- Government can pool resources; which is the Shelter Afrique model, allowing them to access the market together at better financing terms.
- Look for projects that reflect the current market appetite, there are a lot of funds for green projects and environmentally sustainable projects.
- According to the climate bond initiative, Green bonds issuance shot up from USD3 billion in 2012 to about USD42 Billion in 2015.
- There is a market for this, but we need to strengthen our capital markets in the developing world as a corollary.
- Green projects have the double advantage of attracting investments and also hitting a number of SDGs which is also attractive for investment.

# Capital Market Approach

- **Strengthen the Capital Markets** - African capital markets generally lack size and liquidity due to the low depth and liquidity of local markets; trading is often limited to a few stocks which represent most of market capitalization.



# Opportunities as Identified by developers from our 2016 Deep Dive Survey

- There is potential for diversification: for example, foreign investors see the rental sector as an inflation and currency hedge.
- Construction is a major contributor to economic growth. Housing construction, repairs and maintenance have a direct impact on economic output - an average 3% of GDP by international standards.
- Current deficit on the continent cannot be met by home ownership alone, there is huge potential for Rental Housing on the Continent, and innovative approaches to home ownership.
- By sharing risk with the banks, Financial Institutions could offer longer repayment periods and lower interest rates.
- FI's could contribute to the standardization of the loan underwriting procedures by sharing risk with the banks.

# Opportunities as Identified by developers from our 2016 Deep Dive Survey (contd.)

- The liberalization of the insurance sector could be the first response because it allows the sharing of the risk between FIs, and the client.
- Project selection should consider realistic development timelines.

**Thank You**