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# African Footprint

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# Private Sector Participation in Africa's Affordable Housing Solutions

How African governments can leverage on the private sector capabilities in the delivery of Affordable Housing.

Crowe Infrastructure Africa (Crowe Infra) is Crowe's member firm dedicated to infrastructure development in Africa, working with public and private sector clients to structure financially viable and sustainable projects in the energy, transport, water, ICT and social infrastructure sectors, such as affordable housing. As a specialized boutique consulting firm being part of a top 10 financial services network, Crowe Infra has a unique and highly competitive delivery model based on an uncompromising commitment to quality, agility and responsiveness.

With the ongoing global housing crisis, it is imperative for governments to engage the private sector in the bid to address the housing demand in developing cities across Africa. This would attract financial backing from the private sector and leverage expertise and technological solutions to effectively tackle the housing shortage.

Let us take a deep dive into the challenges that are currently being faced in meeting the burgeoning housing demand, and how the role of the private sector is critical in delivering affordable housing.



## Challenges affecting affordable housing delivery in Africa

Globally, cities are major drivers of economic growth, and the quality and location of housing has long-term consequences for inclusive growth. The demand for housing in rapidly urbanizing developing countries is growing exponentially. The Sub-Saharan region's major cities are expanding rapidly. By 2050, Africa's urban population is projected to reach 1.2 billion, with an urbanization rate of 58% (UN-HABITAT, 2014). It is estimated that, globally, nearly 100,000 new housing units per day are needed to meet the urban housing demand.

Across Africa, governments are tackling the challenge of affordable housing, and where they should apply their efforts. Recent studies have found that in Africa, formal housing investment lags behind urbanization by nine years (Dasgupta et al., 2014).

Here, we review some of the supply-side and demand-side challenges impeding the much-needed progress of affordable housing delivery and access in Africa.

### Supply-side challenges to housing delivery

Formal housing affordability is constrained by challenges to realizing key supply inputs, including:

- i. **Inefficient land administration standards:** The impact of inefficient regulatory standards and processes on affordable housing supply is a widely recognized constraint in developing countries. This highly discourages the efficient development of urban land and places additional burden on infrastructure provision.
- ii. **Inadequate infrastructure:** Network infrastructure, i.e., roads, power, piped water, sewage/drainage to service residential land is lacking and very expensive to build retroactively in settlements that do not have such connections. Most African countries also lack the institutions and capacities to capture land value in ways that can be used to finance these types of public infrastructure investments. Infrastructure coverage is mostly directed toward wealthier strata of society, who are also better able to self-provide for services that local governments and utilities do not often cover, such as sanitation.



- iii. **High cost of land and construction:** Land and infrastructure accounts for 30 to 40% of total costs of private developments. The cost and availability of quality construction materials are a major impediment to reducing the cost of all types of housing. There are few local production sources for high quality construction materials, and government and private sector developers tend to prefer imported materials, which ultimately increase the cost of housing for consumers, as developers must include the cost of materials in the final price of the final product.
- iv. **Inadequate financing:** The majority of housing investment in most African countries currently comes from government investment or domestic savings rather than finance obtained through international capital markets, as is the case in developed economies. Local capital markets in Africa are underdeveloped, and most countries face policy and legislative barriers to local investment in housing.

## **Demand-side challenges to housing access**

- i. **Limited finance options for low-income groups:** The majority of the African population do not have formal savings accounts and are not able to obtain mortgages for housing development. The lack of savings reduces the amount of finance available for lending institutions to develop consumer mortgages or other lending products.
- ii. **Housing Finance:** A majority of urban population build makeshift shelters by themselves or with the assistance of local laborers. Without access to mortgage finance to purchase complete homes, housing is built incrementally with investments from individual savings and donations from family and well-wishers. Housing microfinance could be a way to bridge the gap between small, short tenor microloans and large, long tenor mortgages. The expansion of microfinance lending gives more low-income groups access to relatively affordable finance and banking services.
- iii. **Underdeveloped mortgage sector:** Most African countries offer mortgage rates above 15% and at tenors below 15 years, which is quite inadequate and does little to enhance affordability. Estimates indicate that in 2011, 85% of Africa's urban population lacked access to formal housing loans and only 3% of the population was eligible for a conventional mortgage (Kihato, 2013). Instead, alternative forms of borrowing and saving are popular, including remittances, informal loans from friends or family, and the use of community savings clubs. There are significantly higher percentages of informal lending, and relatively lower percentages of lending from formal institutions (bank, credit union, MFI) (Kihato, 2013).



## The role of the private sector

Owing to these challenges, stakeholders have been pre-occupied with sourcing alternative strategies of cost-effective funding for housing development and improvement beyond the public sector led programmes. We believe the private sector can play a major role in the roll-out of affordable housing units through their contribution in terms of providing technical expertise and skills as well as their involvement in the development of sustainable and vibrant financial frameworks for housing. Looking forward, the involvement of the private sector in Africa's affordable housing agenda can be viewed in the following two main areas:

### i. Adoption of Public Private Partnerships (PPPs)

Studies show that PPPs is one of the plausible ways through which low-cost urban housing can be developed. The application of PPPs has been proposed as among the possible alternatives to the development of low-cost urban housing (World Bank, 2017). PPPs enable the leveraging of public funds and assets alongside private sector expertise.

While it is important for the government to execute affordable-housing programmes, it is easier and more effective to encourage the private sector to build social housing and to leverage innovative technology, skills, finance, and efficiency, while Government brings its assets such as land and provides a conducive regulatory framework. In the housing sector, the government has a wide range of policy, legal, regulatory, financial and administrative instruments to encourage the private sector to participate in affordable housing delivery.

Through PPPs, funding by financial institutions is secure and efficient since the borrower is a Special Purpose Vehicle (SPV), with better management of associated risks. Thus, the private sector can play a major role in the roll-out and quick delivery of affordable housing units.



## ii. **Enhancing private sector financing through capital markets**

The majority of housing investment in most African countries currently comes from government investment, DFIs, some pension funds and banks rather than finance obtained through international and local capital markets, as is the case in developed economies. Purely commercial investors seeking real returns are in the minority. Establishment of capital markets vehicles such as Real Estate Investment Trusts (REITs), with a focus on developing residential portfolios, is taking shape in some African countries.

On the demand-side, we have seen efforts by most African governments in establishing mortgage financing frameworks to support the mortgage markets and housing funds, such as the National Housing Development Fund (NHDF) in Kenya and the National Housing Fund (NHF) in Nigeria, aimed at enhancing housing ownership.

A lot more needs to be done to attract private sector financing through capital markets to ensure the initiative is commercially viable and sustainable. Upgrading the capital markets infrastructure will have a significant impact on the amounts of private capital that will flow into the real estate sector to help address the financing needed for affordable housing. The private sector can play a major role in providing affordable housing finance to their clients below market rates, with flexible repayment plans, and longer repayment periods.

The development of sustainable and vibrant financial frameworks for affordable housing should focus on both developing suitable technical specifications and standards and building market confidence to encourage the participation of both public and private sectors.

At Crowe Infra, our focus is on the depth and rigour necessary to support good investment decisions in affordable housing. We provide transaction advisory services geared towards enhancing financially sustainable interventions in affordable housing.

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## About Crowe Global

Ranked eighth largest accounting network in the world, Crowe Global has over 200 independent accounting and advisory firms in 130 countries.

For more than 100 years, Crowe has made smart decisions for multinational clients working across borders.

Our leaders work with governments, regulatory bodies and industry groups to shape the future of the profession worldwide. Their exceptional knowledge of business, local laws and customs provide lasting value to clients undertaking international projects.

Crowe provides global reach on a personal scale. Crowe firms focus on the future, the client experience and working with clients to build something valuable, substantial, and enduring. Close working relationships are at the heart of our effective service delivery.

At Crowe, our professionals all share one commitment, to deliver excellence.