

QUICK
GUIDES
FOR
POLICY
MAKERS



housing the **poor** in African cities

UN HABITAT
FOR A BETTER URBAN FUTURE

Cities Alliance
CITIES WITHOUT SLUMS

5

HOUSING FINANCE:
WAYS TO HELP THE POOR PAY FOR HOUSING

Quick Guide 5: Housing Finance

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HS Number: HS/184/10E
ISBN Number:(Volume) 978-92-1-132320-7
ISBN Number(Series): 978-92-1-131926-2

Cover photos ©: A Grimard

The publication of the Housing the Poor in African Cities series was made possible through the financial support of Cities Alliance.

Published by
United Nations Human Settlements Programme (UN-HABITAT)
Training and Capacity Building Branch (TCBB)
E-mail: tccb@unhabitat.org
Printing and Prepress: UNON/Publishing Services Section/Nairobi, ISO 14001:2004-certified

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ACKNOWLEDGEMENTS

This series of Quick Guides has been inspired by and prepared on the basis of a similar series on Housing the Poor in Asian Cities, which was published jointly by UN-HABITAT and UNESCAP in 2009. The series is the adaptation of the Asian version to the realities and contexts of the sub-Saharan African countries, and will be available in English, French and Portuguese. This has been made possible through the financial contributions of Cities Alliance and UN-HABITAT.

The guides have been written by the team of experts from the African Centre for Cities (ACC) led by Edgar Pieterse, with the substantive contributions of Karen Press, Kecia Rust and Warren Smit. The experts in the team who have contributed to invaluable background reports for the guides are:

Sarah Charlton, Firoz Khan, Caroline Kihato, Michael Kihato, Melinda Silverman and Tanya Zack. Project management support was provided by Bruce Frayne, and design by Tau Tavengwa.

A number of colleagues from UN-HABITAT's Training and Capacity Building branch, Shelter branch, and the Regional Office for Africa and Arab States, have contributed to the design, development, and review of the guides. They include Gulelat Kebede, Cynthia Radert, Claudio Acioly, Jean D'Aragon, Rasmus Precht, Christophe Lalande, Remy Sietchiping and Alain Grimard.

The guides have benefited from the contributions made by a range of experts who participated in the Expert Group Meeting held in November 2009 in Nairobi, Kenya: Benjamin Bradlow, Malick Gaye, Serge Allou, Barbra Kohlo, Ardelline Masinde, Esther Kodhek, Jack Makau, Allain Cain, Sylvia Noagbesenu, Kecia Rust, Babar Mumtaz, Alain Durand Lasserre, Alan Gilbert and Tarek El-Sheik.

All these contributions have shaped the Quick Guides series, which we hope will contribute to the daily work of policy makers in the sub-Saharan Africa region in their quest to improve housing and access to land for the urban poor.

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Land is central to urban development: "Secure land and property rights for all are essential to reducing poverty, because they underpin economic development and social inclusion".

FINANCING URBAN HOUSING IN AFRICA

QUICK GUIDE FOR POLICY MAKERS NUMBER 5

The two extreme outcomes of current shelter systems that are being witnessed today are affordable shelter that is inadequate, and adequate shelter that is unaffordable.¹

Housing finance is a tool we use to pay for housing. Because a house is a relatively expensive product, costing many times a family's annual income, the most useful way of financing it is with a large loan from a bank, which the family pays back over a number of years. In Africa, however, less than 15% of urban households can afford or access a mortgage loan. These households finance their housing in different ways, such as with smaller loans from formal and informal lenders, savings, and even subsidies from employers or the government. Housing finance also includes the money that homebuilders use to build houses, which they then sell to buyers. If a country doesn't have a comprehensive housing finance system that responds to diverse needs of its population, its ability to ensure that their housing needs are met is seriously compromised.

Of course, the housing finance system is inextricably linked to the housing delivery system. The way we pay for housing depends on the way the house was built – for example, all in one go, or step by step – and vice versa. It is also tied to the way in which the broader macroeconomy in the country functions. Investors, whose money makes it possible for housing finance providers to operate, will only invest if they see the housing finance sector as more profitable than other investments they could make. Without access to investments, housing finance providers are limited in their ability to offer loans for housing. Macroeconomic policy can therefore have an important impact on the availability of housing finance for the population.

The objective of this Quick Guide is to introduce some of the key concepts of housing finance and to provide a quick overview of how a housing finance system works, from the way lenders get the money to lend, through to the loans that builders use to build houses, and then the loans or savings used by families trying to meet their housing needs. The guide presents information about both the formal and informal systems of housing finance and suggests ways in which the two can be better integrated. It sets out the different kinds of housing finance, and illustrates how African households currently finance their housing. Finally, this Quick Guide offers tips for policy makers to enhance access to affordable housing finance especially by the urban poor.

Across the world, policy makers are grappling with the two extreme outcomes of current housing systems: that in Africa, Asia, Europe, America or Australia, housing is becoming less and less affordable for significant proportions of the population; and increasingly, that housing which is affordable is inadequate. Well designed housing finance systems can help policy makers address this challenge so that all households have access to adequate, affordable housing, the world over.

This guide is not aimed at specialists, but instead aims to help build the capacities of national and local government officials and policy makers who need to quickly enhance their understanding of low-income housing issues.

THE COST OF ADEQUATE HOUSING AND THE NEED FOR HOUSING FINANCE

Everyone needs somewhere to live, and where they live is often a function of the money they have to pay for what is available. If a family does not have enough money to afford the cost of a formal dwelling available for sale or rent, they will have to find somewhere else to stay. There are various options, all of which are evident across African cities today. Poor families often squeeze into the homes of friends or family, or live in rooms rented from existing housing; or they find a place far from work on the edge of town that may be cheaper, but which involves higher transportation costs. Some families build their own homes, often temporary housing in the form of a shack or hut that offers some privacy and basic protection from weather and natural hazards, in an informal settlement or slum with limited or no access to water, sanitation and other services; or they may rent someone else's informal dwelling. Some people sleep rough, under highways or in alleyways, because this is the most they can afford. Across African cities, it is estimated that more than 50% of households live in inadequate housing, often in slums or informal settlements. (See *Quick Guide 2: Low-income housing*.)

Surprisingly, inadequate housing is expensive. Overcrowding can put a terrible strain on the families concerned, and may impact on their health. Transport costs are much higher for those who live on the urban periphery, and the time they use to get to places where they may find income-earning opportunities could be spent more productively if they lived closer. Living and sleeping on the streets or in overcrowded and inadequate housing in informal settlements and slums not only involves health costs, there are also fees and charges involved: a slum

dweller may have to lease the land on which he builds; he pays the informal water seller for access to water; he pays building material suppliers for the materials he needs, and he needs these often to keep on repairing his home. Even though households are forced into this situation because they can't afford otherwise, it is not a cheap option. Informal housing development is more affordable, and because of its incremental nature, the costs are spread in small amounts over a long period of time. Over time they often add up to an expensive total, but in the short term, the amounts are small enough that a poor person can afford to pay.

The role of housing finance is to make adequate housing affordable in the same way that informality is: by spreading the relatively large cost of the house over a long period of time so that each monthly instalment is something that the household can handle within the scope of its resources.

Housing finance can also be used for more than buying or building a house. A house has a value that in some cases can be used as security to access a loan, and this can then be used to build a business. Enhancing access to housing finance is therefore an important poverty alleviation strategy.

To accommodate a wide range of housing needs and a growing population over time, a city needs to provide a steady supply of new housing and expand the existing housing stock by providing housing opportunities at scale for different segments of society. If it does not do this, city residents will end up living in less formal, often very poor housing, share accommodation with their family and friends, or live in rented rooms as in Accra, Bissau and other African cities.

HOW DO PEOPLE FINANCE THEIR HOUSING IN AFRICA TODAY?



In her overview of housing finance literature in Africa, Tomlinson (2007) summarises trends in housing finance in Africa:

- Very minimal amounts of finance (small mortgages, over shorter terms) are available to very rich clients through a
- Low-income earners finance their housing incrementally, with savings, loans from family and friends, or micro loans, usually on an informal basis and in unplanned areas.²

The challenge facing housing finance prac-

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